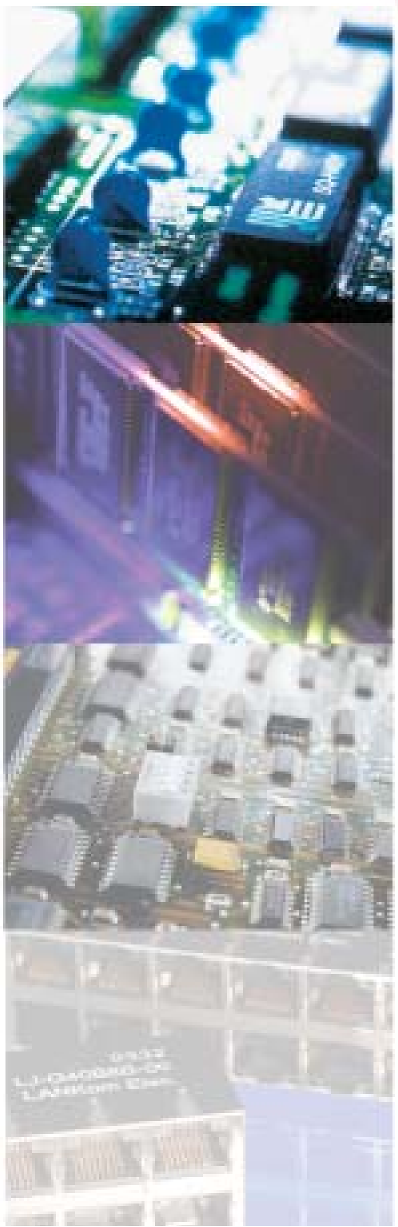
LANKOM ELECTRONICS LIMITED

| 2003 ANNUAL REPORT |



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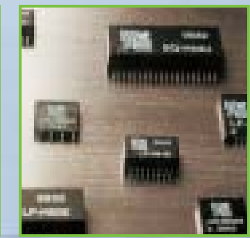


Mission Statement

To be the leading manufacturer and supplier of a broad range of electromagnetic components and providing high quality and dependable services to the satisfaction of our customers.

Company Overview

We manufacture and distribute electromagnetic ("EM") components to Original Equipment Manufacturing ("OEM") manufacturers of electronic products from Taiwan and the United States of America. Our Group's major customers are approved suppliers to leading manufacturers of electrical and electronic devices in the datacommunications, telecommunications and PC industries.

Our products are marketed under our "LANKom" trademark. We supply our products to various OEM manufacturers who integrate them into their end products. However, we also manufacture under OEM arrangements for certain customers where our logo is not displayed on our products.

Chairman's Statement

REVIEW OF PERFORMANCE

With the uncertain economic conditions, war in Iraq and outbreak of SARS, year 2003 had been a challenging and difficult year. Replacement cycles for personal and corporate computers and PC peripheral products were slow and demand for electromagnetic (EM) components continued to be weak.

Although the Group managed to achieve an improvement of 25% in turnover as compared to year 2002, the intense price competitiveness of our industry had caused gross profit margin to decline by 3% to 23%.

The higher turnover was a result of the new customers relationship established in the People's Republic of China (PRC) as well as the increase in sales volume in products used in motherboards.

Nevertheless selling prices continued to decline as we faced intense price competition from other manufacturers of EM components. As a result of the lower gross profit margin and the exceptional loss of NT$ 4.2 million arising from the disposal of the quoted investment acquired in year 2002, profit attributable to shareholders declined from NT$ 29.6 million to NT$ 24.2 million.

Notwithstanding the tough business environment experienced during the year, the construction of our new factory in Zhuhai, PRC was completed according to our original schedule. The new plant with a production capacity of approximately 2 times of the third party factory (which previously manufactured our products pursuant to a Processing Agreement entered into on 8 January 1998) will enable us to well position ourselves to meet any surge of sales orders.

The Board is also pleased to announce the recommendation of a first and final dividend of 0.15 Singapore cents per ordinary share (tax exempt) for the financial year ended 31 December 2003.

On behalf of the Board of Directors, it is my pleasure once again to present to you the Group's annual report for the financial year ended 31 December 2003.

PROSPECTS

Generally there are positive signs that the global economy may improve in the year 2004. As the global economic recovery continues to gather pace and consumers spending improve, the demand for EM components is likely to pick up together with the increase in Information Technology (IT) spending when businesses upgrade their IT systems and consumers migrate to new mobile technologies.

We also anticipate demand in wireless Local Area Network (LAN) that was established in the recent years to grow as well as the trend of moving towards 1,000 base LAN to continue in the current year. With these developments the demand for EM components is likely to improve too.

Our Group will also continue to develop new EM components that are smaller in size in order to meet our customers' requirements.

Lastly we will continue to focus on improving production efficiency and exercising tight controls to reduce operating costs so as to improve the overall performance of the Group in the coming year.

Barring any unforeseen circumstances, the Group expects turnover and net profits for year 2004 to improve.

APPRECIATION

In conclusion, on behalf of the Board I take this opportunity to thank our customers, business partners and shareholders for their continuing support and confidence in our Company and the management and staff for their commitments and contribution.

Albert Liu Lu Ta
Chairman

Board of Directors

FROM LEFT TO RIGHT: Dr. Chao Pei, Mr. Ong Kian Min, Ms. Huang Mei Chu, Mr. Randolph Liu, Mr. Albert Liu (sitting) , Ms. Huang Chiu Chu and Mr. Ho Wai Hung

MR. ALBERT LIU
Chairman

Mr. Albert Liu is our founder, Chairman and Chief Executive Officer. Mr. Liu was appointed on 30 January 2001 and shall not be subject to retirement by rotation under the Bye-Laws of the Company. He is responsible for overseeing the entire operations, product development, strategic planning, and corporate business development and policy decision making for our Group. Prior to founding our Group in 1996, Mr. Liu held positions in companies responsible for the manufacture and sales of electromagnetic components as well as product development. Mr. Liu holds a degree in English Literature from the TamKang University, Taiwan.

MR. RANDOLPH LIU
Non-Executive Director

Mr. Randolph Liu is our Director, Finance and Administration. Mr. Liu was appointed on 30 January 2001. He will be due for re-election at the forthcoming AGM. He oversees our Group's administrative functions as well as financial and corporate management. Together with Mr. Albert Liu, he is responsible for the business development of our Group. He also ensures the effective implementation of our Group's business strategies and plans. He holds a Law degree from the Fu Jen University, Taiwan.

MS. HUANG MEI CHU
Non-Executive Director

Ms. Huang Mei Chu was appointed as our Non-Executive Director on 1 February 2001. She will be due for re-election at the forthcoming AGM. She has worked as the accounts manager in a company engaged in the business of distribution of chemical products. She holds a Certificate in Accounting.

MS. HUANG CHIU CHU
Non-Executive Director

Ms. Huang Chiu Chu was appointed as our Non-Executive Director on 1 February 2001 and was last re-elected on 30 May 2002. She has more than ten years experience in the area of sales and administration accumulated from her working experience as a sales executive in the travel industry.

MR. ONG KIAN MIN
Independent Director

Mr. Ong Kian Min was appointed as an Independent Non-Executive Director on 1 February 2001 and was last re-elected on 23 May 2003. He is the Chairman of the Audit Committee and Nominating Committee. Mr. Ong is currently a consultant with Drew and Napier LLC (a Singapore law firm) and a Member of Parliament for Tampines Group Representative Constituency, Singapore. He holds a Bachelor of Science (Honours) degree from the Imperial College of Science and Technology, London, United Kingdom and a Bachelor of Laws (Honours) degree from the University of London.

DR. CHAO PEI
Independent Director

Dr. Chao Pei was appointed as an Independent Non-Executive Director on 1 February 2001 and was last re-elected on 23 May 2003. He is also the Chairman of the Remuneration Committee and a member of both the Audit Committee and Nominating Committee. Dr. Chao is currently an Assistant Professor with the Department of Marketing and Distribution Management, National Kaoshiung First University of Science and Technology, Taiwan. He holds a Doctorate in Business Administration from the Boston University, US.

MR. HO WAI HUNG
Executive Director

Mr. Ho Wai Hung was appointed as an Executive Director on 20 November 2002. He has been with our Group since 1996 as the Logistics and Procurement Manager responsible for our Group's procurement and logistical functions, including the procurement of raw materials, shipping of raw materials and products, and warehousing of inventories. Prior to joining our Group, he was a business executive with a company engaged in business development and sales of electromagnetic components. Mr. Ho holds a High School Certificate from Kiangsu Chekiang College.

Senior Management

MS. ANG IRIS

Ms. Ang is our Chief Financial Officer of the Group. She is responsible for our overall financial accounting, tax, corporate secretarial matters and investor relations. Prior to joining the Group, she was the Corporate Finance Manager (Regional) of Ossia International Limited, a company listed on the Official List of the Singapore Exchange Securities Trading Limited. She holds a professional qualification from the Chartered Association of Certified Accountants of United Kingdom and is a member of the Institute of Certified Public Accountants of Singapore.

MR. FENG XI WU

Mr. Feng is our Manufacturing Manager and he oversees the day-to-day manufacturing operations at the factory including staff management. He was factory manager of Shaanxi Qinfeng Car Repair Factory of the Shaanxi Qinfeng Materials Trading General Company before joining the Group. He holds a Degree in Economics from the Shaanxi Dang Zheng Cadres University.

