



LKT Industrial Berhad  
(298188-A)

**Annual Report 2003**

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# NOTICE OF ANNUAL GENERAL MEETING

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NOTICE IS HEREBY GIVEN THAT the Tenth Annual General Meeting of LKT Industrial Berhad will be held at LKT Training Centre of LKT Plastic Technology Sdn. Bhd. factory premises, Plot 17 Hilir Sungai Keluang Tiga, Bayan Lepas Free Industrial Zone, Phase IV, 11900 Penang on Tuesday, May 25, 2004 at 10.00 a.m. for the following purposes:-

## AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the financial year ended December 31, 2003 together with the Reports of the Directors and Auditors thereon; **Resolution 1**
2. To declare a first and final tax exempt dividend of 4% for the financial year ended December 31, 2003; **Resolution 2**
3. To re-elect the following Directors who are retiring and being eligible offer themselves for re-election:-
  - (a) Mr. Loh Khee Lian, retiring in accordance with Article 91 of the Company's Articles of Association **Resolution 3**
  - (b) Tuan Haji Syed Saleh Bin Syed Abdul Rahman, retiring in accordance with Article 91 of the Company's Articles of Association **Resolution 4**
  - (c) Dato' Mohamed Salleh Bin Bajuri, retiring in accordance with Article 98 of the Company's Articles of Association **Resolution 5**
  - (d) Mr. Lim Heng Jin, retiring in accordance with Article 98 of the Company's Articles of Association **Resolution 6**
4. To approve Directors' fees of RM126,000.00 for the financial year ended December 31, 2003; **Resolution 7**
5. To re-appoint Messrs. Wong Liu & Partners as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration; **Resolution 8**

## AS SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolution as Ordinary Resolution:- **Resolution 9**

"That pursuant to Section 132D of the Companies Act, 1965, and subject to the approvals of the relevant Governmental and/or regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company, at any time at such price, upon such terms and conditions and for such purposes and to such person or persons whomsoever as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued share capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval from Malaysia Securities Exchange Berhad (MSEB) for the listing of and quotation for the additional shares so issued and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."
7. To consider any other business of which due notice shall have been given in accordance with the Companies Act, 1965.

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

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### NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS ALSO HEREBY GIVEN that subject to the approval of the shareholders at the Tenth Annual General Meeting, the first and final tax exempt dividend of 4% in respect of the financial year ended December 31, 2003 will be payable on July 15, 2004 to depositors registered in the Records of Depositors on June 30, 2004.

A depositor shall qualify for entitlement only in respect of:-

- (a) shares transferred into the depositor's securities account before 4.00 p.m. on June 30, 2004 in respect of ordinary transfers;
- (b) shares bought on Malaysia Securities Exchange Berhad on a cum entitlement basis according to the rules of Malaysia Securities Exchange Berhad.

By order of the Board

Lim Kim Teck  
Secretary

Penang  
April 30, 2004

### NOTES

#### 1. Appointment of Proxy

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. The instrument appointing such proxy shall be in writing under the hand of the appointor or if such appointor is a corporation, under its Common Seal or the hand of its attorney and must be deposited at the registered office of the Company at least forty-eight hours before the time fixed for the meeting.

#### 2. Special Business

##### **Resolution 9 - Authority to issue shares pursuant to Section 132D of the Companies Act, 1965**

The Ordinary Resolution if passed will empower the Directors of the Company to issue and allot shares in the Company from time to time up to an amount not exceeding in total 10% of the issued share capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company. The authority, unless revoked or varied by the Company in general meeting, will expire at the next Annual General Meeting of the Company.

## CORPORATE INFORMATION

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### SECRETARY

**Lim Kim Teck (MAICSA 7010844)**

### AUDITORS

**Wong Liu & Partners, Chartered Accountants**

### SHARE REGISTRARS

**Plantation Agencies Sdn Bhd (2603-D)**  
3rd Floor, Standard Chartered Bank Chambers  
Beach Street, 10300 Pulau Pinang, Malaysia.  
Tel: 04-262 5333  
Fax: 04-262 2018

### BANKERS

**Public Bank Berhad  
Citibank Berhad**

### REGISTERED OFFICE

14A, Jalan Todak 3, Pusat Bandar  
Bandar Seberang Jaya  
13700 Seberang Jaya  
Prai, Pulau Pinang, Malaysia.  
Tel: 04-397 6672  
Fax: 04-397 6675

### PRINCIPAL PLACE OF BUSINESS

Plot 17, Hilir Sungai Keluang Tiga  
Bayan Lepas FIZ, Phase IV  
11900 Pulau Pinang, Malaysia.  
Tel: 04-643 6789  
Fax: 04-644 7017  
Website: [www.lkt.com.my](http://www.lkt.com.my)  
Email: [info@lkt.com.my](mailto:info@lkt.com.my)

CORPORATE INFORMATION

## GROUP FINANCIAL HIGHLIGHTS

# GROUP FINANCIAL HIGHLIGHTS

	Year Ended			01.07.02 to 31.12.02*	Year Ended
	2000	2001	2002		2003
TURNOVER	RM70,048	RM90,638	RM73,553	RM25,562	RM60,611
PROFIT BEFORE TAXATION	RM13,752	RM4,048	RM7,032	RM3,443	RM(5,768)
PROFIT AFTER TAXATION	RM11,557	RM3,573	RM5,865 (restated)	RM3,436	RM(6,027)
EARNINGS PER SHARE	22.75sen	5.56sen (restated)	9.07sen (restated)	5.22sen	(9.09)sen

\* During the financial year 2002, the Group and the Company changed its financial year end from 30 June to 31 December.

## GROUP STRUCTURE AND ACTIVITIES

### EQUIPMENT AUTOMATION DIVISION (EAD)

LKT AUTOMATION SDN BHD  
Integrated design & manufacture of high end automation equipment complete with equipment control software and vision technology.

Provide machine control and e-solutions to customers.

LKT INTEGRATION SDN BHD  
Development & production of computer process control system for printed circuit board handling system & component assembly line.

### MACHINING & FABRICATION DIVISION (MFD)

LKT PRECISION ENGINEERING SDN BHD  
Manufacture of precision mould & die sets, jigs & fixtures, precision stamping & fabrication of metalworks.

LKT ENGINEERING (THAILAND) LIMITED  
Manufacture of die, jig and cutting tools for disc drive, electronic, semiconductor and other industries.

LKT MANUFACTURING SDN BHD  
Equipment manufacturing services.

### INDUSTRIAL STORAGE DIVISION (ISD)

LKT TECHNOLOGY SDN BHD  
Design and manufacture of industrial storage system, material handling system and logistic system.

WORLD DEPOT SDN BHD  
(Formerly known as LKT Trading Sdn Bhd)  
Trading and distribution of industrial products.

### ENGINEERING PLASTIC DIVISION (EPD)

LKT PLASTIC TECHNOLOGY SDN BHD  
Manufacture of high precision engineering plastic parts, toolings & device carriers.

