



LANKOM ELECTRONICS LIMITED
annual report 2004





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THINK SMALL

WIN BIG

LANKOM ELECTRONICS LIMITED

mission statement

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



company overview

Our principal activities are the manufacture and sales of electromagnetic components ("EM") which are used mainly in data-communications, telecommunications and PC industries to Original Equipment Manufacturing ("OEM") manufacturers of electronic products.

In the data-communications industry, our products are used in local area network ("LAN") and other networking equipment. This equipment such as HUBs and Switching HUBs are used mainly to transmit data.

In the telecommunication industry, our products are used mainly in broadband transmission over traditional telephone lines such as asymmetric digital subscriber line ("ADSL") or over dedicated lines such as cable modem. This equipment such as wireless routers, broadband routers and IP phone (VoIP) are used to transmit voice, data and images.

In the PC industry, our products are used mainly in LAN port for Desktop and notebook computers.

Our products are marketed under our "LANKom" trademark. The majority of our customers are OEM manufacturers. These OEM manufacturers are approved suppliers for companies such as 3Com, Hewlett Packard, Nortel, Dell, Siemens, D-Link, Intel, IBM, Legend, BENQ and Toshiba.

OUR GROWING CLIENTELE BASE:



OUR PARTNERS IN THE COMPUTING INDUSTRY

28%

SIZE MATTERS

LANKOM WILL CONTINUE TO PUSH THE LIMITS IN DESIGN, APPLICATION AND SIZE OF OUR PRODUCTS FOR OUR GROWING CLIENTELE BASE.



OUR PARTNERS IN THE
TELECOMMUNICATIONS INDUSTRY

43%



OUR PARTNERS IN THE
DATA-COMMUNICATIONS INDUSTRY

29%

chairman's statement



It is my great pleasure once again to review and comment on the performance of our Group for the financial year ended 31 December 2004.

REVIEW OF PERFORMANCE

LANKom performed satisfactorily during the financial year as we more than doubled our net profit to NT\$55.1 million from NT\$24.2 million the year before.

Although our Group's turnover increased marginally by 8.2% from NT\$450 million in the last financial year to NT\$486 million in the current financial year and our cost of sales grew by 6% due to an increase in raw material costs as a result of higher oil prices in the second half of the financial year, our better mix of products and introduction of new products enabled us to achieve an improvement in our gross margins and a higher Group gross profit of NT\$119 million.

During the financial year, our Group also benefited from the write back of the tax expense of NT\$7.4 million related to income tax provided for in previous years in the accounts of LANKom Manufacturing Inc., a subsidiary of our Company which was voluntarily liquidated during the financial year and a gain of NT\$1.2 million from the disposal of quoted investment (compared to a loss of NT\$4.2 million in the prior financial year).

Earnings per share was 60.68 New Taiwan cents compared with 26.63 New Taiwan cents previously while net asset value per share improved to NT\$6.19 per share, an increase of 161% compared to NT\$2.37 per share.

DIVIDENDS

In line with the better performance of our Group, and our Group's policy to declare dividends after due consideration for the cash required for business expansion, capital requirements and other factors, the Directors have recommended a first and final dividend of 0.48 Singapore cents per ordinary share (tax not applicable) for the financial year ended 31 December 2004. The proposed dividend, if approved by shareholders at the Annual General Meeting on 29 April 2005, will be paid on 24 May 2005.

SHARE CONSOLIDATION AND BONUS ISSUE

During the financial year under review, our Company consolidated five (5) ordinary shares of par value US\$0.02 each into one (1) ordinary share (the "Consolidated Share") of par value US\$0.10 each pursuant to the shareholders' approval obtained at the Special General Meeting held on 19 November 2004.

DURING THE FINANCIAL YEAR WE MORE THAN DOUBLED OUR NET PROFIT TO NT\$55.1 MILLION FROM NT\$24.2 MILLION THE YEAR BEFORE

On the same day, our shareholders also approved the issue of 45,412,800 new ordinary shares (the "Bonus Shares") of par value US\$0.10 each in the capital of the Company on the basis of one (1) Bonus Share credited as fully paid for every one Consolidated Share held.

As at 31 December 2004, our Company's issued and paid up share capital was NT\$298,065,000 comprising 90,825,600 shares of par value US\$0.10 each.

CURRENT YEAR'S PROSPECTS

Generally we expect information technology spending to improve modestly in the current year, especially in the Asia-Pacific region, after a few years of poor growth. With this growth, we expect the demand for electromagnetic components to also increase.

Going forward, our Group will focus our production and sales effort on ICMs (Integrated Connector Modules) which are now commonly used in

personal computers ("PCs") and telecommunication equipment, and transformer modules which are the new generation industry standard for Giga Byte solution on notebooks and desktop PCs.