Corporate Structure

- **LANKom Electronics Limited** (Incorporated in Bermuda) Investment Holding — **LANKom Electronics Limited** Singapore Representatives Office
  - 100% **LANKom Global Limited** (Incorporated in BVI) Investment Holding
    - 100% **LANKom Services Limited**(1) (Incorporated in HK) Provision of administrative & logistics support services
    - 100% **LANKom Sales Limited**(1) (Incorporated in HK) Provision of administrative & logistics support services
    - 100% **Bright Union Resources Limited** (Incorporated in BVI) Procurement of raw materials, import of raw materials & export of products
    - 100% **LANKom China Inc.** (Incorporated in BVI) Investment Holding
      - 100% **Zhuhai LANKom Technology Co., Ltd** (Incorporated in PRC) Manufacture of electromagnetic components
    - 100% **LANKom Manufacturing Inc.** (Incorporated in BVI) Manufacture of electromagnetic components
    - 100% **LANKom Electronics Co., Ltd**(2) (Incorporated in Taiwan) Distribution of electromagnetic components
  - 100% **LANKom Singapore Pte Ltd** (Incorporated in Singapore) Dormant

Note:

(1) Under the Companies Ordinance of Hong Kong, the minimum number of shareholders required in a Hong Kong company is two. One ordinary share each in the capital of LANKom Sales Limited and LANKom Services Limited is held in trust by our Director, Mr Albert Liu Lu Ta as a nominee for LANKom Global Limited.

(2) Under the Company Law of Taiwan, the minimum number of shareholders required in a Taiwanese company is seven. To meet this requirement, each of our founding shareholders namely, Albert Liu Lu Ta, Randolph Liu Lu Chun, Huang Yi Fong, Huang Mei Chu, Huang Chiu Chu and Yuan Song Investments Co., Ltd hold one ordinary share each in the capital of LANKom Electronics Co., Ltd. in trust as nominees for LANKom Global Limited.

Financial Highlights

SUMMARISED PROFIT & LOSS ACCOUNT (IN NT$ '000)

Year	2000	2001	2002	2003
Turnover	349,999	305,509	360,773	449,747
Operating Profit	125,396	53,055	30,288	25,060
Profit before tax	125,577	60,644	30,565	24,254
Profit after tax	110,581	54,151	29,692	24,189
Turnover growth		-12.7%	18.1%	24.7%
Gross profit margin	42.8%	36.1%	25.9%	22.7%
Earnings per share (New Taiwan cents)	71.94	29.42	14.13	10.65

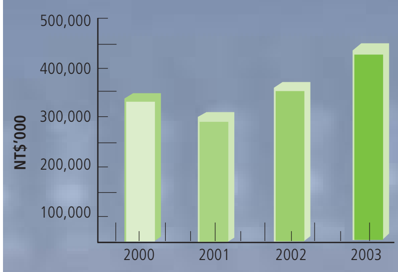
TURNOVER BY GEOGRAPHICAL SEGMENTS (IN NT$ '000)

Year	2000	2001	2002	2003
Taiwan	212,455	190,171	175,290	182,214
The PRC	137,544	115,338	185,483	267,533
	349,999	305,509	360,773	449,747

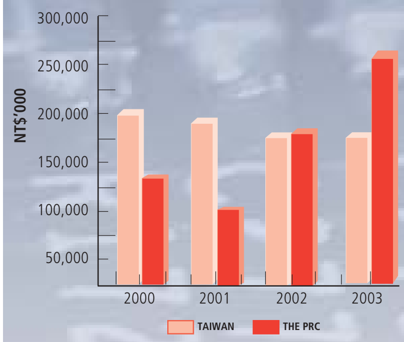
SUMMARISED BALANCE SHEET

Shareholders' equity	159,244	475,477	519,775	537,057
Fixed assets	19,394	25,774	73,245	226,684
Construction in progress	-	-	66,875	-
Long-term investments	-	-	20,430	-
Deferrred tax assets	-	-	3,932	3,932
Current assets	296,898	528,692	492,991	475,815
Current liabilities	(157,048)	(78,989)	(110,023)	(143,749)
Net current assets	139,850	449,703	382,968	332,066
Long term bank loan	-	-	(27,675)	(25,625)
	159,244	475,477	519,775	537,057

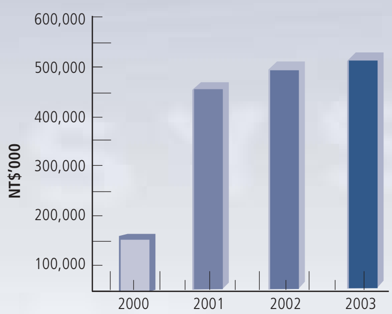
TURNOVER



TURNOVER-GEOGRAPHICAL SEGMENTS



SHAREHOLDERS' EQUITY



Corporate Information

BOARD OF DIRECTORS

Executive:

Albert Liu Lu Ta (Chairman)

Ho Wai Hung

Non-Executive:

Randolph Liu Lu Chun

Huang Mei Chu

Huang Chiu Chu

Ong Kian Min (Independent)

Chao Pei (Independent)

AUDIT COMMITTEE

Ong Kian Min (Chairman)

Chao Pei

Huang Chiu Chu

REMUNERATION COMMITTEE

Chao Pei (Chairman)

Ong Kian Min

Randolph Liu Lu Chun

NOMINATING COMMITTEE

Ong Kian Min (Chairman)

Chao Pei

Randolph Liu Lu Chun

SECRETARIES

Foo Soon Soo

Lotus Isabella Lim Mei Hua

Ho Wai Hung

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Tel: (441) 295 1422

Fax: (441) 292 4720

Email: info@cdp.bm

BERMUDA REGISTER AND SHARE TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11, Bermudiana Road

Pembroke, Bermuda

SINGAPORE SHARE TRANSFER AGENT

Lim Associates (Pte) Ltd

10 Collyer Quay

#19-08 Ocean Building

Singapore 049315

AUDITOR

Ernst & Young

10 Collyer Quay

#20-01 Ocean Building

Singapore 049315

AUDIT PARTNER-IN-CHARGE

Max Loh Khum Whai

Appointed since 2002

7F, No. 5, Lane 345,
Yang Guang Street, Neihu, Taipei,
114, Taiwan R.O.C.
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Corporate Governance Statement & Risk Management

for the financial year ended 31 December 2003

The Board of Directors ("the Board") is committed to ensure that the highest standards of corporate governance are practised throughout the Lankom Electronics Limited and its subsidiaries ("the Group"), as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group. In view of this, the Board fully supports the Code of Corporate Governance ("the Code") which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited ("SGX-ST")'s Listing Manual. The Board has also established various self-regulatory and monitoring mechanisms, where applicable, to ensure that effective corporate governance is practised.

As specified in paragraph 18 of Corporate Governance Committee's Report, the "objective of the Code is not to prescribe corporate behaviour in detail but to essentially secure sufficient disclosure so that investors and others can assess a company's performance and governance practices and respond in an informed way".

Set below are the policies and practices adopted and practised by the Group to comply with the principles and spirit of the Code. The Board confirmed that the Group has complied with the best practices of the Code throughout the financial year ended 31 December 2003, with the following exceptions:

- Currently, in view of the existing organisation structure and operations of the Group, the Chief Financial Officer oversees the internal audit function of the Group.

- Mr Albert Liu is both the Chairman and Chief Executive Officer of the Group, as the scope of business and organisational structure of the Group does not warrant the additional expenses that would be incurred in the appointment of a third party.

THE CODE

The Code is divided into four main sections, namely:
(A) Board Matters
(B) Remuneration Matters
(C) Accountability and Audit
(D) Communication with Shareholders

(A) BOARD MATTERS

Principle 1: Every company should be led and controlled by an effective Board to enable the company, its shareholders and other stakeholders to achieve their respective objectives.

The principal functions of Board are:

1. reviewing and approving corporate strategies, annual budgets and financial plans and monitoring the organisational performance towards them;

2. reviewing the adequacy and integrity of the company's internal controls, risk management systems, and financial information reporting systems;

3. ensuring the Group's compliance to laws, regulations, policies, directives, guidelines and internal code of conduct;

4. approving the nominations to the Board of directors by the Nominating Committee, and endorsing the appointments of management team and/or external auditors;

5. reviewing and approving the remuneration packages recommended by the Remuneration Committee for the Board and key executives; and

6. ensuring accurate, adequate and timely reporting to, and communication with shareholders.

Matters which are specifically reserved to the full Board for decision include those involving corporate plans and budgets, material acquisitions and disposals of assets, corporate or financial restructuring, share issuances, dividends, other returns to shareholders and interested person transactions. Specific Board approval is required for any investments or expenditures.

The Board has delegated specific responsibilities to 3 subcommittees (Audit, Nominating and Remuneration Committees), the details of which are set out below. These committees have the authority to examine particular issues and report back to the Board with their recommendation. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

The Board met at least twice a year, with additional meetings convened as necessary. The Articles of Association allow a Board meeting to be conducted by way of a tele-conference and a video-conference. All Board members bring about an independent judgment, and diversified knowledge and experiences to bear on the issues of strategy, performance, resources and standards of conduct. The matrix on the position, the frequency of meeting and the attendance of directors at these meetings, is enclosed on page 17.