SPRAY DEVICES TECHNOLOGY SDN BHD (51%)  
Design, develop and manufacture  
Non-gas Filled Continuous Spray Devices

### OTHER MEMBERS OF LKT GROUP

ALPS TECH CORPORATION SDN BHD (60%)  
LKT AMCOSEM SDN BHD (37.81%)  
LKT HOLDINGS SDN BHD  
LKT ERGONOMIC SYSTEM SDN BHD  
LKT ERGONOMIC SYSTEM (SINGAPORE) PTE LTD  
LKT METAL SDN BHD






LKT SUPPORT SERVICES SDN BHD  
LKT RESEARCH & DEVELOPMENT SDN BHD  
LKT TOOLING TECHNOLOGY SDN BHD  
LKT WAFER TECHNOLOGY SDN BHD  
LKT CORPORATION BHD  
ICONEXT SDN BHD



**LKT Industrial Berhad**  
(298188-A)

## SCHEDULE OF PROPERTIES

# SCHEDULE OF PROPERTIES

Location	Description and Existing Use	Date of Acquisition/Tenure	Land (sq. ft.)	Build-Up Area (sq. ft.)	Approximate Age of Building (Years)	NBV as at 31.12.2003
 Plot 7, Hilir Sungai Keluang Empat, Bayan Lepas Free Industrial Zone, Phase IV, 11900 Pulau Pinang.  Title No. H.S. (D) 7832, Mukim 12, P.T.No. 1863, South-West District, Pulau Pinang.	Leasehold land and factory building	Acquired on 24.2.1992 60 years leasehold/ 9.9.2051	112,151	18,472  26,000	13  6	8,559,036
 Plots 31 to 34, Lengkok Kampung Jawa Dua, Bayan Lepas Non-Free Industrial Zone, 11900 Pulau Pinang.  Title No. H.S. (D) 3188, Mukim 12, P.T. No. PTBP /A/42/80, South-West District, Pulau Pinang.	Leasehold land and factory building	Acquired on 1.6.1984 60 years leasehold/ 22.11.2041	54,005	28,625	20	3,200,629
 Plot 17, Hilir Sungai Keluang Tiga, Bayan Lepas Free Industrial Zone, Phase IV, 11900 Pulau Pinang.  P.T. No. 1697, H.S. (D) 7776, Mukim 12, South-West District, Pulau Pinang	Leasehold land and factory building	Acquired on 28.2.1992 60 years leasehold/ 14.5.2051	131,398	61,000	8	8,550,214
 Lot No. 25, Kulim High-Tech Industrial Park Zone Phase 1, 09000 Kulim, Kedah Darul Aman.  Part of Lot 1001 Grant 7047, Mukim Padang China, District of Kulim.	Leasehold land and factory building	Acquired on 28.7.1997 60 years leasehold/ 31.12.2056	338,505	40,000	4	9,478,838
 Plot 77, Bayan Lepas Industrial Park, Phase IV, Non-Free Industrial Zone, 11900 Pulau Pinang.	Leasehold Industrial land and factory building	Acquired on 6.10.1999 60 years leasehold/ 16.6.2057	131,078.14	75,000	4	11,064,719
No. 3-3-1 & 3-3-2, Wisma Kebun Nyor, Solok Kebun Nyor, Pulau Pinang.  Title No. 1375, Section 3, Town of Georgetown, North-East District, Pulau Pinang.	Two units of two-bedroom flats for rental	Acquired on 5.8.1993 & 14.7.1995 respectively Freehold/N.A	N.A	566 per unit	20	174,800
Desa Villa Condominiums, Phase 2, Jalan 3/109B, Taman Bukit Desa, off Jalan Kelang Lama, Kuala Lumpur.  One unit of residential condominium built on 45117, 45086, 45141, 45000, 45001 & 45002	One unit condominium apartment for staff use	Acquired on 22.7.1991 Freehold/N.A	N.A	1,129	13	220,277

- Notes:
- 1. All properties were last valued on December 1999.
  - 2. The Company adopts the policy of revaluing its properties once every 5 years.

## DIRECTORS' PROFILES

### VINCENT LOH KHEE LIAN PJK,

Vincent Loh, age 49, is an engineer by profession, with a degree in Design & Manufacturing from Loughborough University of Technology, London. With his vast experience and strong personal interest in design and manufacturing of automation equipment, having hands-on experience in automation designing, precision tooling, tool and dies design, metal fabrication and machinery parts, Vincent Loh has been a driving force behind LKT's quest to be a technological leader in its field. Sharing the vision of the founder of LKT, the late Loh Kim Teow, Vincent Loh has been instrumental in LKT's achievement in becoming a pioneer in the field of designing complete automation systems for the semiconductor and electronics industries in this region. His vibrant and able personality continues to guide LKT towards its Vision.

In addition to his involvement in the Group, Vincent Loh also holds positions in various other quasi-government organizations and committees.

He was appointed to the Board on March 2, 1995 and holds the position of Chairman and Chief Executive Officer. He is also currently a member of the Remuneration Committee and Chairman of the Risk Management Review Committee. Vincent Loh has no conflict of interest with the Company.

Vincent Loh is the brother of Loh Kee Lin. Vincent Loh shall retire at this coming AGM and being eligible, he offers himself for re-election.

### ONG SWEE YONG

Ong Swee Yong, age 45, has his roots firmly grounded in the field of accountancy being an associate member of the ACCA, UK. His credentials are firmly backed by his many years with professional audit firms and multi-national companies such as Agilent Technologies (formerly Hewlett-Packard Malaysia) and Allegiance (formerly Baxter), which has gained him invaluable knowledge, experience and perspective in the high technology industry.

As the Executive Director and Group Finance Director of LKT, Ong Swee Yong maintains high and stringent standards for the Group to meet in their accounting practices and disclosures to shareholders, ensuring compliance with the standards promulgated by the Malaysian Accounting Standards Board.

He has been with LKT since 1995 and was then appointed to the Board on April 24, 1997. He currently sits on the Risk Management Review Committee and is a brother-in-law to Vincent Loh. Ong Swee Yong has no conflict of interest with the Company.

### DR. LOW SIAK KHEANG

Dr. Low, age 47, has proven to the Company to be an invaluable source of business/industry information and contacts. Graduated from CHIBA University, Japan (specializing in Production Science and Technology) and having spent 10 years in the Land of the Rising Sun, Dr. Low's forte lies in his wealth of knowledge of the Japanese business environment and his contacts. He specializes in business development between Japan and Malaysia with emphasis on technology transfer and business joint ventures. Dr. Low is also well known for his active participation in community service.

Dr. Low is the senior Independent Non-Executive Director of LKT and has been with LKT since March 2, 1995. He is currently the Chairman of both the Audit and Nomination Committees. Dr. Low has no conflict of interest with the Company.

### TUAN HAJI SYED SALEH BIN SYED ABDUL RAHMAN

Tuan Haji Syed Saleh, age 42, brings a special synergy of backgrounds and skills to the Board having graduated with a degree in Engineering (Civil Engineering) and also a Masters of Business Administration from University of Wales, United Kingdom. He is currently the General Manager (Investment Management) in the Investment Department of Lembaga Tabung Haji ("LTH") and has spent the last 16 years with LTH being actively involved with its various divisions such as analysis, business development, fund management and investment management. Currently, he also sits on the Board of several private companies.

Tuan Haji Syed Saleh serves as the Non-Executive Director of LKT and was appointed to the Board on March 2, 1995. He is currently an Audit Committee member and the Chairman of the Remuneration Committee. Tuan Haji Syed Saleh has no conflict of interest with the Company.

Tuan Haji Syed Saleh shall retire at this coming AGM and being eligible, he offers himself for re-election.

### **LOH KEE LIN**

Loh Kee Lin, age 50, has been involved in the operations of the Group namely LKT Plastic Technology Sdn. Bhd. since its' incorporation. He was also running Loh Kim Teow Engineering Sdn. Bhd. for nearly ten years during the 1980s till early 1990s. His direct involvement then had been instrumental in the early success of the Group. Loh Kee Lin is a well-known entrepreneur who is held in very high regard by the business community in Penang for his business acumen and principles.

Loh Kee Lin is a founder member of the Penang Skills Development Center, which is now ranked among the best training centers in Malaysia for bridging the gap between skills taught in public institutions and skills required on the job.

Loh Kee Lin serves LKT as a Non-Executive Director and was appointed to the Board on March 2, 1995. He is currently serving as a member of both the Remuneration and Nomination Committees. Loh Kee Lin has no conflict of interest with the Company.

Loh Kee Lin is the brother of Vincent Loh.