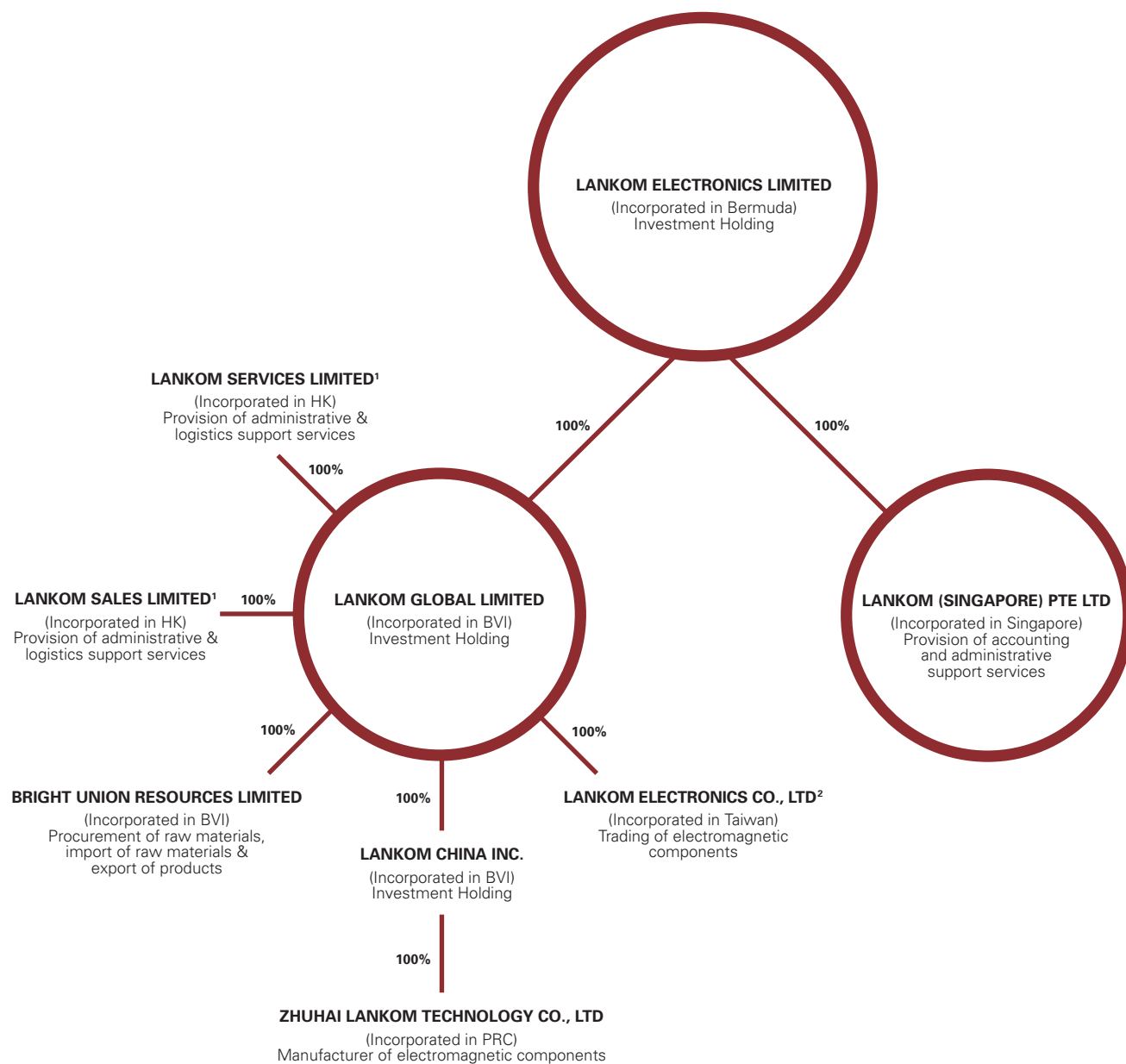
Our Group will continue to invest in new production equipment in line with our plan to automate our production and testing processes in order to improve our production efficiency and quality of our products. We will also continually review the quality and cost of raw materials used in our manufacturing process.

APPRECIATION

On behalf of our Board of Directors, I wish to express our appreciation to all our shareholders for their continuous support, our customers and business partners for their confidence in our Company and finally our Directors, management and staff for their dedication and contributions during the financial year.

Albert Liu Lu Ta
Chairman & Chief Executive Officer

corporate structure

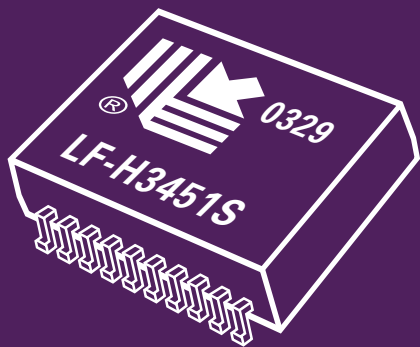


Note:

(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.

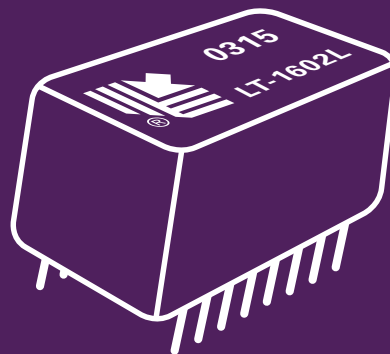
(2) Under the Company Law of Taiwan, the minimum number of shareholders required in a Taiwanese company is seven. To meet this requirement, each of our founding shareholders namely, Albert Liu Lu Ta, Randolph Liu Lu Chun, Huang Yi Fong, Huang Mei Chu, Huang Chiu Chu and Yuan Sung Investments Corp hold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

OUR PRODUCTS:



DATA-COMMUNICATIONS

Pulse Transformers, Filters & Chokes For:
10 Base-T
10/100 Base-TX
100/1000 Base-TX LAN Card & hub

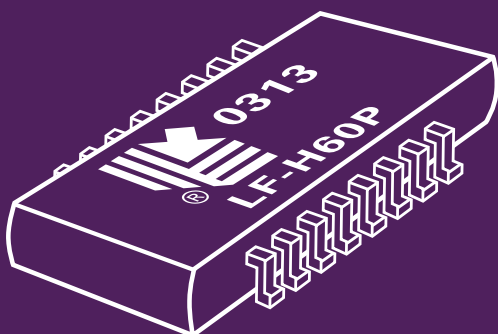


TELECOMMUNICATIONS

Pulse Transformers, RF Inductors, RF Wide Band
Transformers and Chokes For:
ADSL Modem/Router
T1/E1 Lines
T3/E3 Lines

PERFORMANCE ENHANCED

LANKOM CONSTANTLY PUSHES THE BARRIERS TO PRODUCE COMPONENTS THAT
CONTINUALLY DELIVER THE HIGHEST LEVEL OF PERFORMANCE.



PERSONAL COMPUTERS

PCMCIA Pulse Transformers, Bandpass Filter,
SMT Power Inductors and Chokes For:
Notebook Computers
LAN Port



INTEGRATED RJ45 CONNECTORS

Transformers For:
10 Base-TX
100 Base-TX
1000 Base-TX
With/Without LED

board of directors



MR. ALBERT LIU 01

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.

MS. HUANG MEI CHU 02

Non-Executive Director

Ms. Huang Mei Chu was appointed as our Non-Executive Director on 1 February 2001 and was last re-elected on 23 April 2004. She has worked as an accounts manager in a company engaged in the business of distribution of chemical products. She holds a Certificate in Accounting.