Principle 2: *There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.*

For the financial year ended 31 December 2003, the Board comprises 7 members, 3 whom are executive directors and 2 are independent directors. Together, the directors bring about a wide ranging business and financial experiences relevant to the direction of a large, expanding Group. A brief description of the background of each director is presented on "Board of Directors & Senior Management" section.

The Board considers the current board size as adequate for its present operations. As independent and non-executive directors make up almost two-thirds of the Board, no individual or group is able to dominate the Board's decision-making process. There is also balance in the Board because of the presence of independent, non-executive directors of the calibre necessary to carry sufficient weight in Board decisions. Although all the directors have an equal responsibility for the Group's operations, the role of these independent non-executive directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and examined, and take into account the long term interests, not only of the shareholders, but also of employees, customers, suppliers, and the many communities in which the Group conducts business.

The investment of minority shareholders is fairly reflected through Board representation.

Principle 3: There should be a clear division of responsibilities at the top of the company - the working of the Board and the executive responsibility of the company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The roles of the Chairman and Chief Executive Officer *("CEO"*), are both held by Mr Albert Liu Lu Ta, who is the largest single shareholder of the Company, holding approximately 41.45% of the issued share capital of the Company. The Chairman and CEO, Mr Albert Liu, believes that the scope of our business and the structure of our organisation does not warrant the additional costs which would be incurred in the appointment of a third party Chairman of the Board. Mr Liu also believes that the interests of the minority shareholders will not be prejudiced with him maintaining his position as Chairman and CEO, and as a majority shareholder himself, would endeavour to enhance shareholders' value.

The Board also believes that as major decisions made by the Executive Chairman and CEO are being reviewed by other independent committees such as the Audit Committee, Nomination Committee and Remuneration Committee chaired by Independent Directors of the Company, there are adequate safeguards against an uneven concentration of power and authority in a single individual.

Mr Albert Liu as the Executive Chairman and CEO is responsible for the day-to-day running of the Group as well as the exercise of control over the quality, quantity and timeliness of information flow between the Board and management. He has played an instrumental role in developing the business of the Group and has also provided the Group with strong leadership and vision.

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

NOMINATING COMMITTEE

Mr Ong Kian Min	(Chairman and Independent Director)
Dr Chao Pei	(Independent Director)
Mr Randolph Liu Lu Chun	(Non-Executive Director)

This subcommittee had 1 meeting in the financial year. The matrix on the position, the frequency of meeting and the attendance of directors at these meetings, is enclosed on page 17.

The Nominating Committee:

- sets a framework to identify and nominate to the Board, candidates for all directorship to be filled by shareholders or the Board; candidates for all executive management positions; and directors to fill the seats on Board committees;
- oversees the management development and succession planning of the Group, including appointing, training and mentoring senior management;
- determines the objective criteria on evaluating the Board's performance; and
- assesses the effectiveness of the Board as a whole and the contribution by each director to the Board.

ELECTION AND RE-ELECTION

New directors are appointed by way of a board resolution, upon their nomination from Nominating Committee. In accordance with the Company's Articles of Association, these new directors who are appointed by the Board are subject to election by shareholders at the first opportunity after their appointment. The Articles also provide that at least one third of the remaining directors be subject to re-election by rotation at each Annual General Meeting.

Principle 5: There should be a formal assessment of the effectiveness of the Board as whole and the contribution by each director to the effectiveness of the Board.

The Nominating Committee assesses the effectiveness of the Board as a whole and the Committees of the Board on an annual basis. In this aspect, both quantitative and qualitative criteria were adopted. The quantitative performance criteria include return on assets, return on equity, economic value added and profitability on capital employed. The qualitative measures include the effectiveness of the Board in its monitoring role and the attainment of the strategic and long-term objectives set by the Board. The Nominating Committee also considers the required mix of skills and experience of the members, including core competencies which the non-executive directors should bring to the Board, during this assessment.

POLICY ON EXTERNAL APPOINTMENTS

The Group recognises that its executive directors may be invited to become non-executive directors of other companies and that exposure to such non-executive duties can broaden experience and knowledge of its executive directors which will benefit the Group. Executive directors are therefore allowed, with the Board's consent, to accept non-executive appointments, up to a maximum of 2, as long as these are non-competing companies and are not likely to lead to conflicts of interest. Executive directors are allowed to retain the fees received.

Principle 6: In order to fulfil their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

All directors review a Board report prior to the Board meeting. The Board report includes, among others, the following details:

- minutes of meetings of all Committees of the Board;
- performance report of the Group; and
- major operational and financial issues.

The directors have also been provided with the contact numbers and e-mail particulars of the Group's executive management.

The Board, whether as a full Board or in their individual capacity, may take independent advice, where necessary, in the furtherance of their duties and at the Group's expense.

All directors have access to the advice and services of the Company Secretary. The Company Secretary attends all meetings of the Board, and ensures that board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary also attends all meetings of the Audit Committee and Nominating Committee.

(B) REMUNERATION MATTERS

The Company adopted the objective as recommended by the Code to determine the remuneration for a director so as to ensure that the Company attracts and retains the directors needed to run the Group successfully. The component parts of remuneration are structured so as to link rewards to corporate and individual performance, in the case of executive directors. In the case of non-executive directors, the level of remuneration reflects the experience and level of responsibilities undertaken by the particular non-executive concerned.

Principle 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

REMUNERATION PROCEDURE

The Code endorses, as good practice, a formal framework for fixing the remuneration packages of individual, with a Remuneration Committee making recommendations to the Board. A Remuneration Committee has been set up since 20 November 2002.

REMUNERATION COMMITTEE

Dr Chao Pei	(Chairman and Independent Director)
Mr Ong Kian Min	(Independent Director)
Mr Randolph Liu Lu Chun	(Non-Executive Director)

The principal responsibilities of Remuneration Committee are:

1. recommending a framework of executive remuneration for the Board and key executives, including share option schemes;

2. determining specific remuneration packages for each executive director and key management personnel; and

3. administering the performance bonus scheme and the share option scheme for the employees of the Group.

This subcommittee of the Board had 2 meetings in the period. The matrix on the position, the frequency of meeting and the attendance of directors at these meetings, is enclosed on page 17. The majority of members of this Committee (including the Chairman) are independent non-executive directors.

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration/ in the company's annual report.

The Remuneration Committee recommends to the Board the framework of executive remuneration, and the remuneration package for each executive director and key management personnel. In framing the Group's remuneration policy, the Remuneration Committee receives advice from external consultants. Although the recommendations are made in consultation with the Chairman of the Board as well, the remuneration packages are ultimately approved by the entire Board.

REMUNERATION PACKAGE

The remuneration package of directors and key management personnel includes the following:

(a) Basic salary
The basic salary (inclusive of statutory employer contributions to Central Provident Fund, if applicable) for each executive director/ key management personnel is recommended by the Remuneration Committee, taking into account the performance of the individual, the inflation price index and information from independent sources on the rates of salary for similar jobs in a selected group of comparable organisations.

(b) Fees
Fees paid/payable to executive directors are determined by the Board after considering the corporate and individual's relative performance against the comparable organisations. The fees paid/payable to non-executive directors takes into account factors such as effort and time spent, and responsibilities of these directors. The remuneration of non-executive directors are submitted for approval at the Annual General Meeting.

(c) Bonus scheme
The Group operates a bonus scheme for all employees, including the executive directors and key management personnel. The criteria for the scheme is the level of profit achieved from certain aspects of the Group's business activities against targets, together with an assessment of corporate and individual's performance during the year. Bonuses payable to the executive directors/key management personnel are reviewed by the Remuneration Committee and approved by the Board to ensure alignment of their interests with those of shareholders.

(d) Benefits in kind
Other customary benefits (such as private medical cover, housing, car) are made available as appropriate.

(e) Service contract
The notice period for the termination of Executive Directors' service contracts by either parties is 3 to 6 months.

(f) LANKom Electronics Share Option Plan 2002
LANKom Electronics Performance Share Plan 2002

The Group operates a share option scheme and a performance share plan for all employees, including the Executive Directors, which are administered by the Remuneration Committee. *The terms of the schemes and the movement in directors' share options during the financial year ended 31 December 2003 are set out on page 20 in the Directors' Report.*

(C) ACCOUNTABILITY AND AUDIT

Principle 10: The Board is accountable to the shareholders while the Management is accountable to the Board.

In presenting the annual financial statements, and half-yearly announcements to shareholders, the directors aim to present a balanced and understandable assessment of the Group's position and prospects.

In preparing the financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- ensured that all applicable accounting standards have been followed; and
- prepared financial statements on a going concern basis as the directors have a reasonable expectation, having made enquiries, that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

Principle 11: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

AUDIT COMMITTEE

Mr Ong Kian Min	(Chairman and Independent Director)
Dr Chao Pei	(Independent Director)
Ms Huang Chiu Chu	(Non-Executive Director)

This subcommittee of the Board had 2 meetings during the financial year. The meetings have been attended by the Group Chief Executive Officer, and the Chief Financial Officer. The presence of external auditors has been requested during these meetings. The Committee has also met up with the external auditors without any executive of the Group being present twice during this financial year.