### **DATO' MOHAMED SALLEH BIN BAJURI**

Dato' Mohamed Salleh, age 53, began his career as a Senior Auditor with Peat Marwick & Co. in 1978. In 1979, he joined Mayban Finance Berhad as Manager and was subsequently promoted to General Manager in 1982. He was then promoted to General Manager of Malayan Banking Berhad in 1988 and served the bank until 1992. In 1992, he was appointed Managing Director of JB Securities Sdn. Bhd., a stockbroking firm of which he was a founder member. After selling his equity stake in the said stockbroking firm in 1995, he joined CRSC Holdings Berhad as a Group Executive Director. CRSC is principally engaged in hotel operations, property management and hospital operations.

He has also served as a director in Saham Sabah Berhad from 1997 to 1999. He is a trustee for Tabung Melayu Pontian Berhad since 1995 and Yayasan Kebajikan SDARA since 1997. He is also a director of Asian Pac Holdings Berhad, KP Keningau Berhad, Seacera Tiles Berhad, Harbour-Link Group Bhd, London Biscuits Bhd., Eden Enterprise (M) Bhd., all of which are listed on the MSEB.

Dato' Mohamed Salleh is an Independent Non-Executive Director of LKT and was appointed to the Board on March 15, 2004. He is currently serving as a member of both the Audit and Nomination Committees. Dato' Mohamed Salleh has no conflict of interest with the Company.

Dato' Mohamed Salleh shall retire at this coming AGM and being eligible, he offers himself for re-election.

### **LIM HENG JIN**

Lim Heng Jin, age 50, graduated with a degree in Electronic and Electrical Engineering from Loughborough University of Technology, England in 1977. He has a total of 27 years of working experience in the high tech industry, holding various senior management positions at various multi-national companies and has a broad international exposure. He started his career as an engineer at ITT and later with Texas Instrument. He joined Intel Malaysia in 1979 and had a successful career there. When he was at Intel, he was posted to various international locations holding senior management position for many years including United States, the Philippines and South Korea. After 15 years with Intel, he left and joined Quantum Malaysia as the Managing Director to start up the new operations in Penang. He spent 9 years with Quantum and was promoted to a Vice President. He is currently the CEO of Mimos Semiconductor Sdn. Bhd.

Lim Heng Jin is an Independent Non-Executive Director of LKT and was appointed to the Board on April 15, 2004. He is currently serving as a member of both the Remuneration and Risk Management Review Committees. Lim Heng Jin has no conflict of interest with the Company.

Lim Heng Jin shall retire at this coming AGM and being eligible, he offers himself for re-election.

## CHAIRMAN'S STATEMENT

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We have come to the end of another challenging but exciting year for LKT. On behalf of the Board of Directors I am pleased to present the Group's Annual Report and Financial Statements for the financial year ended December 31, 2003.

### FINANCIAL PERFORMANCE

The financial year of 2003 has been a mixed year of consolidation and expansion for LKT. Globally, semiconductor equipment manufacturers continue to see very cautious investments by their customers and the increasing reliance by these customers on emerging new low cost players from China, both causing tremendous price pressure on existing players. Due to the above factors, during the financial year under review, LKT saw a Group turnover of RM60.6 million and experienced a loss of RM6.0 million. Our financial prudence has, however, ensured that the loss was not exacerbated and that the shareholders' interests are protected.

We are optimistic, albeit guarded optimism, that the downturn in the semiconductor industry has bottomed out and looking towards improvement in 2004 onwards. With the efforts put in by the Group during the year to increase its product offering, customer base and to penetrate new industries, we are confident that LKT will be well poised to substantially improve the performance for 2004 and beyond, ultimately enhancing shareholder value.

### INDUSTRY OUTLOOK AND PROSPECTS

There is generally a good outlook for 2004. SEMI (Semiconductor Equipment and Materials Institute) Director of Industry Research (USA) Dan Tracy, during the SEMI posting of the September 2003 book-to-bill ratio report noted that positive economic signs and rising fab capacity utilization levels, coupled with current cautious investments, points towards higher spending growth in 2004.

LKT is of course exercising cautious optimism, as the prolonged downturn experienced by the semiconductor industry is still evident. It is difficult for anyone to know for sure how long and how strong recovery will be for 2004 but LKT will be prepared to take advantage and increase market share in the upswing. Our consolidation and strengthening efforts in this past year has ensured that we have the technology, sufficient capacity and skilled human resources in place.

### DIVIDENDS

Based on the Group's past financial performance and the market outlook, the Board of Directors recommends the payment of a first and final tax-exempt dividend of 4 sen per share in respect of the financial year 2003. This recommendation is subject to approval at the forthcoming Annual General Meeting.

### ACKNOWLEDGEMENT

I would finally like to extend gratitude on behalf of the Board of Directors to all employees who have given their best to LKT and for persevering through this challenging period. To all our customers, we give our heartfelt thanks for your custom and we reaffirm our commitment to continuously strive for even higher levels of service and excellence.

We are grateful to our suppliers, business partners and the government of Malaysia for the continued support. I would also like to record a note of thanks to my fellow directors who have shown themselves to be remarkably sturdy and resourceful 'captains' in leading LKT through the current seas of economic uncertainty.

Last but not least, I would like to record my sincere appreciation to Mr. Yeoh Soo Hock for contributing to the success of the group during his tenure with LKT. At the same time, I would also like to welcome Dato' Salleh bin Bajuri and Mr. Lim Heng Jin who were appointed to the Board of Directors recently as Independent Non-Executive Directors.

## CORPORATE GOVERNANCE STATEMENT

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LKT continues to subscribe to and uphold the principles and best practices in corporate governance as set out in the Malaysian Code on Corporate Governance and maintain a transparent disclosure of the manner and extent that the Company has applied the said principles and best practices. The current statement is based on the financial year ended December 31, 2003.

### BOARD OF DIRECTORS

The Board continues to maintain its existing composition of 6 directors with varied skills and breadth of experience that are relevant to the business operations of the Group. The mix and balance of executive, non-executive and independent directors (comprising of at least 1/3 of the Board), enables the Board to effectively exercise leadership and control over the Group.

Dr. Low Siak Kheang is the Company's senior independent non-executive director and chairs the Audit Committee. All concerns relating to LKT and the directors may be communicated to Dr. Low via regular mail through the Company's registered address or via e-mail at [independent@lkt.com.my](mailto:independent@lkt.com.my).

The directors have defined the roles for the Chairman/CEO, executive directors and non-executive directors in those specific categories rather than to assign individual position descriptions to each director. This ensures that the expectations need not be redefined each time there is change in membership of the Board. In addition the Board also defines the limits to management's responsibilities to ensure it retains effective control by internalising such limits in the form of a schedule of matters to be referred to the Board for approval.

The current composition of the Board complies with the Malaysian Code on Corporate Governance (MCCG) and the MSEC Listing Requirements and ensures that no individual or small group of individuals can dominate the Board's decision making. Among the Board are at least two (2) directors whose shareholding in the Company does not exceed 5%, which fairly reflects the investment in the Company by minority shareholders. The number of directors may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate materialises.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

LKT continues to maintain a combined role of the Chairman and the CEO. Although a deviation from the recommendations of the MCCG, Vincent Loh Khee Lian continues to lead the organization effectively at both levels, taking care to ensure he never wears more than one 'hat' at any point in time. This approach has continued to serve the organization and ultimately the shareholders well.

The Board is aware of the best practices as advocated by the MCCG and are confident that the equilibrium in the constitution of the Board and the individual strengths that the directors wield lends to the presence of a strong independent element on the board which acts as an effective checking mechanism against the exercise of unfettered power of decision by the Chairman/CEO.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

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### BOARD MEETINGS AND SUPPLY OF INFORMATION

The Board met five (5) times during the financial year of 2003. Details of attendance of the directors are as follows:

Director	Total Attendance	Percentage (%)
Vincent Loh Khee Lian	5/5	100
Ong Swee Yong	5/5	100
Loh Kee Lin	5/5	100
Tuan Haji Syed Saleh Bin Syed Abd. Rahman	5/5	100
Dr. Low Siak Kheang	5/5	100
Yeoh Soo Hock	5/5	100

The agenda and a full set of papers for consideration are forwarded to each director at least seven (7) days prior to each Board meeting to ensure that directors have sufficient time to study them and be properly prepared for each meeting. The information supplied to the directors is in a form and quality that is appropriate for them to discharge their duties concerning the state of business and performance of LKT. Senior management staffs are regularly invited to attend Board meetings to provide the Board with detailed explanations and clarifications on certain matters that are tabled to the Board. This enables the Board to oversee the conduct of the company's business to evaluate whether the business is being properly managed.