MR. RANDOLPH LIU 03

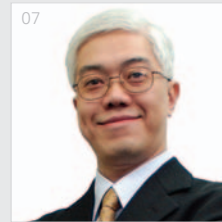
Non-Executive Director

Mr. Randolph Liu was appointed on 30 January 2001 and was last re-elected on 23 April 2004. He is a member of both the Nominating Committee and Remuneration Committee. Mr. Liu is the general manager of a company engaged in the trading of paper pulp and recycled paper materials. He holds a Law degree from the Fu Jen University, Taiwan.

MR. ONG KIAN MIN 04

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 both the Audit Committee and Nominating Committee and a member of the Remuneration Committee. Mr. Ong is currently a consultant with Drew and Napier LLC (a Singapore law firm) and a Member of Parliament of 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) external degree from the University of London.



MS. HUANG CHIU CHU 05

Non-Executive Director

Ms. Huang Chiu Chu was appointed as our Non-Executive Director on 1 February 2001 and will be due for re-election at the forthcoming AGM. She is also a member of the Audit Committee. 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.

DR CHAO PEI 06

Independent Director

Dr Chao Pei was appointed as an Independent Non-Executive Director on 1 February 2001 and will be due for re-election at the forthcoming AGM. 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 07

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

Chief Financial Officer

Ms. Ang Iris is our Chief Financial Officer. She is responsible for our overall financial accounting, tax, corporate secretarial matters and investor relations. Prior to joining our Group, she was the Corporate Finance Manager (Regional) of a company engaged in the marketing and distribution of sporting goods, footwear and apparel.

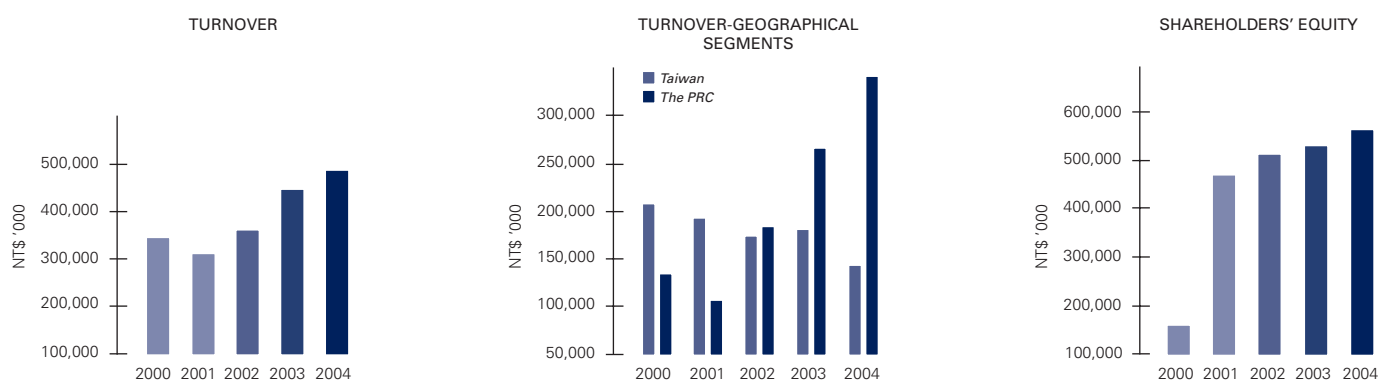
This company is also listed on the Official List of the Singapore Exchange Securities Trading Limited. Ms. Ang holds a professional qualification from the Chartered Association of Certified Accountants of United Kingdom and is a member of the Institute of Certified Public Accountants of Singapore.

MR. FENG XI WU

Manufacturing Manager

Mr. Feng Xi Wu is our Manufacturing Manager and he oversees the day-to-day manufacturing operations at our factory including staff management. He was a factory manager of a car repair factory before joining our Group. He holds a Degree in Economics from the Shaanxi Dang Zheng Cadres University.

financial highlights



Summarised Profit & Loss Accounts (in NT\$ '000)

Year	2000	2001	2002	2003	2004
Turnover	349,999	305,509	360,773	449,747	486,480
Operating Profit	125,396	53,055	30,288	25,060	48,724
Profit before tax	125,577	60,644	30,565	24,254	47,826
Profit after tax	110,581	54,151	29,692	24,189	55,117
Turnover growth	-	-12.7%	18.1%	24.7%	8.2%
Earnings per share (New Taiwan cents)	71.94	29.42	14.13	26.63	60.68

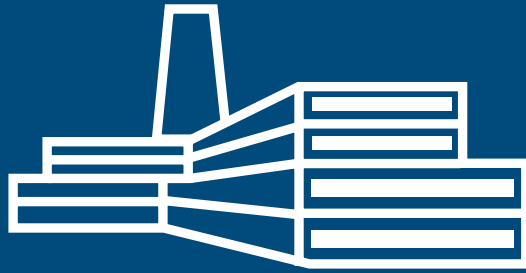
Turnover by Geographical Segments (in NT\$ '000)

Year	2000	2001	2002	2003	2004
Taiwan	212,455	190,171	175,290	182,214	140,563
The PRC	137,544	115,338	185,483	267,533	345,917
	349,999	305,509	360,773	449,747	486,480

Summarised Balance Sheets (in NT\$ '000)

Year	2000	2001	2002	2003	2004
Shareholders' equity	159,244	475,477	519,775	537,057	562,172
Fixed assets	19,394	25,774	73,245	226,684	234,874
Construction in progress	-	-	66,875	-	-
Long-term investments	-	-	20,430	-	-
Deferred tax assets	-	-	3,932	3,932	3,932
Current assets	296,898	528,692	492,991	475,815	489,538
Current liabilities	(157,048)	(78,989)	(110,023)	(143,749)	(142,597)
Net current assets	139,850	449,703	382,968	332,066	346,941
Long term bank loan	-	-	(27,675)	(25,625)	(23,575)
Net assets	159,244	475,477	519,775	537,057	562,172

LANKOM BY NUMBERS:



NT\$486million

PRODUCT SALES

POWER CHARGED

LANKOM'S NEW PLANT WITH A PRODUCTION CAPACITY OF 72 MILLION COMPONENTS
GIVES US THE ADDITIONAL POWER NEEDED TO MEET ANY SURGE OF SALES.