All members of this Committee are Non-Executive Directors. The Committee is authorised by the Board to investigate any activity within its terms of reference. It has an unrestricted access to any information pertaining to the Group, to the external auditors, and to all employees of the Group. It is also authorised by the Board to obtain external legal or other independent professional advice as necessary and at the expense of the Group.

The Audit Committee carried out its functions including the following:

- reviews with the external auditors, the audit plan, the evaluation of the internal accounting controls, audit reports and any matters which the external auditors wish to discuss (in the absence of management, where necessary);

- makes recommendations to the Board on the appointment of external auditors, the audit fee and any questions of their resignation or dismissal;

- monitors interested person transactions and conflict of interest situation that may arise within the Group including any transaction, procedure or course of action that raises questions of management integrity. The Committee is also required to ensure that Directors report such transactions annually to shareholders via the annual report;

- review half-yearly reporting to SGX-ST and year end annual financial statements of the Group before submission to the Board, focusing on

    - going concern assumption
    - compliance with accounting standards and regulatory requirements
    - any changes in accounting policies and practices
    - significant issues arising from the audit
    - major judgmental areas; and

- any other functions which may be agreed by the Audit Committee and the Board.

The Audit Committee has nominated Ernst & Young, for re-appointment as auditors of the Company at the forthcoming Annual General Meeting. The Audit Committee has conducted an annual review of non-audit services performed by the auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors before confirming their re-nomination.

Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Board recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems on an annual basis. It should be noted, however, that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, it should be noted that any system can provide only reasonable, and not absolute, assurance against material misstatement of loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk.

The Chief Financial Officer performs detailed work to assist the Audit Committee and the Board in the evaluation of the internal controls, financial and accounting matters, compliance, business and financial risk management.

Principle 13: The company should establish an internal audit function that is independent of the activities it audits.

The Board recognised the importance for adequate resources to be dedicated to the internal audit function but considering the existing organisation structure and the operation of the Group, the Board is comfortable with the current arrangement where the Chief Financial Officer oversees the Internal Audit function.

(D) COMMUNCATION WITH SHAREHOLDERS

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

The Company does not practice selective disclosure. Results and annual reports are announced or issued within the mandatory period. The Group values dialogue with investors. The Chairman and executive directors intend to hold discussions with analysts and shareholders to explain the Group's strategy, performance and major developments whenever appropriate. However, any information that may be regarded as undisclosed material information about the Group will not be given.

All shareholders of the Group receive the annual report and notice of Annual General Meeting. The notice is also advertised in the newspapers and made available on the corporate website : www.lankom.com.tw.

Principle 15: Companies should encourage greater shareholder participation at Annual General Meetings and allow shareholders the opportunity to communicate their views on various matters affecting the company.

At each Annual General Meeting, the Board presents the progress and performance of the business and encourages shareholders to participate in the question and answer session. Executive directors and, where appropriate, the Chairman of the Audit, Nominating and Remuneration Committees, and external auditors are available to respond to shareholders' questions during the meeting. Where appropriate, the Chairman of the Board will undertake to provide the shareholders with a written answer to any significant question that cannot be readily responded on the spot.

Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting and the Chairman declares the number of proxy votes received both for and against each separate resolution.

DEALINGS IN SECURITIES

The Group has adopted internal codes pursuant to the SGX-ST's Best Practices Guide applicable to all its officers in relation to dealing in the Company securities. Its officers are not allowed to deal in the LANKom Electronics Limited's shares during the period commencing one month before the announcement of the Group's half-yearly results and ending on the date of the announcement of the results.

SUMMARY OF COMMITTEE MEETINGS

	Board of Directors Number of Meetings*			Audit Committee Number of Meetings*			Nominating Committee Number of Meetings*			Remuneration Committee Number of Meetings*		
	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended	Position	Held	Attended
Executive Director												
Albert Liu Lu Ta	C	2	2	-	-	-	-	-	-	-	-	-
Randolph Liu Lu Chun	M	2	2	-	-	-	M	1	1	M	2	2
Ho Wai Hung	M	2	2	-	-	-	-	-	-	-	-	-
Non-Executive Director												
Huang Mei Chu	M	2	0	-	-	-	-	-	-	-	-	-
Huang Chiu Chu	M	2	2	M	2	2	-	-	-	-	-	-
Independent Director												
Ong Kian Min	M	2	2	C	2	2	C	1	1	M	2	2
Chao Pei	M	2	2	M	2	2	M	1	1	C	2	2

Denotes:
C – *Chairman, M - Member*
* *Number of Meetings held/attended during the financial year from* 1 *January 2003 to* 31 *December 2003*

RISK MANAGEMENT

1. *Rapid technology changes*

   The datacommunications, telecommunications and PC industries are characterized by rapid technological changes and quick product obsolescence. It is therefore important that we must continue to be able to develop new products and or modify our existing products on a regular and timely basis to maintain our competitiveness.

2. *Competition from other manufacturers*

   Given the high growth potential in the industries that we operate in, there is no assurance that we will not face competition from other manufacturers of EM components, especially when they are most successful in delivering good quality and reliable components with attractive pricing on time.

3. *Foreign exchange risks*

   We generate revenue and incur cost in US$ and Chinese RMB while the reporting currency of our financial results are in NT$. There is therefore an exchange transaction risk which may affect the operating results of our Group.

FINANCIAL CONTENTS

Directors' Report

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of LANKom Electronics Limited (the "Company") and its subsidiary companies (the "Group") for the financial year ended 31 December 2003.

DIRECTORS

The Directors of the Company in office at the date of this report are:

Albert Liu Lu Ta (Chairman)
Randolph Liu Lu Chun
Huang Mei Chu
Huang Chiu Chu
Ong Kian Min
Chao Pei
Ho Wai Hung

In accordance with the Company's Bye-laws, Ms. Huang Mei Chu and Mr. Randolph Liu Lu Chun retire by rotation and, being eligible, offer themselves for re-election.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

The following Directors who held office at the end of the financial year had, according to the register of Directors' shareholdings required to be kept, an interest in shares of the Company and its related corporations as stated below:

	<——Direct interest——>			<——Deemed interest——>		
	At 1 January 2003	**At 31 December 2003**	**At 21 January 2004**	**At 1 January 2003**	**At 31 December 2003**	**At 21 January 2004**
The Company Ordinary shares of US$0.02 each						
Albert Liu Lu Ta	94,120,857	94,120,857	94,120,857	–	–	–
Randolph Liu Lu Chun	16,608,585	16,608,585	16,608,585	–	–	–
Huang Mei Chu	22,080,000	22,080,000	22,080,000	–	–	–
Huang Chiu Chu	–	–	–	94,120,857	94,120,857	94,120,857

Madam Huang Chiu Chu, being the wife of Mr. Albert Liu Lu Ta, is deemed to be interested in the shares held by Mr. Albert Liu Lu Ta.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in Note 4 to the financial statement, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

SHARE OPTIONS

The LANKom Electronics Share Option Plan 2002 ("Share Option Plan") was approved by shareholders of the Company at a Special General Meeting held on 20 November 2002. The Share Option Plan allows the grant of share options to full-time employees (including Executive Directors), Non-Executive Directors and Associated Company Employees (excluding persons who are controlling shareholders or associates of a controlling shareholder) to subscribe for ordinary shares of US$0.02 each in the capital of the Company.

The Board of Directors of the Company was authorised to establish a committee in accordance with the provisions of the Share Option Plan. Under the Share Option Plan, the Committee may grant options, and the subscription price shall be determined and fixed by the Committee and shall be either the market price or the nominal value of the share, whichever is higher; or a price set up to a maximum discount of 20% of the market value or the nominal value of shares, whichever is the higher. The Committee consists of :

Dr Chao Pei
Mr Ong Kian Min
Mr Randolph Liu Lu Chun

The LANKom Electronics Performance Share Plan 2002 ("Share Plan") was also approved by shareholders of the Company at the Special General Meeting held on 20 November 2002. The Board of Directors were also authorised to establish a Committee to administer the Share Plan. The Committee consists of :

Dr Chao Pei
Mr Ong Kian Min
Mr Randolph Liu Lu Chun

The Share Plan allows awards of fully-paid ordinary shares of US$0.02 each in the capital of the Company, free-of-charge, to full-time employees (including Executive Directors), Non-Executive Director and Associated Company Employees (excluding persons who are controlling shareholders or associates of a controlling shareholder) subject to certain performance targets being met. All awards are at the absolute discretion of the Committee.

At the end of the financial year, there has been no grant of options/awards pursuant to the Share Options Plan or Share Plan.

AUDIT COMMITTEE

The Audit Committee performed the functions specified in the Companies Act. The functions performed are detailed in the Report on Corporate Governance.

Directors' Report

AUDITOR

Ernst & Young, Certified Public Accountants, have expressed their willingness to accept re-appointment as auditor.

On behalf of the Board,

Albert Liu Lu Ta
Director

Randolph Liu Lu Chun
Director

Singapore
23 March 2004

Statement by the Directors

We, Albert Liu Lu Ta and Randolph Liu Lu Chun, being two of the Directors of LANKom Electronics Limited, do hereby state that, in the opinion of the Directors,

(i) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and consolidated cash flow statement together with the notes thereto, set out on pages 24 to 48, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the results of the business and changes in equity of the Company and of the Group, and cash flows of the Group for the year then ended, and

(ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board,

Albert Liu Lu Ta
Director

Randolph Liu Lu Chun
Director

Singapore
23 March 2004

Auditor's Report

to the Members of LANKom Electronics Limited

We have audited the accompanying financial statements of LANKom Electronics Limited (the "Company") and its subsidiary companies (the "Group") set out on pages 24 to 48 for the year ended 31 December 2003. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Company and the consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Company and of the Group as of 31 December 2003 and the results and changes in equity of the Company and of the Group and the cashflows of the Group for the year then ended in accordance with Financial Reporting Standards in Singapore.