There is a formal schedule of matters specifically reserved to the Board for decision making and through monitoring of content of meetings and formal agendas, the Board considers that there is sufficient structure to ensure that the group's strategy and control remains firmly in the hands of the directors as they go about reviewing and adopting strategic plans for the Company and group.

The Board retains ultimate responsibility for reviewing and approving the Annual Report and financial statements and the quarterly reports and for ensuring that a balanced assessment of the group's position is presented.

The directors have direct access to the advice and services of the Company Secretary and they may seek external professional advice if required by them. The directors are updated by the Company Secretary and the Group's in-house Legal Advisor on new statutory or regulatory requirements concerning the duties and responsibilities of directors.

The Directors, whether as a full board or in their individual capacity are all given access to information within the Company to enable them to carry out their duties.

### DIRECTORS' TRAINING

All members of the Board have attended the Mandatory Accreditation Programme (MAP) prescribed and organized by the KLSE Training Sdn. Bhd. The Directors will also be attending relevant seminars from time to time to ensure that they are kept current with information relating to their duties and responsibilities and the industry, which LKT is involved in. This allows the Directors to meet the requirements of PN15 of the MSEC Listing Requirement, which requires Directors of a listed company to participate in the Continuing Education Programme to remain qualified as a Director. The Directors have been given until the end of December 2004 to accumulate a total of 72 points.

LKT maintains an orientation programme for new recruits to the Board that provides an overview of the group's activities, its values, vision and direction.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### BOARD OF NOMINATION COMMITTEE

Members	Total Attendance	Percentage (%)
Dr. Low Siak Kheang <i>Chairman</i>	2/2	100
Yeoh Soo Hock	2/2	100
Loh Kee Lin	2/2	100

There are no fixed schedules for the Committee and it meets as and when required. For the year under review the Committee met twice.

During the financial year under review, the Committee has:

- Reviewed the corporate governance statement for the previous Annual Report;
- Ratified the appointment of directors in Alps Tech Corporation Sdn Bhd, a subsidiary of LKT acquired within 2003;
- Approved the amended Directors' Conflict of Interest Policy;
- Appointed Dr. Low Siak Kheang as the Chairman of the Committee for 2004 replacing Yeoh Soo Hock;
- Reviewed the size of the Board and various Committees and their effectiveness thereof and their compliance to the MSEB Listing Requirements and MCCG.

### Terms of Reference

The terms and reference of the Board of Nomination Committee are as follows:

- To recommend to the Board of Directors, candidates for all directorship in all companies within the Group.
- To recommend to the Board of Directors, directors to fill the seats on Board of Committees within the Group.
- To review the required mix of skills and experience and other qualities including core competencies which directors should bring to the Board of Directors.
- To recommend evaluation technique of effectiveness of the Board of Directors as a whole, the Board of Committee and each individual director.
- To recommend any increase or decrease in the size of the Board of Directors and Board of Committee.
- To ensure that the following are disclosed in the annual report of the Company:
  - a) Membership of the Board of Nomination Committee appears in the Directors' Report;
  - b) When the role of the Chairman and CEO are combined, there should be an explanation;
  - c) Whether one-third of the Board of Directors is independent;
  - d) Whether it satisfies the requirement to fairly reflect through Board of Directors representation, the investment of minority shareholders in the Company;
  - e) A senior non-executive director is identified in the annual report to whom concern may be conveyed; and
  - f) Whether the Board of Directors has the required mix of skills and experience and other qualities including core competencies.

The Board of Nomination Committee may appoint independent consultant to provide tools to assess the competency of any or all members of the Board of Directors to ensure value creation to the organisation.

Together with the Human Resource Manager/Vice President, formulate and continuously update induction program for familiarisation of new member of the Board of Directors on policies, operations and culture of LKT.

### APPOINTMENTS TO THE BOARD AND RE-ELECTION OF DIRECTORS

In accordance with Article 91 of the company's Articles of Association, both Vincent Loh Khee Lian and Tuan Hj. Syed Saleh bin Syed Abdul Rahman will retire in this coming Annual General Meeting and being eligible, have offered themselves for re-election. In addition, in accordance with Article 98 of the company's Articles of Association, both Dato' Mohamed Salleh bin Bajuri and Lim Heng Jin will retire in this coming Annual General Meeting and being eligible, have offered themselves for re-election. The profiles of the directors standing for re-election can be found on pages 9 to 10.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### BOARD OF REMUNERATION COMMITTEE

Members	Total Attendance	Percentage (%)
Tuan Haji Syed Saleh Bin Syed Abdul Rahman <i>Chairman</i>	1/1	100
Yeoh Soo Hock	1/1	100
Loh Kee Lin	1/1	100
Vincent Loh Khee Lian	1/1	100

The Committee meets as required during the financial year under review.

During this period the Committee has:

- Reviewed the corporate governance statement for the previous Annual Report;
- Reviewed the remuneration package of the Directors to ensure compliance with the MSEL Listing Requirements.

#### Terms of Reference

The terms and reference of the Board of Remuneration Committee has been resolved to be as follows:

- To recommend to the Board the remuneration of the directors in all forms.
- To ensure that the remuneration of executive directors is structured in such a manner that it links the rewards to corporate and individual performance.
- To ensure that the remuneration of executive directors should reflect their involvement, level of responsibilities undertaken and corporate performance.
- The Committee may draw from outside advise as and when necessary.
- The individual director concerned should abstain from discussion of his or her own remuneration.
- To ensure that the following disclosure requirements pertaining to directors' remuneration are complied with:
  - a) Membership of the Board of Remuneration Committee appears in the Directors' Report; and
  - b) Details of the remuneration of the directors are disclosed in the annual report in the form prescribed by the MSEL Listing Requirements.

Matters pertaining to the appointment, training, fixing of compensation/remuneration and replacement of senior management has been delegated to Vincent Loh in his capacity as CEO and also member of the Remuneration Committee.

### DIRECTORS' REMUNERATION FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2003

	Annual Fees	Salaries & Bonuses	Benefits-in-kind	Allowance	Total
Executive	26,000	658,820	36,250	–	721,070
Non-Executive	85,000	–	–	83,000	168,000
					<b>889,070</b>

Range of remuneration	Number of Directors	
	Executive	Non-Executive
RM1 - RM50,000		4
RM250,001 - RM300,000	1	
RM400,001 - RM450,000	1	

# CORPORATE GOVERNANCE STATEMENT (CONT'D)

## BOARD OF AUDIT COMMITTEE

The Committee met five times during the year under review, the details of which are as follow:

Members	Total Attendance	Percentage (%)
Dr. Low Siak Kheang <i>Chairman</i>	5/5	100
Yeoh Soo Hock	5/5	100
Tuan Haji Syed Saleh Bin Syed Abdul Rahman	5/5	100

## TERMS OF REFERENCE & ACTIVITIES

### 1. Duties And Responsibilities

- To review the Company's and the Group's quarterly, half-yearly and annual financial statements and announcements before submission to the Board, focusing on:
  - a) Any changes in accounting policies and practices.
  - b) Material and unusual transaction of the Company's operation.
  - c) Significant adjustments.
  - d) Compliance with accounting standards.
  - e) Compliance with MSEB Listing requirements, Securities Commission guidelines and other legal and statutory requirements;
- To review with the external auditors their audit plan, scope and nature of audit for the Company and the Group, including reviewing the extent of non-audit services provided by the external auditors in relation to the objectivity needed in the audit;
- To assess the adequacy and effectiveness of the system of internal control and accounting control procedures of the Company and the Group by reviewing the external auditors' management letters and management's response;
- To hear from the external auditors problems and reservations arising from their interim and final audits;
- To review the internal audit plan, consider the major findings of the internal audit, fraud investigations and actions and steps taken by management in response to audit findings;
- To review any related party transactions that may arise within the Company or the Group;
- To consider the appointment of the external auditors, the terms of reference of their appointment, and any question of resignation or dismissal;
- To recommend to the Board of Directors any appropriate extension or changes in the duties of the Committee and to undertake such other responsibilities as may be agreed by the Committee and the Board; and
- To provide feedback to the Board on areas of concern.