NT\$119million

GROSS PROFIT

128%

INCREASE IN NET PROFIT

200,000

PRODUCTION CAPACITY (PER DAY)

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

Lotus Isabella Lim Mei Hua
Ho Wai Hung

REGISTERED OFFICE

Clarendon House
2 Church Street
PO Box HM666
Hamilton HM CX
Bermuda
Tel: (441) 295 5950
Fax: (441) 292 4720
E-mail: 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

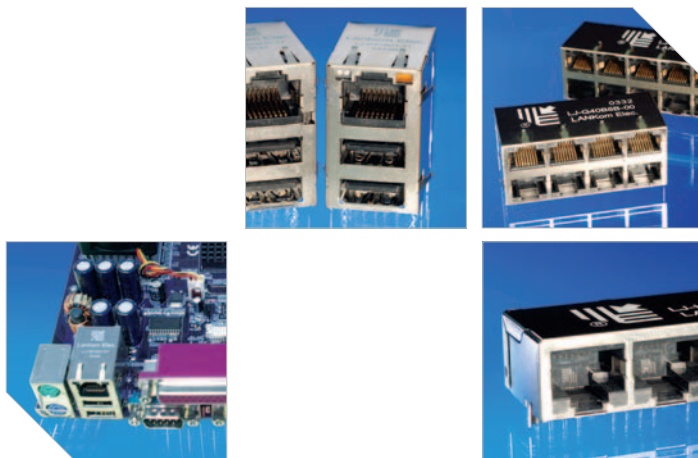
Barbinder & Co Pte Ltd
8 Cross Street
#11-00 PWC Building
Singapore 048424

AUDITORS

Ernst & Young
10 Collyer Quay
#20-01 Ocean Building
Singapore 049315

AUDIT PARTNER-IN-CHARGE

Max Loh Khum Wai
Appointed since 2002



Corporate Governance Statement

for the financial year ended 31 December 2004

The Board of Directors ("the Board") is committed to ensure that the highest standards of corporate governance are practiced throughout 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 practiced.

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 practiced 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 2004, 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 different persons to assume these positions.

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.

Corporate Governance Statement

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 Board.

The Board meets 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 20.

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 2004, the Board comprises 7 members, 2 are Executive Directors, 3 are Non-Executive Directors and 2 are Independent Directors. Together, the directors bring about 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 calibers 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 at present 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 different persons to assume the positions of Chairman of the Board and CEO. 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, he would endeavor 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 Group's 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.

Corporate Governance Statement

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 held 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 20.

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 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.

Corporate Governance Statement

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 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.

Corporate Governance Statement

This subcommittee of the Board held 1 meeting in the period. The matrix on the position, the frequency of meeting and the attendance of directors at these meetings is enclosed on page 20. All members of this Committee are 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 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 is 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 party is 3 to 6 months.

Corporate Governance Statement

(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 2004 are set out on page 24 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 held 2 meetings during the financial year. The meetings have been attended by the Group Chief Executive Officer, and the Chief Financial Officer. The external auditors were also present during these meetings. The Independent Directors of this Committee 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 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:

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

Corporate Governance Statement

- monitor 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 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 review 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) COMMUNICATION 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.

Corporate Governance Statement

All shareholders of the Group receive the annual report and notice of Annual General Meeting. The notice is also advertised in newspaper 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.

MATERIAL CONTRACTS

There were no material contracts entered into by the Company or any of its subsidiaries involving the interests of the Chief Executive Officer, any Director or substantial shareholder, either still subsisting at the end of the year or entered into since the end of the previous financial year.

SUMMARY OF COMMITTEE MEETINGS

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

Denotes:

C - Chairman, M - Member

* Number of Meetings held/attended during the financial year from 1 January 2004 to 31 December 2004

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 more successful in delivering good quality and reliable components with attractive pricing on time.

(3) Foreign exchange risks

Our revenue and cost are primarily denominated in US dollars, Hong Kong dollars, Singapore dollars and Chinese RMB while the reporting currency of our financial results are in New Taiwan dollars. There is therefore an exchange transaction risk which may affect the operating results of our Group.

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Directors' Report

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of LANKOM Electronics Limited and its subsidiaries for the financial year ended 31 December 2004.

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

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 related corporations as stated below:

	Direct interest		Deemed interest	
	At 1 January 2004	At 31 December 2004	At 1 January 2004	At 31 December 2004
The Company				
Ordinary shares of US\$0.10 (1 January 2004 : US\$0.02) each				
Albert Liu Lu Ta	94,120,857	37,648,350	–	–
Randolph Liu Lu Chun	16,608,585	6,706,234	–	–
Huang Mei Chu	22,080,000	8,832,000	–	–
Huang Chiu Chu	–	–	94,120,857	37,648,350

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2005.

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' Report

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in Note 4 to the financial statements, 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\$0.10 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\$0.10 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 Option 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

AUDITORS

Ernst & Young have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors,

Albert Liu Lu Ta
Director

Ho Wai Hung
Director

Singapore
21 March 2005

Statement by Directors

We, Albert Liu Lu Ta and Ho Wai Hung, 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 notes thereto 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 2004 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 of Directors,

Albert Liu Lu Ta
Director

Ho Wai Hung
Director

Singapore
21 March 2005

Auditors' Report

We have audited the accompanying financial statements of LANKom Electronics Limited (the Company) and its subsidiaries (the Group) set out on pages 28 to 51 for the year ended 31 December 2004. 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 2004 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 Singapore Financial Reporting Standards.