ERNST & YOUNG
Certified Public Accountants

Singapore
23 March 2004

Profit and Loss Accounts

for the year ended 31 December 2003
(Amounts in New Taiwan dollars)

	Note	Group		Company	
		2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Turnover	3	449,747	360,773	–	–
Cost of sales		(347,635)	(267,420)	–	–
Gross profit		102,112	93,353	–	–
Distribution and selling expenses		(4,545)	(4,464)	–	–
Administration expenses		(70,052)	(56,681)	(19,943)	(5,735)
Other operating expenses		(2,455)	(1,920)	–	(11,919)
Profit/(loss) from operations	4	25,060	30,288	(19,943)	(17,654)
Financial income	7	199	947	–	–
Financial expenses	7	(1,005)	(670)	–	(3)
Profit/(loss) before income tax		24,254	30,565	(19,943)	(17,657)
Income tax	8	(65)	(873)	–	–
Profit/(loss) attributable to shareholders		24,189	29,692	(19,943)	(17,657)
Earnings per share					
Basic	9	10.65 cents	14.13 cents		
Diluted	9	10.65 cents	14.13 cents		

The accounting policies and explanatory notes on pages 29 through 48 form an integral part of the financial statements.

Balance Sheets

as at 31 December 2003
(Amounts in New Taiwan dollars)

	Note	Group		Company	
		2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
ASSETS LESS LIABILITIES					
Non-current assets					
Fixed assets	10	226,684	73,245	162	451
Investments in subsidiary companies	11	–	–	97,468	97,468
Long-term investment	12	–	20,430	–	–
Construction-in-progress	13	–	66,875	–	–
Deferred tax assets	8	3,932	3,932	–	–
Current assets					
Stocks	14	122,408	100,893	–	–
Trade debtors	15	180,762	111,101	–	–
Other debtors	16	11,623	3,659	647	327
Due from subsidiary companies (non-trade)	17	–	–	276,851	278,047
Cash and bank balances		161,022	277,338	96	311
		475,815	492,991	277,594	278,685
Current liabilities					
Trade creditors		78,104	40,059	–	–
Other creditors and accruals	18	32,740	36,561	9,036	1,324
Due to subsidiary companies (non-trade)	17	–	–	47,521	32,515
Provision for income tax		30,855	31,353	–	–
Long-term bank loan (current portion)	19	2,050	2,050	–	–
		143,749	110,023	56,557	33,839
Net current assets		332,066	382,968	221,037	244,846
Non-current liability					
Long-term bank loan	19	(25,625)	(27,675)	–	–
NET ASSETS		537,057	519,775	318,667	342,765
EQUITY					
Share capital	20	151,783	151,783	151,783	151,783
Reserves	21	385,274	367,992	166,884	190,982
TOTAL EQUITY		537,057	519,775	318,667	342,765

The accounting policies and explanatory notes on pages 29 through 48 form an integral part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2003
(Amounts in New Taiwan dollars)

Group	Share capital NT$'000	Share premium NT$'000	Translation reserve NT$'000	Merger reserve NT$'000	Statutory reserve NT$'000	Revenue reserve NT$'000	Total NT$'000
Balance at 1 January 2002	125,292	225,345	4,125	(85,468)	402	205,781	475,477
Issue of 37,844,000 bonus shares of US$0.02 each at par by way of capitalisation of share premium	26,491	(26,491)	–	–	–	–	–
Expenses incurred in relation to issue of bonus shares	–	(339)	–	–	–	–	(339)
Translation differences	–	–	14,945	–	–	–	14,945
Profit attributable to shareholders	–	–	–	–	–	29,692	29,692
Balance at 31 December 2002	151,783	198,515	19,070	(85,468)	402	235,473	519,775
Translation differences	–	–	(6,907)	–	–	–	(6,907)
Profit attributable to shareholders	–	–	–	–	–	24,189	24,189
Balance at 31 December 2003	151,783	198,515	12,163	(85,468)	402	259,662	537,057

The accounting policies and explanatory notes on pages 29 through 48 form an integral part of the financial statements.

Statements of Changes in Equity

for the year ended 31 December 2003
(Amounts in New Taiwan dollars)

Company	Share capital NT$'000	Share premium NT$'000	Translation reserve NT$'000	Revenue reserve NT$'000	Total NT$'000
Balance at 1 January 2002	125,292	225,345	(26)	(2,137)	348,474
Issue of 37,844,000 bonus shares of US$0.02 each at par by way of capitalisation of share premium	26,491	(26,491)	–	–	–
Expenses incurred in relation to issue of bonus shares	–	(339)	–	–	(339)
Translation differences	–	–	12,287	–	12,287
Loss attributable to shareholders	–	–	–	(17,657)	(17,657)
Balance at 31 December 2002	151,783	198,515	12,261	(19,794)	342,765
Translation differences	–	–	(4,155)	–	(4,155)
Loss attributable to shareholders	–	–	–	(19,943)	(19,943)
Balance at 31 December 2003	151,783	198,515	8,106	(39,737)	318,667

The accounting policies and explanatory notes on pages 29 through 48 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2003
(Amounts in New Taiwan dollars)

	2003 NT$'000	2002 NT$'000
Cash flows from operating activities		
Profit before tax	24,254	30,565
Adjustments:		
Depreciation of fixed assets	11,257	9,240
Fixed assets written off	554	366
Loss on disposal of long-term investment	4,158	–
Interest expense	759	522
Interest income	(199)	(947)
Loss on disposal of short-term investments	–	1,637
Write back of provision for diminution in value of short-term investment	–	(697)
Provision for diminution in value of long-term investment	–	8,102
Operating profit before working capital changes	40,783	48,788
Increase in stocks	(21,515)	(27,455)
(Increase)/decrease in debtors	(77,625)	16,269
Increase in creditors and accruals	34,224	27,762
Translation differences	(7,228)	15,353
Cash (used in)/generated from operations	(31,361)	80,717
Interest paid	(759)	(522)
Interest received	199	947
Income taxes paid	(92)	(105)
Net cash (used in)/generated from operating activities	(32,013)	81,037
Cash flows from investing activities		
Purchase of fixed assets	(98,525)	(56,171)
Long-term investment	–	(28,532)
Proceeds from disposal of long-term investment	16,272	–
Proceeds from disposal of short-term investment	–	19,563
Construction-in-progress	–	(66,875)
Net cash used in investing activities	(82,253)	(132,015)
Cash flows from financing activities		
Repayment of bank loan	(2,050)	–
Share issuance expenditure paid	–	(339)
Proceeds from bank loan	–	29,725
Net cash (used in)/generated from financing activities	(2,050)	29,386
Net decrease in cash and cash equivalents	(116,316)	(21,592)
Cash and cash equivalents at beginning of year	277,338	298,930
Cash and cash equivalents at end of year	161,022	277,338

The accounting policies and explanatory notes on pages 29 through 48 form an integral part of the financial statements.

Notes to the Financial Statements

31 December 2003
(Amounts in New Taiwan dollars unless otherwise stated)

1. CORPORATE INFORMATION

LANKom Electronics Limited (the "Company") was incorporated in Bermuda on 24 November 2000 as an exempted company limited by shares.

The Company was admitted to the Official List of the Singapore Exchange Securities Trading Limited on 23 February 2001.

The registered office of the Company is located at Clarendon House, 2 Church Street, P.O. Box HM 666 Hamilton HM CX, Bermuda. The principal place of its business is located at the Republic of China, Taiwan.

The Company is an investment holding company. The principal activities of the subsidiary companies are shown in Note 11 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The Group and Company employed 3,896 and 2 (2002 : 23 and 2) employees as at 31 December 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of preparation*

The financial statements of the Group and the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). In previous years, the financial statements were prepared in accordance with Singapore Statements of Accounting Standard ("SAS"). The transition from SAS to FRS did not result in any significant change in accounting policies.

The financial statements have been prepared on a historical cost basis.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous financial year.

The financial statements are presented in New Taiwan dollars (NTD or NT$).

(b) *Principles of consolidation*

The consolidated financial statements comprise the financial statements of the Company and all its subsidiary companies, after the elimination of all material intragroup transactions and resulting unrealised profits. Unrealised losses resulting from intragroup transactions are also eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the Group cease to have control of the subsidiaries. Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

When a subsidiary company is acquired, any difference between the consideration paid and the fair value of net assets acquired is amortised on a straight-line basis to the consolidated profit and loss account over 10 years.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) *Investments in subsidiary companies*

A subsidiary company is a company in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of Directors.

Investments in subsidiary companies are stated at cost less impairment losses in the separate financial statements of the Company.

(d) *Fixed assets*

Fixed assets are stated at cost, net of depreciation and any impairment in value. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are charged to the profit and loss account in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the fixed assets.