### 2. Authority Of The Committee

- The Committee is authorized by the Board to investigate any activity within its terms of reference. It has free and unrestricted access to all information, documents and officers of the Company and the Group for the purpose of discharging its functions and responsibilities.
- The Committee is also authorized to obtain outside legal or other independent professional advice as it considers necessary.

### 3. Rights Of The External Auditors

The external auditors have the right to appear and be heard at any meeting of the Committee and their representative shall appear before the Committee when required to do so by the Committee.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

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### BOARD OF AUDIT COMMITTEE (cont'd)

#### 4. ACTIVITIES

In line with the terms of reference, the activities carried out by the Audit Committee during the financial year includes:

- Review the Company's and the Group's, quarterly financial result and announcement and the annual audited financial statements before submission to the Board for adoption.
- Review the external auditors scope of work and audit plan for the period under review.
- Review with the external auditors, in the absence of management, the adequacy and effectiveness of the system of internal control and any other area of concern arising from their interim and final audit, their management letters and response by management.
- Review the performance of the existing external auditors for the Group.
- Consider the recommendation and terms of appointment of external auditor for new subsidiaries within the Group.
- Review the adequacy and relevance of the scope, function and resources of the Internal Audit Department and that it has the necessary authority to carry out its work.
- Review the internal audit plan adopted by the internal audit function.
- Review the internal auditors' reports and the management response to the audit findings.
- Reported to the Board on its activities and significant findings and results.

#### RISK MANAGEMENT REVIEW COMMITTEE

The Committee did not meet during the year under review as the Group is currently observing the efficacy of the risk mitigating steps being put into place. The Committee expects positive results to manifest within the financial year 2004.

##### Members

Vincent Loh Khee Lian *Chairman*  
Yeoh Soo Hock  
Ong Swee Yong

#### TERMS OF REFERENCE & ACTIVITIES

The terms of reference for the Risk Management Review Committees are:

- To set the objective of risk management in accordance with Board expectation;
- To determine the risk appetite and set direction for the Group;
- To review the approach, method, coverage of risk management within the Group; and
- To review the result and sanction the mitigating action taken.

The initial round of risk assessment has been completed. The significant risks had been identified and classified in accordance to the risk appetite set by the Board. Management had put in place a set of controlling and preventive measures. Additional mitigating plan and a comprehensive monitoring mechanism is currently under evaluation. The Board will ensure that Risk Management will be an ongoing process and the Risk Management Review Committee will conduct reviews on a periodical basis.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

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### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

The financial performance of the group is discussed in the Chairman's Statement and the Directors' Report gives a balanced and understandable assessment of the group's position and progress.

#### Directors' Responsibility Statement

The Board is required by the Companies Act 1965 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company. Following discussions with the external auditors and after making all reasonable enquiries and to the best of each director's knowledge and belief, the Board considers that the financial statements have been properly prepared with reference to appropriate accounting policies and accounting standards.

The Board has a responsibility to ensure that the company keeps accounting records, which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1965.

#### Relationship with Auditors

The Directors meet up with the Auditors at least once a year without the presence of management and there were no other fees paid to the external auditors for non-audit work.

### STATEMENT ON INTERNAL CONTROL

The Board recognizes that an effective system of internal control is necessary in order to safeguard shareholder's investment and an important part of managing risk to achieve LKT's corporate objective. The Board is responsible to review the effectiveness of the system of internal control implemented by management.

The key policies and procedures designed to provide effective control include:

- The Group has a clear organization structure with well-defined lines of responsibility and appropriate levels of authority.
- The full Board meets at least once every quarter to discuss matters brought to its attention. There is also a formal schedule of matters specifically reserved to the Board for decision-making.
- The Board has adopted a formal risk management policy and risk management framework. There is a structured and on-going process of identifying, analyzing, assessing, treating, monitoring, managing and communicating significant risks faced by the Group. The Board has also formed a Risk Management Review Committee to review the risk management activities on a regular basis. The objective of the risk management activities is to contain the significant risks faced by the Group to an acceptable level commensurate to the rate of returns rather than eliminate risks.
- A detailed annual budget where the financial targets are set in consultation with the management and approved by the Board. For the medium term, there is a three years business road map and all investment decisions are guided by the long-term corporate vision, i.e. **"To Be The Leading Malaysian Technology-Based, Global Company"**.
- Executive members of the Board have day-to-day involvement in all aspects of the business and attend monthly management meeting at which performance against budget and forecast is reviewed. Expenditure is controlled against formal authorization limits. Capital expenditure is prepared annually for approval by the Board.
- Procedures and authority level in the Group are documented in the Corporate Manual and Quality Manual which are regularly reviewed and updated
- An Internal Audit function has also been established to assist the Audit Committee to discharge their duties and responsibilities. The details of activities carried out by the Audit Committee were reported in pages 16 to 17.

For the period under review, the Board has through the Audit Committee reviewed the effectiveness of the internal controls. The system of internal controls is monitored internally by the Finance Department together with the Internal Audit Department. The system of internal control provides reasonable assurance but not absolute assurance against material misstatement or loss.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

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### Shareholders

LKT recognises and appreciates the need and importance of transparency and accountability to its shareholders. Constant efforts are being made to improve its relationship with its shareholders and investors through clear and open communication. In this regard, the Board actively encourages shareholder participation at the annual general meetings held by the Company.

The directors have also made it a habit to meet informally and to mingle with the shareholders before and after the general meetings to answer any questions that may be posed and to allow the shareholders to be better acquainted with the directors.

The annual report is continuously being improved every year to make it more reader friendly and informative. LKT has also undertaken active steps to ensure that the cost of printing its annual reports are kept as low as possible to eliminate unnecessary wastage.

The executive directors continue to meet up with and to brief financial analysts and representatives from securities firms on an ad hoc basis. LKT has recently started to organize briefing sessions for its institutional investors, analysts and fund managers.

LKT makes timely public announcements through the MASEB of any material information, financial results, and such other announcements as may be required to be made pursuant to the Listing Requirements of the MASEB.

LKT actively utilizes its Internet website ([www.lkt.com.my](http://www.lkt.com.my)) as an effective investors relations tool. The website will provide an update of the Company's share price, latest financial performance reports released to the MASEB, news releases as well as other corporate information to the public.

### Penalties/Sanctions

The Board is pleased to announce that during the year under review there were no penalties and/or sanctions imposed upon the group.

### Material Contracts

There were no material contracts entered into by the group involving directors and/or substantial shareholders.

### Compliance with the Malaysian Code on Corporate Governance

Save and except where stated otherwise, the Board is pleased to confirm that LKT has met and complied with the principles and best practices laid out in the Malaysian Code on Corporate Governance, Parts I and II.