ERNST & YOUNG

Certified Public Accountants

Singapore
21 March 2005

Profit and Loss Accounts

for the year ended 31 December 2004
(Amounts in New Taiwan dollars)

	Note	Group		Company	
		2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Turnover	3	486,480	449,747	–	–
Cost of sales		(367,572)	(347,635)	–	–
Gross profit		118,908	102,112	–	–
Distribution and selling expenses		(9,703)	(4,545)	–	–
Administration expenses		(65,196)	(70,052)	(14,803)	(19,943)
Other operating income (expenses)		4,715	(2,455)	–	–
Profit (loss) from operations	4	48,724	25,060	(14,803)	(19,943)
Financial income	7	105	199	–	–
Financial expenses	7	(1,003)	(1,005)	–	–
Profit (loss) before income tax		47,826	24,254	(14,803)	(19,943)
Income tax	8	7,291	(65)	–	–
Profit (loss) attributable to shareholders		55,117	24,189	(14,803)	(19,943)
Earnings per share					
Basic	9	60.68 cents	26.63 cents		
Diluted	9	60.68 cents	26.63 cents		

Balance Sheets

as at 31 December 2004
(Amounts in New Taiwan dollars)

	Note	Group		Company	
		2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
ASSETS LESS LIABILITIES					
Non-current assets					
Fixed assets	10	234,874	226,684	316	162
Investments in subsidiaries	11	–	–	97,468	97,468
Deferred tax assets	8	3,932	3,932	–	–
Current assets					
Inventories	12	208,972	122,408	–	–
Trade receivables	13	165,329	180,762	–	–
Other receivables, deposits and prepayments	14	4,689	11,623	469	647
Due from subsidiaries (non-trade)	15	–	–	232,729	276,851
Cash and bank balances		110,548	161,022	219	96
		489,538	475,815	233,417	277,594
Current liabilities					
Trade payables		96,839	78,104	–	–
Other payables and accruals	16	21,823	32,740	5,309	9,036
Due to subsidiaries (non-trade)	15	–	–	25,873	47,521
Provision for income tax		21,885	30,855	–	–
Long-term bank loan (current portion)	17	2,050	2,050	–	–
		142,597	143,749	31,182	56,557
Net current assets		346,941	332,066	202,235	221,037
Non-current liability					
Long-term bank loan	17	(23,575)	(25,625)	–	–
NET ASSETS		562,172	537,057	300,019	318,667
EQUITY					
Share capital	18	298,065	151,783	298,065	151,783
Reserves	19	264,107	385,274	1,954	166,884
TOTAL EQUITY		562,172	537,057	300,019	318,667

Statements of Changes in Equity

for the year ended 31 December 2004
(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 2003	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
Issue of 45,412,800 bonus shares of US\$0.10 each at par by way of capitalisation of share premium	146,282	(146,282)	–	–	–	–	–
Expenses incurred in relation to the issue of bonus shares	–	(592)	–	–	–	–	(592)
Translation differences	–	–	(22,769)	–	–	–	(22,769)
Profit attributable to shareholders	–	–	–	–	–	55,117	55,117
Dividends (Note 22)	–	–	–	–	–	(6,641)	(6,641)
Balance at 31 December 2004	298,065	51,641	(10,606)	(85,468)	402	308,138	562,172

Statements of Changes in Equity

for the year ended 31 December 2004
(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 2003	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
Issue of 45,412,800 bonus shares of US\$0.10 each at par by way of capitalisation of share premium	146,282	(146,282)	–	–	–
Expenses incurred in relation to the issue of bonus shares	–	(592)	–	–	(592)
Translation differences	–	–	3,388	–	3,388
Loss attributable to shareholders	–	–	–	(14,803)	(14,803)
Dividends (Note 22)	–	–	–	(6,641)	(6,641)
Balance at 31 December 2004	298,065	51,641	11,494	(61,181)	300,019

Consolidated Statement of Cash Flows

for the year ended 31 December 2004
(Amounts in New Taiwan dollars)

	2004 NT\$'000	2003 NT\$'000
Cash flows from operating activities		
Profit before income tax	47,826	24,254
Adjustments:		
Depreciation of fixed assets	18,767	11,257
Fixed assets written off	87	554
Loss on disposal of fixed assets	12	-
(Gain) loss on disposal of quoted investments	(1,226)	4,158
Interest expenses	681	759
Interest income	(105)	(199)
Operating profit before working capital changes	66,042	40,783
(Increase) in inventories	(86,564)	(21,515)
Decrease (increase) in receivables	22,368	(77,625)
Increase in payables and accruals	7,819	34,224
Translation differences	(19,348)	(7,228)
Cash used in operations	(9,683)	(31,361)
Interest paid	(681)	(759)
Interest received	105	199
Income taxes paid	(105)	(92)
Net cash used in operating activities	(10,364)	(32,013)
Cash flows from investing activities		
Purchase of fixed assets	(32,058)	(98,525)
Purchase of quoted investments	(63,028)	-
Proceeds from disposal of fixed assets	5	-
Proceeds from disposal of quoted investments	64,254	16,272
Payment of dividends	(6,641)	-
Net cash used in investing activities	(37,468)	(82,253)
Cash flows from financing activities		
Repayment of bank loan	(2,050)	(2,050)
Share issuance expenditure paid	(592)	-
Net cash used in financing activities	(2,642)	(2,050)
Net decrease in cash and bank balances	(50,474)	(116,316)
Cash and bank balances at beginning of year	161,022	277,338
Cash and bank balances at end of year	110,548	161,022

The accounting policies and explanatory notes on pages 33 through 51 form an integral part of the financial statements.

Notes to the Financial Statements

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 subsidiaries 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.

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").

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 consolidated financial statements have been prepared in New Taiwan dollars (NTD or NT\$), being the functional currency of all of the principal companies in the Group.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and all its subsidiaries, 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 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Investments in subsidiaries

A subsidiary 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 subsidiaries 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 assets over their estimated useful lives as follows:

Leasehold land	Lease period of 50 years
Building	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) 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.

(g) Inventories

Inventories 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.

Allowance is made for obsolete, slow moving or defective inventories where appropriate.

(h) Trade and other receivables

Trade receivables, which generally have 30 - 120 days terms, are recognised and carried at original invoiced amount less allowance for doubtful debts. Other debtors and balance due from a subsidiary 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.

(i) 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.

(j) Trade and other payables

Trade and other payables, which are normally settled on 90 - 120 days 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 subsidiaries are carried at cost.

(k) Loans and borrowings

Loans and other borrowings are recognised at cost. Borrowing costs are generally expensed as incurred.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) 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.

(m) 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.

(n) 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 risks 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.

All of the Group's sales made in Taiwan are subject to 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) 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.

(p) Foreign currency translation

The functional currency of the Group is 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.