When assets are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Depreciation is calculated on a straight-line method to write off the cost, less estimated residual value, of the fixed asset over its estimated useful lives as follows:

Leasehold Land	Lease period of 50 years
Building	20 - 50 years
Leasehold improvements	3 - 5 years
Machinery and equipment	5 years
Furniture and office equipment	1 - 5 years
Motor vehicle	5 years

The useful life and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits derived from the fixed assets.

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

(e) *Operating leases*

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) *Investments*

Investments held on a long-term basis are stated at cost less impairment loss, if any.

Investments held on a short term basis are stated at the lower of cost and market value determined on a portfolio basis. Cost is determined on a weighted average basis.

(g) *Impairment of assets*

The carrying amounts of the Company's assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

The impairment loss is only revised to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment losses are recognised in the profit and loss account.

(h) *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost of raw materials includes materials and all direct expenditure, determined on a first-in, first-out basis. Cost of work-in-progress and finished goods includes direct materials, direct labour and an attributable proportion of production overheads.

Net realisable value is the estimated normal selling price, less estimated costs necessary to make the sale.

Provision is made for obsolete, slow moving or defective stocks where appropriate.

(i) *Trade and other debtors*

Trade debtors, which generally have 30 - 120 day terms, are recognised and carried at original invoiced amount less provision for doubtful debts. Other debtors and balance due from a subsidiary company are recognised and carried at cost. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(j) *Cash and cash equivalents*

Cash consists of cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) *Trade and other creditors*

Trade and other creditors, which are normally settled on 90 - 120 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Amounts due to subsidiary companies are carried at cost.

(l) *Loans and borrowings*

Loans and other borrowings are recognised at cost.

(m) *Provisions*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(n) *Employee benefits*

Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The pension contributions are recognised as compensation expense in the same period as the employment that gives rise to the contribution.

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(o) *Construction-in-progress*

Construction-in-progress consists of land leased, related acquisition expenses and construction costs incurred during the period of construction, which will be depreciated over the term of the lease when the development is ready for occupation or transferred to the profit and loss account on disposal.

(p) *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i) Sale of goods

Revenue represents the invoiced value of goods net of value-added tax ("VAT"). Sales are recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Deposits or advance payments from customers prior to delivery of goods and passage of title of merchandise are recorded as receipts in advance.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) *Revenue recognition (cont'd)*

i) Sale of goods (cont'd)

All of the Group's sales made in Taiwan are subject to the Taiwan value-added tax at a rate of 5% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases ("input VAT").

ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the outstanding principal and the applicable rate.

(q) *Income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary companies, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

(r) *Foreign currency translation*

The functional currency of the Group and Company is the New Taiwan dollars. As sales, purchases and external financing are denominated primarily in New Taiwan dollars, the Directors are of the opinion that the New Taiwan dollars reflects the economic substance of the underlying events and circumstances relevant to the Group and Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) *Foreign currency translation (cont'd)*

Transactions in currencies other than the functional currencies of the individual companies within the Group during the financial year are translated into the respective functional currencies at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currencies at the balance sheet date are translated into the respective functional currencies ruling at the balance sheet date. Non-monetary assets and liabilities denominated in currencies other than the functional currencies are measured using the exchange rates ruling at the transaction dates. All resulting exchange gains and losses are recognised in the profit and loss accounts of the individual companies.

The financial statements of the subsidiary companies whose functional currencies are currencies other than New Taiwan dollars are translated into New Taiwan dollars using the closing rate method. Assets and liabilities of these subsidiary companies are translated into New Taiwan dollars at the exchange rates in effect at the balance sheet date. Share capital and reserves are translated at historical exchange rates. All profit and loss accounts are translated using average exchange rates for the year which approximates the exchange rates at the date of the transactions. Exchange differences arising on translation are accounted for as currency translation reserve in shareholders' equity.

(s) *Segments*

For management purposes, the Group is organised on a world-wide basis into two major operating geographical locations, namely Taiwan and the People's Republic of China (the "PRC").

Geographical location is the basis on which the Group reports its primary segment information. Segment revenue, expenses and results include transfers between geographical segments.

Turnover of the Group is primarily derived from the manufacturing and trading of electromagnetic components. Accordingly, it is not meaningful to present segmental information by business segments.

3. TURNOVER

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Sale of goods	449,747	360,773	–	–

Notes to the Financial Statements

4. PROFIT/(LOSS) FROM OPERATIONS

This is determined after (charging)/crediting the following:

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Auditors' remuneration				
- Auditor of the Company *				
- Statutory audit				
- Current year	(1,591)	(1,404)	(1,591)	–
- Over-provision in respect of prior years	307	-	–	–
- Other auditors	(329)	(300)	–	–
Bad debts written off				
- trade debtors	-	(18)	–	–
- subsidiary company	-	-	–	(11,919)
Depreciation of fixed assets	(11,257)	(9,240)	(286)	(188)
Directors' emoluments				
- Directors' fees	(907)	(913)	(907)	–
- Directors' remuneration	(11,713)	(9,582)	(11,713)	–
Fixed assets written off	(554)	(366)	–	–
Foreign exchange gain/(loss), net	2,630	6,803	–	(3)
Loss on disposal of quoted investment	(4,158)	(1,637)	–	–
Provision for diminution in value of long-term investment	–	(8,102)	–	–
Staff costs (Note 5)	(47,038)	(27,412)	(14,518)	(1,202)
Write back of provision for diminution in value of short-term investment	–	697	–	–

* There were no non-audit services performed by the auditor of the Company during the year.

5. STAFF COSTS

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Staff costs (including directors' remuneration)				
- Wages and salaries	44,178	26,212	14,164	1,038
- Pension contribution	1,534	230	326	156
- Other personnel benefits	1,326	970	28	8
	47,038	27,412	14,518	1,202

Included in staff costs are the directors' remuneration of the Group and the Company amounting to NT$11,713,000 (2002: NT$9,582,000) and NT$11,713,000 (2002: Nil) respectively.

6. DIRECTORS' EMOLUMENTS

Analysis of Directors' emoluments by number of Directors and emolument ranges of NT$Nil, NT$4,999,999 and NT$9,999,980 (equivalent to approximately ranges of SNil, S250,000 and S$500,000) is as follows:

	Group and Company	
	2003 NT$'000	2002 NT$'000
NT$Nil to NT$4,999,999	5	6
NT$5,000,000 to NT$9,999,980	2	1
	7	7

7. FINANCIAL INCOME/(EXPENSES)

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Interest income				
- bank balances	199	825	–	–
- fixed deposits	–	122	–	–
	199	947	–	–
Interest expense				
- bank loans	(759)	(522)	–	–
Others	(246)	(148)	–	(3)
	(1,005)	(670)	–	(3)

8. INCOME TAX

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Current tax				
- foreign	65	13	–	–
Deferred tax	–	860	–	–
	65	873	–	–

The Company is incorporated in Bermuda, where no taxes are required to be paid. A wholly-owned subsidiary company, LANKom Electronics Co., Ltd., incorporated in Taiwan, provides for Taiwan corporate income tax at 25% (2002 : 25%) of its taxable profit. The companies in the British Virgin Islands are incorporated under the International Business Companies Act of the British Virgin Islands and accordingly, are exempted from payment of British Virgin Islands income taxes.

The Group's manufacturing activities are conducted in Zhuhai Special Economic Zone, Guangdong Province, the PRC, by a subsidiary company, Zhuhai LANKom Technology Co., Ltd ("ZLT"). ZLT is exempted from PRC corporate income tax for the first 2 years of activities, and pays 50% taxes for the following 3 years.

Notes to the Financial Statements

8. INCOME TAX (CONT'D)

A reconciliation of the statutory tax rate to the Group's effective tax rate applicable to income for the years ended 31 December was as follows:

	Group	
	2003 **%**	**2002** **%**
Tax at the domestic rates applicable to profits in the countries concerned *	(7.21)	(4.66)
Tax effect of non-taxable foreign income in determining taxable profit	–	(1.07)
Tax effect of expenses not deductible in determining taxable profits	4.60	8.00
Others	2.88	0.59
	0.27	2.86

* The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

Deferred tax assets

Deferred tax assets relate to the following:

	Group	
	2003 **NT$'000**	**2002** **NT$'000**
Unutilised tax losses	3,529	2,897
Unrealised exchange (gain)/loss, net	(223)	409
Provision for stock obsolescence	626	626
	3,932	3,932

There are no income tax consequences attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements.

9. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share (basic and diluted) is calculated by dividing the net profit attributable to shareholders of approximately NT$24,189,000 (2002 : NT$29,692,000) by 227,064,000 (2002 : 227,064,000), being the number of shares in issue during the financial year.

10. FIXED ASSETS

Group	Leasehold Land and building NT$'000	Leasehold improvements NT$'000	Machinery and equipment NT$'000	Furniture and office equipment NT$'000	Motor vehicle NT$'000	Total NT$'000
Cost						
At beginning of year	43,421	7,144	33,402	3,810	7,887	95,664
Additions	63,882	–	21,401	11,809	1,433	98,525
Reclassification from Construction-in-Progress	66,875	–	–	–	–	66,875
Write-off	–	–	(150)	–	(806)	(956)
Currency realignment	–	–	(411)	(7)	(76)	(494)
At end of year	174,178	7,144	54,242	15,612	8,438	259,614
Accumulated depreciation						
At beginning of year	111	684	17,845	1,909	1,870	22,419
Charge for the year	824	1,174	7,160	822	1,277	11,257
Write-off	–	–	(37)	–	(365)	(402)
Currency realignment	(5)	–	(316)	(3)	(20)	(344)
At end of year	930	1,858	24,652	2,728	2,762	32,930
Charge for 2002	111	668	6,537	720	1,204	9,240
Net book value						
At end of year	173,248	5,286	29,590	12,884	5,676	226,684
At beginning of year	43,310	6,460	15,557	1,901	6,017	73,245

Land and building of NT$44,550,000 (2002 : NT$43,310,000) is mortgaged to secure bank loans for a subsidiary company (Note 19).