## ANALYSIS OF SHAREHOLDINGS

As at March 31, 2004

<b>1. AUTHORISED SHARE CAPITAL</b>	:	RM100,000,000.00
Issued and Paid-up Share Capital	:	RM 66,256,357.00
Class of shares	:	Ordinary shares of RM1.00 each
Voting Right	:	1 vote per ordinary share

### 2. ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT MARCH 31, 2004

Size of shareholdings	No. of shareholders	% of total shareholders	No. of shares	% of total issued capital
Less than 100	124	2.79	4,798	0.01
100 to 1,000	947	21.30	789,431	1.19
1,001 to 10,000	2,953	66.42	9,764,599	14.74
10,001 to 100,000	393	8.84	9,135,237	13.79
100,001 to less than 5% of issued shares	25	0.56	15,215,255	22.96
5% and above of issued shares	4	0.09	31,347,037	47.31
<b>TOTAL</b>	<b>4,446</b>	<b>100.00</b>	<b>66,256,357</b>	<b>100.00</b>

### 3. THIRTY LARGEST SHAREHOLDERS AS AT MARCH 31, 2004

	Name	No. of shares	% of total issued capital
1.	Lembaga Tabung Haji	16,552,243	24.98
2.	Loh Khee Lian	7,702,821	11.62
3.	Loh Khee Lian	3,592,323	5.42
4.	Employees Provident Fund Board	3,499,650	5.28
5.	Ong Sooi Gaik	2,938,571	4.43
6.	EB Nominees (Tempatan) Sendirian Berhad (Pledged Securities Account For Loh Kee Lin)	2,365,786	3.57
7.	Bumiputra-Commerce Trustee Berhad (RHB Mudharabah Fund)	1,831,100	2.76
8.	Loh Khee Lian	1,822,784	2.75
9.	Ke-Zan Nominees (Tempatan) Sdn Bhd (Pledged Securities Account For Loh Kee Lin)	1,120,000	1.69
10.	Ke-Zan Nominees (Tempatan) Sdn Bhd (Pledged Securities Account For Chen Kaw Wan)	913,550	1.38
11.	Perbadanan Nasional Berhad	723,750	1.09

## ANALYSIS OF SHAREHOLDINGS (CONT'D)

As at March 31, 2004

### 3. THIRTY LARGEST SHAREHOLDERS AS AT MARCH 31, 2004 (cont'd)

	Name	No. of shares	% of total issued capital
12.	Mayban Nominees (Tempatan) Sdn Bhd (Mayban Investment Management Sdn Bhd For Kumpulan Wang Simpanan Pekerja)	495,000	0.75
13.	Permodalan Nasional Berhad	421,250	0.64
14.	Bumiputra-Commerce Trustee Berhad (Amanah Saham Darul Iman)	242,500	0.37
15.	Bumiputra-Commerce Trustee Berhad (Amanah Saham Darul Iman)	225,000	0.34
16.	Alliancegroup Nominees (Tempatan) Sdn Bhd (Pheim Asset Management Sdn Bhd For Magnum 4D (Selangor) Sdn. Bhd.)	200,000	0.30
17.	Alliancegroup Nominees (Tempatan) Sdn Bhd (Pheim Asset Management Sdn Bhd For Employees Provident Fund)	200,000	0.30
18.	Chew Fui Ngee	183,000	0.28
19.	HSBC Nominees (Tempatan) Sdn Bhd (HSBC (M) Trustee Bhd For Pheim Emerging Companies Balanced Fund)	182,700	0.28
20.	AMMB Nominees (Tempatan) Sdn Bhd (Amanah SSCM Asset Management Berhad For Tenaga Nasional Berhad Retirement Benefit Trust Fund )	162,500	0.25
21.	Alliancegroup Nominees (Tempatan) Sdn Bhd (Pheim Asset Management Sdn Bhd For Magnum 4D (Selangor) Sdn. Bhd.)	150,000	0.23
22.	Tan Jin Tuan	149,000	0.22
23.	Alliancegroup Nominees (Tempatan) Sdn Bhd (Pheim Asset Management Sdn Bhd For Magnum Corporation Bhd)	140,000	0.21
24.	Bumiputra-Commerce Trustee Berhad (Amanah Saham Darul Iman)	39,643	0.21
25.	Mayban Nominees (Tempatan) Sdn Bhd (Pheim Asset Management Sdn Bhd For Lee Hau Hian)	130,000	0.20
26.	Bumiputra-Commerce Trustee Berhad (Amanah Saham Darul Iman)	129,821	0.20
27.	Panoramic Industrial Development Sdn Bhd	125,000	0.19
28.	Mayban Nominees (Tempatan) Sdn Bhd (Pheim Asset Management Sdn Bhd For Dialog Equity Sdn Bhd)	122,000	0.18
29.	TA Nominees (Tempatan) Sdn Bhd (Pledged Securities Account For Ng Wai Leong)	102,300	0.15
30.	Mrs. Tan Jin Siew Nee Yip Sow Har	100,000	0.15

## ANALYSIS OF SHAREHOLDINGS (CONT'D)

As at March 31, 2004

### 4. SUBSTANTIAL SHAREHOLDERS AS AT MARCH 31, 2004

Name	Direct interest		Deemed interest	
	No. of shares held	% of total issued capital	No. of shares held	% of total issued capital
Lembaga Tabung Haji	16,589,743	25.04	–	–
Loh Khee Lian	13,117,928	19.80	–	–
Employees Provident Fund Board	3,994,650	6.03	–	–
Loh Kee Lin	3,623,820	5.47	–	–

### 5. DIRECTORS' INTEREST AS AT MARCH 31, 2004

#### Shareholding in the Company

Name	Direct interest		Deemed interest	
	No. of shares held	% of total issued capital	No. of shares held	% of total issued capital
Loh Khee Lian	13,117,928	19.80	–	–
Loh Kee Lin	3,623,820	5.47	–	–
Dr. Low Siak Kheang	35,699	0.05	–	–
Ong Swee Yong	55,000	0.08	–	–
Tuan Haji Syed Saleh bin Syed Abdul Rahman	–	–	–	–
Dato' Mohamed Salleh bin Bajuri	–	–	–	–

#### Shareholding in Related Corporations

By virtue of his interest of not less than 15% in the shares of the Company as at March 31, 2004, Mr. Loh Khee Lian is deemed to have an interest in the shares of all the subsidiary companies to the extent that the Company has an interest as at that date.

None of the other directors have any interest in the shares of related corporations as at March 31, 2004.

#### Employees' Share Option Scheme in the Company

Name	No. of Share Options Granted	Option Price (RM)
Loh Khee Lian	44,000	1.23
Ong Swee Yong	35,000	1.23

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## DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Group and of the Company for the financial year ended December 31, 2003.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, provision of corporate management services and product development. The principal activities of its subsidiary companies are as stated in note 7 of the notes to the financial statements. There has been no significant change in these activities during the year under review except where indicated.

### RESULTS

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
(Loss)/Profit after taxation	<b>(6,026,850)</b>	3,436,093	<b>(45,564)</b>	5,907,099
Minority interest	<b>23,843</b>	–	–	–
Net (loss)/profit attributable to shareholders	<b>(6,003,007)</b>	3,436,093	<b>(45,564)</b>	5,907,099
Accumulated profit brought forward	<b>25,375,492</b>	25,230,567	<b>10,192,282</b>	7,576,351
	<b>19,372,485</b>	28,666,660	<b>10,146,718</b>	13,483,450
Appropriation:-				
5% first and final tax exempt dividend for the year ended 30.06.02	–	(3,291,168)	–	(3,291,168)
Accumulated profit carried forward	<b>19,372,485</b>	25,375,492	<b>10,146,718</b>	10,192,282

### DIVIDEND

The Board of Directors proposed a 4% first and final tax exempt dividend in respect of the current financial year. No other dividend has been recommended, paid or declared during the financial year under review.

### RESERVES AND PROVISION

Transfers to or from reserves are reflected in the statement of changes in equity during the financial year under review. Transfers to or from provision are reflected in note 27 of the notes to the financial statements.

### ISSUE OF SHARES OR DEBENTURES

The issued and paid up capital of the Company was increased from 65,823,357 ordinary shares of RM1 each to 66,220,357 ordinary shares of RM1 each following the issue of 397,000 new ordinary shares pursuant to the Employees Share Option Scheme. The new ordinary shares issued rank pari passu with the existing ordinary shares of the Company in all respects.