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 subsidiaries 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 subsidiaries 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.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) 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	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Sale of goods	486,480	449,747	–	–

4. PROFIT (LOSS) FROM OPERATIONS

This is determined after charging (crediting) the following:

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Auditors' remuneration				
- Auditors of the Company *				
Statutory audit				
- Current year	1,726	1,591	1,726	1,591
- Over-provision in respect of prior years	–	(307)	–	–
- Other auditors	300	329	–	–
Depreciation of fixed assets	18,767	11,257	120	286
Directors' emoluments				
- Directors' fees	912	904	912	904
- Directors' remuneration	8,649	11,716	8,649	11,716
Fixed assets written off	104	554	42	–
Foreign exchange (gain) loss, net	(3,058)	(2,630)	193	–
(Gain) loss on disposal of quoted investments	(1,226)	4,158	–	–
Staff costs (Note 5)	34,965	47,038	8,338	14,518

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

Notes to the Financial Statements

5. STAFF COSTS

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Staff costs				
- Wages and salaries	31,587	44,178	8,204	14,164
- Pension contribution	2,364	1,534	115	326
- Other personnel benefits	1,014	1,326	19	28
	34,965	47,038	8,338	14,518
Number of employees	2,960	3,896	2	2

Included in staff costs are Directors' remuneration of the Group and the Company amounting to NT\$8,649,000 (2003 : NT\$11,716,000) and NT\$8,649,000 (2003 : NT\$11,716,000) 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 S\$Nil, S\$250,000 and S\$500,000) is as follows:

	Group and Company	
	2004 NT\$'000	2003 NT\$'000
NT\$Nil to NT\$4,999,999	6	5
NT\$5,000,000 to NT\$9,999,980	1	2
	7	7

7. FINANCIAL INCOME (EXPENSES)

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Interest income				
- bank balances	105	199	-	-
Interest expenses				
- bank loans	(681)	(759)	-	-
Bank charges	(322)	(246)	-	-
	(1,003)	(1,005)	-	-

Notes to the Financial Statements

8. INCOME TAX

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Current tax				
- foreign	97	65	-	-
- overprovision in respect of prior year	(7,388)	-	-	-
	(7,291)	65	-	-

The Company is incorporated in Bermuda, where no taxes are required to be paid. A wholly-owned subsidiary, LANKom Electronics Co., Ltd., incorporated in Taiwan, provides for Taiwan corporate income tax at 25% (2003 : 25%) on 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, Zhuhai LANKom Technology Co., Ltd ("ZLT"). ZLT is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

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

	Group	
	2004 %	2003 %
Tax at the domestic rates applicable to profits in the countries concerned *	(17.28)	(7.21)
Tax effect of non-taxable foreign income in determining taxable profit	(0.64)	-
Tax effect of expenses not deductible in determining taxable profits	19.27	4.60
Tax effect of overprovision in respect of prior years	(15.45)	-
Others	(1.14)	2.88
	(15.24)	0.27

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

Notes to the Financial Statements

8. INCOME TAX (cont'd)

Deferred tax assets

Deferred tax assets relate to the following:

	Group	
	2004 NT\$'000	2003 NT\$'000
Unutilised tax losses	3,278	3,529
Unrealised exchange loss (gain), net	28	(223)
Allowance 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\$55,117,000 (2003 : NT\$24,189,000) by 90,825,600 (2003 : 90,825,600), 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	174,178	7,144	54,242	15,612	8,438	259,614
Additions	12,823	326	14,929	3,352	628	32,058
Disposals/written off	-	(112)	(40)	(383)	-	(535)
Currency realignment	(8,239)	(2)	(2,920)	(789)	(281)	(12,231)
At end of year	178,762	7,356	66,211	17,792	8,785	278,906

Notes to the Financial Statements

10. FIXED ASSETS (cont'd)

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
Accumulated depreciation						
At beginning of year	930	1,858	24,652	2,728	2,762	32,930
Charge for the year	2,576	1,144	10,780	2,728	1,539	18,767
Disposals/written off	–	(88)	–	(343)	–	(431)
Currency realignment	(132)	2	(6,860)	(144)	(100)	(7,234)
At end of year	3,374	2,916	28,572	4,969	4,201	44,032
Charge for 2003	824	1,174	7,160	822	1,277	11,257
Net book value						
At end of year	175,388	4,440	37,639	12,823	4,584	234,874
At beginning of year	173,248	5,286	29,590	12,884	5,676	226,684

Land and building of NT\$44,180,000 (2003 : NT\$44,550,000) is mortgaged to secure bank loans for a subsidiary (Note 17).

Company	Leasehold improvements NT\$'000	Furniture and office equipment NT\$'000	Total NT\$'000
Cost			
At beginning of year	114	537	651
Additions	326	10	336
Disposals/written off	(111)	(171)	(282)
Currency realignment	(3)	(15)	(18)
At end of year	326	361	687
Accumulated depreciation			
At beginning of year	80	409	489
Charge for the year	82	38	120
Disposals/written off	(87)	(137)	(224)
Currency realignment	(2)	(12)	(14)
At end of year	73	298	371
Charge for 2003	38	248	286
Net book value			
At end of year	253	63	316
At beginning of year	34	128	162

Notes to the Financial Statements

11. INVESTMENTS IN SUBSIDIARIES

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity interest/ voting capital attributable to the Group		Cost	
		2004 %	2003 %	2004 NT\$'000	2003 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)	Provision of accounting and administrative support services (Singapore)	100	100	— ⁽⁴⁾	— ⁽⁴⁾
				97,468	97,468
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 (Taiwan)	100	100		
LANKom China Inc. ⁽¹⁾ (BVI)	Investment holding (BVI)	100	100		
LANKom Manufacturing Inc. ⁽¹⁾ (BVI)	Manufacturer of electromagnetic components (The PRC)	—	100		
LANKom Services Limited ⁽³⁾ (Hong Kong)	Provision of administrative and logistics support services (Hong Kong)	100	100		
LANKom Sales Limited ⁽³⁾ (Hong Kong)	Provision of administrative and logistics support services (Hong Kong)	100	100		
Held by LANKom China Inc.					
Zhuhai LANKom Technology Co., Ltd ⁽⁵⁾ (The PRC)	Manufacturer of electromagnetic components (The PRC)	100	100		