Notes to the Financial Statements

10. FIXED ASSETS (CONT'D)

Company	Leasehold improvements NT$'000	Furniture and office equipment NT$'000	Total NT$'000
Cost			
At beginning and end of year	114	537	651
Accumulated depreciation			
At beginning of year	42	158	200
Charge for the year	38	248	286
Currency realignment	–	3	3
At end of year	80	409	489
Charge for 2002	38	150	188
Net book value			
At end of year	34	128	162
At beginning of year	72	379	451

11. INVESTMENTS IN SUBSIDIARY COMPANIES

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity interest/ voting capital attributable to the Group 2003 %	2002 %	Cost 2003 NT$'000	2002 NT$'000
Held by the Company					
LANKom Global Limited [1] (British Virgin Islands ("BVI"))	Investment holding (BVI)	100	100	97,468	97,468
LANKom (Singapore) Pte Ltd [2] (Singapore)	Dormant (Singapore)	100	100	-[4]	-[4]
				97,468	97,468

11. INVESTMENTS IN SUBSIDIARY COMPANIES (CONT'D)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity interest/ voting capital attributable to the Group 2003 %	2002 %
Held by LANKom Global Limited			
Bright Union Resources Limited [1] (BVI)	Procurement of raw materials, import of raw materials and export of products (The PRC)	100	100
LANKom Electronics Co., Ltd. [3] (Republic of China ("Taiwan"))	Trading of electromagnetic components (Republic of China ("Taiwan"))	100	100
LANKom China Inc. [1] (BVI)	Dormant (Hong Kong)	100	100
LANKom Manufacturing Inc. [1] (BVI)	Manufacture of electromagnetic components (The PRC)	100	100
LANKom Services Limited [3] (Hong Kong)	Provision of administrative services and logistics support to related companies (Hong Kong)	100	100
LANKom Sales Limited [3] (Hong Kong)	Provision of administrative services and logistics support to related companies (Hong Kong)	100	100
Held by LANKom China Inc.			
Zhuhai LANKom Technology Co., Ltd (The PRC) [5]	Manufacture of electromagnetic components (The PRC)	100	100

(1) Not required to be audited in the country of incorporation.
(2) Audited by Ernst & Young Singapore.
(3) Audited by a member firm of Emst & Young International.
(4) Cost of investment of NT$36.
(5) Audited by Zhuhai ZhengDe Partners, a firm of certified public accountants.

Notes to the Financial Statements

12. LONG-TERM INVESTMENT

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Quoted investment at cost	–	28,532	–	–
Less: Provision for diminution in value of long-term investment	–	(8,102)	–	–
Net	–	20,430	–	–
Market value	–	20,430	–	–

13. CONSTRUCTION-IN-PROGRESS

Construction-in-progress consists of land leased, related acquisition expenses and construction costs amounting to NT$Nil (2002 : NT$66,874,597).

14. STOCKS

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Finished goods at cost	57,774	39,958	–	–
Work-in-progress at cost	20,879	21,460	–	–
Raw materials at cost	47,755	43,475	–	–
	126,408	104,893	–	–
Provision for stock obsolescence	(4,000)	(4,000)	–	–
	122,408	100,893	–	–

There was no movement in provision for stock obsolescence during the financial year.

15. TRADE DEBTORS

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Trade debtors	181,762	112,101	–	–
Provision for doubtful debts	(1,000)	(1,000)	–	–
	180,762	111,101	–	–
Bad trade debts written off directly to profit and loss account	–	(18)	–	–

There was no movement in provision for doubtful debts during the financial year.

16. OTHER DEBTORS

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Sundry debtors	8,318	2,485	–	–
Deposits	1,698	390	327	327
Prepayments	1,607	784	320	–
	11,623	3,659	647	327

17. DUE FROM/(TO) SUBSIDIARY COMPANIES (NON-TRADE)

These non-trade balances are unsecured, interest-free and repayable on demand.

18. OTHER CREDITORS AND ACCRUALS

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Sub-contractors for construction-in-progress	4,903	24,421	–	–
Accrued operating expenses	26,802	11,122	9,036	1,324
Others	1,035	1,018	–	–
	32,740	36,561	9,036	1,324

19. LONG-TERM BANK LOAN

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Current portion	2,050	2,050	–	–
Non-current portion	25,625	27,675	–	–
	27,675	29,725	–	–

The long-term bank loan bears interest at 2.525% to 2.675% (2002 : 3% to 3.875%) per annum and is secured by the land and building of a subsidiary company (Note 10). The final maturity date of the bank loan is 21 June 2017.

Notes to the Financial Statements

20. SHARE CAPITAL

	Group and Company	
	2003 US$'000	2002 US$'000
Authorised:		
- 2,500,000,000 (2002 : 2,500,000,000) ordinary shares of US$0.02 (2002 : US$0.02) each	50,000	50,000

	Group and Company	
	2003 NT$'000	2002 NT$'000
Issued and fully paid:		
Ordinary shares of US$0.02 each		
- Balance at beginning of the year 227,064,000 (2002 : 189,220,000) shares issued	151,783	125,292
- Nil (2002 : 37,844,000) bonus shares issued during the year	–	26,491
- Balance at end of the year 227,064,000 (2002 : 227,064,000) shares issued	151,783	151,783

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

21. RESERVES

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Share premium (a)	198,515	198,515	198,515	198,515
Translation reserve	12,163	19,070	8,106	12,261
Merger reserve (b)	(85,468)	(85,468)	–	–
Statutory reserve (c)	402	402	–	–
Revenue reserve (d)	259,662	235,473	(39,737)	(19,794)
	385,274	367,992	166,884	190,982

(a) The share premium account may be applied only for the purposes specified in the Companies Act 1981 of Bermuda. The balance is not available for distribution of dividends except in the form of shares;

(b) The merger reserve arose from the difference between the nominal value of shares issued for the acquisition of LANKom Global Limited and its subsidiary companies and the shares acquired;

21. RESERVES (CONT'D)

(c) LANKom Electronics Co., Ltd., a subsidiary company, is required to appropriate 10% of its net profit, after offsetting any accumulated loss brought forward, to statutory reserve. Subject to the approval of shareholders, such reserve can be utilised to increase the paid-up capital when the statutory reserve reaches 50% of its paid-up capital. In addition, under the Company Law of Taiwan, when the statutory reserve equals the total paid-up capital, no further appropriation is required. As at 31 December 2003, the appropriated reserve amounted to approximately NT$402,000 (2002 : NT$402,000), representing 3.35% (2002 : 3.35%) of the total paid-up capital; and

(d) Represents profit/(loss) retained in:

	2003 NT$'000	2002 NT$'000
Company	(39,737)	(19,794)
Subsidiaries	299,399	255,267
	259,662	235,473

22. COMMITMENTS

(a) Non-cancellable operating lease commitments

Operating lease expenses of the Group and Company (principally for premises) was NT$1,698,099 and NT$1,429,008 (2002 : NT$3,084,000 and NT$1,332,000) respectively for the year ended 31 December 2003.

The Group and the Company has various operating lease agreements for office premises, with lease commitments as follows:

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Future minimum lease payments				
- not later than 1 year	823	1,456	570	1,345
- 1 year through 5 years	105	560	–	560
	928	2,016	570	1,905

Notes to the Financial Statements

22. COMMITMENTS (CONT'D)

(b) Capital expenditure commitments

	Group		Company	
	2003 NT$'000	2002 NT$'000	2003 NT$'000	2002 NT$'000
Capital expenditure not provided for in the financial statements - commitments in respect of contracts placed	2,640	32,125	–	–

23. SEGMENT REPORTING

(a) By geographical segments

The Group's activities and assets are conducted and located predominantly in Taiwan and the PRC (including Hong Kong). An analysis by geographical segments is as follows:

2003	Taiwan NT$'000	The PRC NT$'000	Elimination NT$'000	Total NT$'000
Turnover				
External sales	182,214	267,533	–	449,747
Inter-segment sales	16,598	199,922	(216,520)	–
Total revenue	198,812	467,455	(216,520)	449,747
Operating results				
Segment result	(6,585)	31,399	–	24,814
Interest expense				(759)
Interest income				199
Tax				(65)
Net profit attributable to shareholders				24,189
Other information				
Segment assets	279,498	423,001	–	702,499
Segment liabilities	(28,931)	(81,913)	–	(110,844)
Capital expenditure	5,179	93,346	–	98,525
Depreciation of fixed assets	2,779	8,478	–	11,257
Other non-cash expense	5,606	2,932	–	8,538

23. SEGMENT REPORTING (CONT'D)

(a) By geographical segments (cont'd)

2002	Taiwan NT$'000	The PRC NT$'000	Elimination NT$'000	Total NT$'000
Turnover				
External sales	175,290	185,483	-	360,773
Inter-segment sales	24,425	155,561	(179,986)	-
Total revenue	199,715	341,044	(179,986)	360,773
Operating results				
Segment result	(6,258)	36,398	–	30,140
Interest expense				(522)
Interest income				947
Tax				(873)
Net profit attributable to shareholders				29,692
Other information				
Segment assets	407,403	246,138	–	653,541
Segment liabilities	(15,294)	(61,326)	–	(76,620)
Capital expenditure	50,456	72,899	(309)	123,046
Depreciation of fixed assets	2,124	7,116	–	9,240
Other non-cash expense	8,102	–	–	8,102

(b) By business segments

No segmental information is provided for turnover, operating profit and assets employed by business segments as the Group is principally engaged in manufacturing and trading of electromagnetic components.