There were no debentures issued by the Group and the Company during the financial year under review.

## DIRECTORS' REPORT (CONT'D)

### DIRECTORS AND THEIR SHAREHOLDINGS

The directors who served since the date of the last report are:-

Loh Khee Lian (*Executive Chairman*)  
Ong Swee Yong (*Executive Director*)  
Loh Kee Lin  
Tuan Haji Syed Saleh Bin Syed Abdul Rahman  
Dr. Low Siak Kheang  
Yeoh Soo Hock (*Resigned: 15.03.04*)  
Dato' Mohamed Salleh Bin Bajuri (*Appointed: 15.03.04*)

### DIRECTORATE

In accordance with the Articles of Association, Messrs. Loh Khee Lian, Tuan Haji Syed Saleh Bin Syed Abdul Rahman and Dato' Mohamed Salleh Bin Bajuri shall retire at the coming Annual General Meeting and being eligible, offer themselves for re-election.

### DIRECTORS' INTEREST IN SHARES

According to the Register of Directors' Shareholdings, the interest of directors in office at the end of the financial year in shares in the Company and its related companies are as follows:-

Name of Directors	Number of ordinary shares of RM1 each			As at 31.12.03
	As at 01.01.03	Bought	Sold	
<b>The Company</b>				
<b>Direct Interest</b>				
Loh Khee Lian	13,117,928	–	–	<b>13,117,928</b>
Ong Swee Yong	55,000	–	–	<b>55,000</b>
Loh Kee Lin	3,623,820	–	–	<b>3,623,820</b>
Dr. Low Siak Kheang	35,699	–	–	<b>35,699</b>
Yeoh Soo Hock	11,071	–	–	<b>11,071</b>

The remaining director in office did not hold any shares in the Company and in the related companies during the financial year.

Mr. Loh Khee Lian is deemed to have interest in the subsidiary companies by virtue of his interest in shares of the Company.

The directors' share options in the Company pursuant to the Employees Share Option Scheme ("ESOS") are as follows:-

Name of Directors	Number of options over ordinary shares of RM1 each			As at 31.12.03
	As at 01.01.03	Granted	Exercised	
Loh Khee Lian	–	44,000	–	<b>44,000</b>
Ong Swee Yong	–	35,000	–	<b>35,000</b>

The remaining directors in office did not hold any options over ordinary shares in the Company during the financial year.

## DIRECTORS' REPORT (CONT'D)

### EMPLOYEES SHARE OPTION SCHEME

The details of share options for the year under review are as follows:-

Effective Price RM	Date Granted	As at 01.01.03	Number of options over ordinary shares of RM1 each			As at 31.12.03
			Granted	Lapsed	Exercised	
1.23	12.03.03	–	946,000	(16,000)	(373,000)	557,000
1.37	12.03.03	–	75,000	(6,000)	(24,000)	45,000
		–	1,021,000	(22,000)	(397,000)	602,000

The main features of the ESOS are as follows:-

- (i) The eligibility for participation in the ESOS shall be at the discretion of the ESOS Committee appointed by the Board of Directors.
- (ii) The total number of shares to be offered under the ESOS shall not exceed 10% of the issued capital of the Company at any point of time during the existence of the ESOS, which shall be in force for a period of five (5) years commencing from January 2, 2003 to January 1, 2008.
- (iii) The option price for each share shall be the weighted average market price of the shares of the Company as shown in the daily official list issued by Malaysia Securities Exchange Berhad (MSEB) for the five (5) Market Days immediately preceding the date of offer or at the par value of the shares, whichever is higher.
- (iv) No option shall be granted for less than 1,000 shares and not more than 500,000 shares to any eligible employee and director.
- (v) The new ordinary shares issued pursuant to the ESOS rank pari passu with the existing ordinary shares of the Company in all respects.

### DIRECTORS' BENEFITS

Since the end of the previous financial period, no director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors and any benefits arising from transactions disclosed in note 29 of the notes to the financial statements) by reason of a contract made by the Company or a related company with the director or with a firm of which the director is a member or with a company in which a director has a substantial financial interest. Neither during nor at the end of the financial year was the Company a party to any arrangement whose object was to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate except for share options granted to eligible executive directors of the Company under the Employees Share Option Scheme.

### OTHER STATUTORY INFORMATION

Before the income statement and balance sheet of the Group and of the Company were made out, the directors took reasonable steps to ascertain that:-

- a) all known bad debts have been written off and adequate allowance had been made for doubtful debts; and
- b) all current assets have been stated at the lower of cost and net realisable value.

## **DIRECTORS' REPORT** (CONT'D)

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### **OTHER STATUTORY INFORMATION** (cont'd)

At the date of this report, the directors are not aware of any circumstances:-

- a) that would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- b) that would render the value attributed to the current assets in the Group and in the Company's financial statements misleading; or
- c) that would render any amount stated in the financial statements of the Group and of the Company misleading; or
- d) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

At the date of this report, there does not exist:-

- a) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year which secures the liabilities of any other person; or
- b) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

Other than as disclosed in note 39 of the notes to the financial statements, no contingent liability or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

### **ITEMS OF AN UNUSUAL NATURE**

In the opinion of the directors, the results of the operations of the Group and of the Company for the financial year were not substantially affected by any items, transaction or event of a material and unusual nature and there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the current financial year.

### **AUDITORS**

The auditors, Messrs. Wong Liu & Partners, have indicated their willingness to continue in office.

Signed in accordance with a  
resolution of the directors,

**LOH KHEE LIAN**

**ONG SWEE YONG**

Penang

Dated: April 2, 2004

## STATEMENT BY DIRECTORS

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We, the undersigned, being two of the directors of LKT Industrial Berhad, state that, in the opinion of the directors, the financial statements set out on pages 30 to 70 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2003 and of the results of the business and the cash flows of the Group and of the Company for the year ended on that date.

On Behalf of the Directors,

**LOH KHEE LIAN**

**ONG SWEE YONG**

Penang

Dated: April 2, 2004

## STATUTORY DECLARATION

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I, Ong Swee Yong, I/C No. 581119-07-5527, the director responsible for the financial management of LKT Industrial Berhad, do solemnly declare that to the best of my knowledge and belief the financial statements set out on pages 30 to 70 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by )  
the abovenamed Ong Swee Yong at )  
at Georgetown in the State of Penang )  
this April 2, 2004 )

**ONG SWEE YONG**

Before me,

(Commissioner for Oaths)

## **REPORT OF THE AUDITORS TO THE MEMBERS**

OF LKT INDUSTRIAL BERHAD (Incorporated in Malaysia)

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We have audited the financial statements set out on pages 30 to 70. These financial statements are the responsibility of the directors of the Company.

Our responsibility is to express an opinion on the financial statements based on our audit conducted in accordance with approved auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the financial statements and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall presentation in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Group and of the Company have been drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-

- (a) the state of affairs of the Group and of the Company as at December 31, 2003 and of the results of the business and the cash flows of the Group and of the Company for the year ended on that date; and
- (b) the matters required under Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiary companies have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements of the subsidiary companies and are satisfied that the financial statements that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification or any adverse comment made under Section 174(3) of the Companies Act, 1965.