Notes to the Financial Statements

11. INVESTMENTS IN SUBSIDIARIES (cont'd)

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

12. INVENTORIES

	Group	
	2004	2003
	NT\$'000	NT\$'000
Finished goods at net realisable value	71,780	53,774
Work-in-progress at cost	87,918	20,879
Raw materials at cost	49,274	47,755
	208,972	122,408
Finished goods are stated after allowance for stock obsolescence of	4,000	4,000

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

13. TRADE RECEIVABLES

	Group	
	2004	2003
	NT\$'000	NT\$'000
Trade receivables	165,329	181,762
Allowance for doubtful receivables	-	(1,000)
	165,329	180,762
Bad trade receivables written off against allowance	(1,000)	-

Notes to the Financial Statements

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Sundry receivables	3,040	8,318	–	–
Deposits	256	1,698	172	327
Prepayments	1,393	1,607	297	320
	4,689	11,623	469	647

15. DUE FROM (TO) SUBSIDIARIES (NON-TRADE)

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

16. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Sub-contractors for construction-in-progress	–	4,903	–	–
Accrued operating expenses	17,992	26,802	5,309	9,036
Others	3,831	1,035	–	–
	21,823	32,740	5,309	9,036

17. LONG-TERM BANK LOAN

	Group	
	2004 NT\$'000	2003 NT\$'000
Current portion	2,050	2,050
Non-current portion	23,575	25,625
	25,625	27,675

The long-term bank loan bears interest at 2.6% (2003 : 2.525% to 2.675%) per annum and is secured by the leasehold building of a subsidiary (Note 10). The final maturity date of the bank loan is 21 June 2012.

Notes to the Financial Statements

18. SHARE CAPITAL

	Group and Company	
	2004	2003
	US\$'000	US\$'000
Authorised:		
- 500,000,000 (2003 : 2,500,000,000) ordinary shares of US\$0.10 (2003 : US\$0.02) each	50,000	50,000
	Group and Company	
	2004	2003
	NT\$'000	NT\$'000
Issued and fully paid:		
At beginning of year		
- 227,064,000 ordinary shares of US\$0.02 each	151,783	151,783
During the year		
- consolidation of 5 ordinary shares of US\$0.02 each into 1 ordinary share of US\$0.10 each	-	-
- bonus issue of 45,412,800 ordinary shares of US\$0.10 each via capitalisation of share premium	146,282	-
At end of year		
90,825,600 (2003 : 227,064,000) ordinary shares of US\$0.10 (2003 : US\$0.02) each	298,065	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.

19. RESERVES

	Group		Company	
	2004	2003	2004	2003
	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Share premium (a)	51,641	198,515	51,641	198,515
Translation reserve	(10,606)	12,163	11,494	8,106
Merger reserve (b)	(85,468)	(85,468)	-	-
Statutory reserve (c)	402	402	-	-
Revenue reserve (d)	308,138	259,662	(61,181)	(39,737)
	264,107	385,274	1,954	166,884

Notes to the Financial Statements

19. RESERVES (cont'd)

- (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 subsidiaries and the shares acquired;
- (c) LANKom Electronics Co., Ltd., a subsidiary, 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 2004, the appropriated reserve amounted to approximately NT\$402,000 (2003 : NT\$402,000), representing 3.35% (2003 : 3.35%) of the subsidiary's total paid-up capital; and
- (d) Represents profit (loss) retained in:

	2004 NT\$'000	2003 NT\$'000
Company	(61,181)	(39,737)
Subsidiaries	369,319	299,399
	308,138	259,662

20. COMMITMENTS

(a) Non-cancellable operating lease commitments

Operating lease expenses of the Group and Company (principally for premises) were NT\$1,071,602 and NT\$812,372 (2003 : NT\$1,698,099 and NT\$1,429,008) respectively for the year ended 31 December 2004. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

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

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Future minimum lease payments				
- not later than 1 year	765	823	667	570
- 1 year through 5 years	1,000	105	1,000	-
	1,765	928	1,667	570

Notes to the Financial Statements

20. COMMITMENTS (cont'd)

(b) Capital expenditure commitments

	Group		Company	
	2004 NT\$'000	2003 NT\$'000	2004 NT\$'000	2003 NT\$'000
Capital expenditure not provided for in the financial statements				
- commitments in respect of contracts placed	-	2,640	-	-

21. 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). Segment accounting policies are the same as the policies of the Group as described in Note 2. The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices. An analysis by geographical segments is as follows:

2004	Taiwan NT\$'000	The PRC NT\$'000	Elimination NT\$'000	Total NT\$'000
Turnover				
External sales	140,563	345,917	-	486,480
Inter-segment sales	16,897	149,439	(166,336)	-
Total revenue	157,460	495,356	(166,336)	486,480
Operating results				
Segment results	(6,856)	55,258	-	48,402
Interest expenses				(681)
Interest income				105
Tax				7,291
Net profit attributable to shareholders				55,117
Other information				
Segment assets	121,699	492,165	-	613,864
Unallocated assets				114,480
				728,344
Segment liabilities	(21,316)	(97,346)	-	(118,662)
Unallocated liabilities				(47,510)
				(166,172)
Capital expenditure	1,950	30,108	-	32,058
Depreciation of fixed assets	3,111	15,656	-	18,767
Other non-cash income	(1,226)	-	-	(1,226)
Fixed assets written off	-	87	-	87
Loss on disposal of fixed assets	-	12	-	12

Notes to the Financial Statements

21. SEGMENT REPORTING (cont'd)

(a) By geographical segments (cont'd)

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 results	(6,585)	31,399	–	24,814
Interest expenses				(759)
Interest income				199
Tax				(65)
Net profit attributable to shareholders				24,189
Other information				
Segment assets	145,967	395,510	–	541,477
Unallocated assets				164,954
				706,431
Segment liabilities	(28,931)	(81,913)	–	(110,844)
Unallocated liabilities				(58,530)
				(169,374)
Capital expenditure	5,179	93,346	–	98,525
Depreciation of fixed assets	2,779	8,478	–	11,257
Other non-cash expenses	4,158	–	–	4,158
Fixed assets written off	113	441	–	554

(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.