24. SUBSEQUENT EVENT

Subsequent to year end, the Directors proposed a final tax exempt dividend of 0.15 Singapore cents per ordinary share amounting to NT$6,722,691 in respect of the financial year ended 31 December 2003.

25. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

It is the Group's policy not to trade in derivative contracts.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (CONT'D)

Interest rate risk

The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds of the Group are placed with reputable banks, which generate interest income for the Group. The Group manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Foreign exchange risk

The Group generates revenue and incurs cost in foreign currencies, primarily the US dollars and Chinese Rmb, which gives rise to transactional currency exposure. The Group does not use any derivative financial instruments to hedge foreign currency exposures.

The Group's exposure to foreign exchange risk is primarily managed by natural hedges of matching assets and liabilities denominated in foreign currencies.

Credit risk

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Cash terms, advance payments and letters of credits are required for customers of lower credit standing. The carrying amount of cash and cash equivalents, trade debtors and other debtors represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk with any single or group of customers as at balance sheet date.

Fair values - Recognised financial instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

Cash and other current assets

The carrying amounts of these balances approximate fair value due to the relatively short-term maturity of these financial instruments.

Trade debtors and trade creditors

The carrying amounts of these balances approximate their fair values because these are subject to normal trade credit terms.

25. FINANCIAL INSTRUMENTS (CONT'D)

Fair values - Recognised financial instruments (cont'd)

Other current liabilities

The carrying amounts of these balances approximate fair value due to the relatively short-term maturity of these financial instruments.

Long-term bank borrowings

The carrying amount of the Group's borrowings under its long-term bank loan approximate its fair value. The fair value is estimated based on current incremental lending rates for similar types of arrangements.

26. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2003 were authorised for issue in accordance with a resolution of the Directors on 23 March 2004.

27. INTERESTED PARTY TRANSACTIONS

There were no interested party transactions conducted during the financial year.

Statistics Of Shareholdings

as at 9 March 2004

SHARE CAPITAL

Authorised share capital	:	US$ 50,000,000
Issued and fully paid-up capital	:	US$ 4,541,280
Class of shares	:	Ordinary share of US$0.02 each
Voting rights	:	1 vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shareholders	%	No. of Shares	%
1 - 999	25	1.70	10,611	0.01
1,000 - 10,000	435	29.51	2,325,200	1.02
10,001 - 1,000,000	1,003	68.04	40,910,644	18.02
1,000,001 and above	11	0.75	183,817,545	80.95
Total	1,474	100.00	227,064,000	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	Liu Lu Ta	94,120,857	41.45
2	Huang Mei Chu	22,080,000	9.72
3	Yuan Sung Investments Co. Ltd	22,080,000	9.72
4	Liu Lu-Chun	16,608,585	7.31
5	Huang Yi Fong	14,714,114	6.48
6	Kim Eng Securities Pte Ltd	5,094,000	2.24
7	UOB Kay Hian Pte Ltd	2,930,600	1.29
8	Phillip Securities Pte Ltd	1,939,589	0.85
9	Ho Yooi Feng Joan	1,626,000	0.72
10	OCBC Securities Private Ltd	1,589,800	0.70
11	G K Goh Stockbrokers Pte Ltd	1,034,000	0.46
12	DBS Vickers Securities (S) Pte Ltd	903,600	0.40
13	Tan Seng @ Tan Hun Seng	866,000	0.38
14	Meiko Building Materials Supplier (S) Private Limited	631,000	0.28
15	Citibank Consumer Nominees Pte Ltd	496,000	0.22
16	Chionh Teck Swee	447,000	0.20
17	Goh Tjun Huat	400,000	0.18
18	Ong Gim Eng	380,000	0.17
19	Espoir Investments Pte Ltd	360,000	0.16
20	Liaw Hin Hao	316,000	0.14
	Total	188,617,145	83.07

Statistics Of Shareholdings

PUBLIC FLOAT

Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") requires that at least 10% of the equity securities (excluding preference shares and convertible equity securities) of a listed company in a class that is listed is at all times held by the public.

The Company has complied with Rule 723. As at 9 March 2004, approximately 25.31% of the Company's ordinary shares listed on the SGX-ST were held in the hands of the public.

SUBSTANTIAL SHAREHOLDERS

	Direct Interest	%	Deemed Interest	%
Albert Liu Lu Ta *	94,120,857	41.45	-	-
Huang Chiu Chu *	-	-	94,120,857	41.45
Huang Mei Chu	22,080,000	9.72	-	-
Yuan Song Investments Co. Ltd	22,080,000	9.72	-	-
Randolph Liu Lu-Chun	16,608,585	7.31	-	-
Huang Yi Fong	14,714,114	6.48	-	-

* Mr Albert Liu Lu Ta and Madam Huang Chiu Chu are spouses, Madam Huang Chiu Chu is therefore deemed to be interested in the shares held by Mr Albert Liu Lu Ta.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 7F No. 5 Lane 345 Yang Guang Street Neihu Taipei 114 Taiwan on Friday 23 April 2004 at 9.30 a.m. to transact the following business:-

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the financial year ended 31 December 2003 together with the Auditors Report thereon. **(Resolution 1)**

2. To declare a First and Final Dividend of 0.15 Singapore cents per ordinary share (tax exempt) for the year ended 31 December 2003. **(Resolution 2)**

3. To approve the payment of Directors' fees of NT$906,899 for the financial year ended 31 December 2003 (2002: NT$912,626). **(Resolution 3)**

4. To re-elect the following Directors retiring pursuant to Bye-law 86(1) of the Bye-laws of the Company:-
   (i) Ms Huang Mei Chu **(Resolution 4)**
   (ii) Mr Randolph Liu Lu Chun **(Resolution 5)**

   Mr Randolph Liu Lu Chun will, upon re-election as Director of the Company, remain as a member of the Remuneration Committee and Nominating Committee.

5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following ordinary resolutions with or without modifications:-

6. Authority to allot and issue shares

   (a) "That, pursuant to Company's Bye-laws, and the listing rules of the Singapore Exchange Securities Trading Limited, approval be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to :

   (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise;

   (ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively, "Instruments") including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares;

   (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and

   (b) (notwithstanding the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force, provided always that

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(i) the aggregate number of shares to be issued pursuant to this resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 50% of the Company's issued share capital, of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company, and for the purpose of this resolution, the issued share capital shall be the Company's issued share capital at the time this resolution is passed, after adjusting for;

a) new shares arising from the conversion or exercise of convertible securities, or

b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the Stock Exchange of Singapore Ltd, and

c) any subsequent consolidation or subdivision of the Company's shares, and

(ii) such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."
(See Explanatory Note 1) **(Resolution 7)**

7. Authority to offer and grant options and to issue shares under LANKom Electronics Share Option Plan 2002 ('LESOP') and LANKom Electronics Performance Share Plan 2002 ('LEPSP')

   "That authority be and is hereby given to the Directors of the Company to offer and grant options from time to time in accordance with the provisions of the LANKom Electronics Share Option Plan 2002 ('LESOP'), and/or grant awards in accordance with the provisions of the LANKom Electronics Performance Share Plan 2002 ('LEPSP'), and pursuant to the Company's Bye-laws, to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options under the LESOP and/or the vesting of awards under the LEPSP respectively, provided that the aggregate number of shares to be issued pursuant to the LESOP and LEPSP shall not exceed fifteen (15) per cent in total of the issued share capital of the Company from time to time, as determined in accordance with the provisions of the Scheme."
   (See Explanatory Note 2) **(Resolution 8)**

8. To transact any other ordinary business which may be properly transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

Foo Soon Soo
Lotus Isabella Lim Mei Hua
Company Secretaries
Date: 1 April 2004

Notes:

1. *A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy in his stead.*

2. *A proxy need not be a member of the Company.*

3. *If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.*

4. *The instrument appointing a proxy must be deposited at the office of the Company's Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 10 Collyer Quay, #19-08 Ocean Building, Singapore 049315 not later than 48 hours before the time appointed for the Meeting.*

Explanatory Notes:-

1. *The ordinary resolution in item no. 6 is to authorise the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 50 percent of the issued share capital of the Company of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20 percent of the issued share capital of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.*

2. *The ordinary resolution proposed in item 7 above, if passed, will empower the Directors of the Company to offer and grant options under the LANKom Electronics Share Option Plan 2002 ('LESOP') and the LANKom Electronics Performance Share Plan 2002 ('LEPSP') allot and issue shares pursuant to the exercise of such options/awards under the LESOP and LEPSP not exceeding fifteen (15) per cent of the issued share capital of the Company from time to time.*