22. DIVIDENDS

In May 2004, the Group paid a final dividend of 0.15 Singapore cents per ordinary share (tax not applicable) amounting to NT\$6,641,000 in respect of the financial year ended 31 December 2003.

Notes to the Financial Statements

23. SUBSEQUENT EVENT

Subsequent to year end, the Directors proposed a final dividend of 0.48 Singapore cents per ordinary share (tax not applicable) amounting to approximately NT\$8.6 million in respect of the financial year ended 31 December 2004.

24. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are 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.

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, Hong Kong dollars, Singapore 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.

Notes to the Financial Statements

24. FINANCIAL INSTRUMENTS (cont'd)

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 values due to the relatively short-term maturity of these financial instruments.

Trade receivables and trade payables

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

Other current liabilities

The carrying amounts of these balances approximate fair values 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.

25. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the Directors on 21 March 2005.

26. RELATED PARTY TRANSACTIONS

There were no related party transactions conducted during the financial year except for the following related party transactions which took place between the Group and related parties during the financial year at terms agreed by parties concerned:

	Group	
	2004	2003
Directors' and Executives Officers' remuneration	NT\$'000	NT\$'000
Directors' remuneration	8,649	11,716
Directors' fees	912	904
Executive officers' remuneration	2,389	3,581

Statistics of Shareholdings

as at 8 March 2005

SHARE CAPITAL

Authorised share capital	:	US\$50,000,000
Issued and fully paid-up capital	:	US\$9,082,560
Class of shares	:	Ordinary share of US\$0.10 each
Voting rights	:	1 vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Shareholders	%	No. of Shares	%
1 - 999	155	11.17	85,060	0.09
1,000 - 10,000	811	58.43	4,439,654	4.89
10,001 - 1,000,000	416	29.97	17,291,218	19.04
1,000,001 and above	6	0.43	69,009,668	75.98
Total	1,388	100.00	90,825,600	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	LIU LU TA	37,648,350	41.45
2	HUANG MEI CHU	8,832,000	9.72
3	YUAN SUNG INVESTMENT CORP	8,832,000	9.72
4	LIU LU CHUN	6,706,234	7.38
5	HUANG YI FONG	5,885,644	6.48
6	UOB KAY HIAN PTE LTD	1,105,440	1.22
7	PHILLIP SECURITIES PTE LTD	987,280	1.09
8	QUEK PENG HOCK HENRY	960,000	1.06
9	HO YOOI FENG JOAN	621,200	0.68
10	OCBC SECURITIES PRIVATE LTD	525,920	0.58
11	HONG LEONG FINANCE NOMINEES PTE LTD	459,440	0.51
12	G K GOH STOCKBROKERS PTE LTD	362,000	0.40
13	DBS VICKERS SECURITIES (S) PTE LTD	354,240	0.39
14	TAN SENG @ TAN HUN SENG	346,400	0.38
15	TAN KIAM SENG HENRY	270,000	0.30
16	CITIBANK CONSUMER NOMINEES PTE LTD	254,400	0.28
17	MEIKO BUILDING MATERIALS SUPPLIER (S) PRIVATE LIMITED	252,400	0.28
18	CHAWALITPORN ADUL	250,000	0.28
19	KIM ENG SECURITIES PTE. LTD.	210,800	0.23
20	CHIONH TECK SWEE	178,800	0.20
Total		75,042,548	82.63

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 8 March 2005, approximately 25.24% 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 *	37,648,350	41.45	–	–
Huang Chiu Chu *	–	–	37,648,350	41.45
Huang Mei Chu	8,832,000	9.72	–	–
Yuan Sung Investment Corp	8,832,000	9.72	–	–
Randolph Liu Lu Chun	6,706,234	7.38	–	–
Huang Yi Fong	5,885,644	6.48	–	–

Note:

* Mr. Albert Liu Lu Ta and Ms. Huang Chiu Chu are spouses, Ms. 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 29 April 2005 at 10.00 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 2004 together with the Auditors Report thereon. **(Resolution 1)**
2. To declare a First and Final Dividend of 0.48 Singapore cents per ordinary share (tax not applicable) for the year ended 31 December 2004. **(Resolution 2)**
3. To approve the payment of Directors' fees of NT\$911,579 for the financial year ended 31 December 2004 (2003: NT\$906,899). **(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 Chiu Chu **(Resolution 4)**
 - (ii) Dr Chao Pei **(Resolution 5)**

Ms. Huang Chiu Chu will, upon re-election as Director of the Company, remain as a member of the Audit Committee.

Dr Chao Pei will, upon re-election as Director of the Company, remain as Chairman of the Remuneration Committee, and a member of the Audit Committee and Nominating Committee, respectively and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of The Singapore Exchange Securities Trading Limited.
5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**

Notice of Annual General Meeting

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

(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 Singapore Exchange Securities Trading Limited, and

Notice of Annual General Meeting

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

Lotus Isabella Lim Mei Hua
Ho Wai Hung
Company Secretaries

Date: 7 April 2005

Notice of Annual General Meeting

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, Barbinder & Co Pte Ltd at 8 Cross Street, #11-00 PWC Building, Singapore 048424 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.*

Notice of Annual General Meeting

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATES

NOTICE IS HEREBY GIVEN that the transfer books and Register of Members of the Company will be closed on 11 May 2005, for the purpose of determining members' entitlements to the first and final dividend of 0.48 Singapore cents per ordinary share (tax not applicable) for the year ended 31 December 2004.

Duly completed registrable transfers received by the Company's Registrar, Barbinder & Co Pte Ltd, at 8 Cross Street, #11-00 PWC Building, Singapore 048424 will be registered to determine members' entitlements to the first and final dividend (tax not applicable).

Members whose securities accounts with The Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on 10 May 2005 will be entitled to the first and final dividend (tax not applicable).

Payment of the first and final dividend (tax not applicable), if approved by members at the Company's Annual General Meeting to be held on 29 April 2005, will be made on 24 May 2005.

BY ORDER OF THE BOARD

Lotus Isabella Lim Mei Hua
Ho Wai Hung
Company Secretaries

Date: 7 April 2005

LANKOM ELECTRONICS LIMITED

Company Registration No. 29611

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