**WONG LIU & PARTNERS**  
**AF 0182**  
**Chartered Accountants**

**LEOW MEE HONG**  
**1178/02/05 (J)**  
**Partner**  
**Chartered Accountant**

Penang

Dated: April 2, 2004

## BALANCE SHEET

AS AT DECEMBER 31, 2003

	Note	Group		Company	
		31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
<b>ASSETS</b>					
PROPERTY, PLANT AND EQUIPMENT	6	55,782,789	58,812,757	4,692,164	5,054,333
INVESTMENT IN SUBSIDIARY COMPANIES	7	–	–	14,560,268	14,410,268
INVESTMENT IN ASSOCIATED COMPANY	8	1	1	1	1
INVESTMENT IN JOINT VENTURE COMPANY	9	409,871	484,539	–	–
OTHER INVESTMENTS	10	25,000	25,001	–	1
DEFERRED TAX ASSET	11	–	76,200	–	–
<b>CURRENT ASSETS</b>					
Inventories	12	13,787,516	11,799,568	–	–
Trade receivables	13	20,331,481	17,178,914	–	–
Other receivables, deposits and prepayment	14	1,727,469	1,463,119	117,565	90,273
Tax recoverable		856,421	1,330,991	112,771	120,769
Amount owing by subsidiary companies	15	–	–	56,758,201	54,893,711
Amount owing by associated company	16	–	–	–	–
Amount owing by a joint venture company	17	235,953	28,509	30	–
Fixed deposits with licensed banks	18	12,573,264	18,882,050	5,975,524	7,062,067
Cash and bank balances		9,162,624	3,896,175	518,232	612,470
		<b>58,674,728</b>	54,579,326	<b>63,482,323</b>	62,779,290
<b>TOTAL ASSETS</b>		<b>114,892,389</b>	113,977,824	<b>82,734,756</b>	82,243,893

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

**BALANCE SHEET** (CONT'D)  
AS AT DECEMBER 31, 2003

	Note	Group		Company	
		31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
<b>EQUITY AND LIABILITIES</b>					
SHARE CAPITAL	19	<b>66,220,357</b>	65,823,357	<b>66,220,357</b>	65,823,357
SHARE PREMIUM	20	<b>3,627,010</b>	3,532,340	<b>3,627,010</b>	3,532,340
RESERVE ON CONSOLIDATION		<b>4,474,589</b>	4,474,589	–	–
ASSETS REVALUATION RESERVE	21	<b>4,483,003</b>	4,483,003	<b>1,584,156</b>	1,584,156
CURRENCY TRANSLATION RESERVE		<b>9,904</b>	(100,806)	–	–
ACCUMULATED PROFIT CARRIED FORWARD	22	<b>19,372,485</b>	25,375,492	<b>10,146,718</b>	10,192,282
		<b>98,187,348</b>	103,587,975	<b>81,578,241</b>	81,132,135
MINORITY INTEREST		<b>76,157</b>	–	–	–
DEFERRED INCOME	23	<b>30,000</b>	–	–	–
DEFERRED TAX LIABILITY	24	<b>2,557,952</b>	2,792,155	<b>606,570</b>	647,700
<b>CURRENT LIABILITIES</b>					
Trade payables	25	<b>10,599,355</b>	3,448,514	–	–
Other payables and accruals	26	<b>2,525,169</b>	2,094,712	<b>482,939</b>	232,584
Provision for warranty cost	27	<b>770,081</b>	1,408,513	–	–
Tax payable		<b>146,327</b>	645,955	<b>67,006</b>	231,474
		<b>14,040,932</b>	7,597,694	<b>549,945</b>	464,058
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>114,892,389</b>	113,977,824	<b>82,734,756</b>	82,243,893

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

# INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2003

	Note	Group		Company	
		01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
<b>Revenue</b>	28	<b>60,610,663</b>	25,561,866	<b>4,935,640</b>	2,224,918
Cost of support services and goods sold		<b>(57,227,007)</b>	(23,890,244)	-	-
Gross profit		<b>3,383,656</b>	1,671,622	<b>4,935,640</b>	2,224,918
Distribution and selling expenses		<b>(1,341,323)</b>	(800,318)	-	-
Administrative expenses		<b>(8,173,272)</b>	(3,369,657)	<b>(4,839,908)</b>	(2,109,084)
Other operating income		<b>66,277</b>	-	<b>61,574</b>	-
Other operating expenses		<b>(26,581)</b>	(60,638)	-	(7,014)
(Loss)/Profit from operations		<b>(6,091,243)</b>	(2,558,991)	<b>157,306</b>	108,820
Other income		<b>411,963</b>	174,369	-	-
Other expenses		<b>(13,624)</b>	(3,242)	-	-
Exceptional items		-	5,850,641	-	5,850,641
Share of results of joint venture company		<b>(5,692,904)</b>	3,462,777	<b>157,306</b>	5,959,461
		<b>(74,668)</b>	(20,166)	-	-
(Loss)/Profit before taxation	29	<b>(5,767,572)</b>	3,442,611	<b>157,306</b>	5,959,461
Taxation					
- Group	30	<b>(259,278)</b>	(5,855)	<b>(202,870)</b>	(52,362)
- Joint venture company		-	(663)	-	-
		<b>(259,278)</b>	(6,518)	<b>(202,870)</b>	(52,362)
(Loss)/Profit after taxation		<b>(6,026,850)</b>	3,436,093	<b>(45,564)</b>	5,907,099
Minority interest		<b>23,843</b>	-	-	-
Net (loss)/profit attributable to shareholders		<b>(6,003,007)</b>	3,436,093	<b>(45,564)</b>	5,907,099
Basic (loss)/earnings per ordinary share (sen)	31	<b>(9.09)</b>	5.22		
Diluted (loss)/earnings per ordinary share (sen)	31	<b>(9.09)</b>	5.06		

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003

	Share Capital RM	← Non Distributable →			← Distributable →		Total RM
		Share Premium RM	Reserve on Consolidation RM	Assets Revaluation Reserve RM	Currency Translation Reserve RM	Accumulated Profit Carried Forward RM	
Balance as at July 1, 2002	65,504,357	3,289,340	4,474,589	4,483,003	(39,580)	25,230,567	102,942,276
Currency translation differences	-	-	-	-	(61,226)	-	(61,226)
Net losses not recognised in the income statement	-	-	-	-	(61,226)	-	(61,226)
Net profit attributable to shareholders	-	-	-	-	-	3,436,093	3,436,093
Total recognised (losses)/gains	-	-	-	-	(61,226)	3,436,093	3,374,867
5% first and final tax exempt dividend for the year ended 30.06.02	-	-	-	-	-	(3,291,168)	(3,291,168)
Issue of shares							
- ESOS exercised	319,000	-	-	-	-	-	319,000
- Share premium from ESOS	-	243,000	-	-	-	-	243,000
Balance as at December 31, 2002	65,823,357	3,532,340	4,474,589	4,483,003	(100,806)	25,375,492	103,587,975
Currency translation differences	-	-	-	-	110,710	-	110,710
Net gain not recognised in the income statement	-	-	-	-	110,710	-	110,710
Net loss attributable to shareholders	-	-	-	-	-	(6,003,007)	(6,003,007)
Total recognised gains/(losses)	-	-	-	-	110,710	(6,003,007)	(5,892,297)
Issue of shares							
- ESOS exercised	397,000	-	-	-	-	-	397,000
- Share premium from ESOS	-	94,670	-	-	-	-	94,670
Balance as at December 31, 2003	66,220,357	3,627,010	4,474,589	4,483,003	9,904	19,372,485	98,187,348

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003

	← Non Distributable →		← Distributable →		
	Share Capital RM	Share Premium RM	Assets Revaluation Reserve RM	Accumulated Profit Carried Forward RM	Total RM
Balance as at July 1, 2002	65,504,357	3,289,340	1,584,156	7,576,351	77,954,204
Net profit attributable to shareholders	–	–	–	5,907,099	5,907,099
5% first and final tax exempt dividend for the year ended 30.06.02	–	–	–	(3,291,168)	(3,291,168)
Issue of shares					
- ESOS exercised	319,000	–	–	–	319,000
- Share premium from ESOS	–	243,000	–	–	243,000
Balance as at December 31, 2002	65,823,357	3,532,340	1,584,156	10,192,282	81,132,135
Net loss attributable to shareholders	–	–	–	(45,564)	(45,564)
Issue of shares					
- ESOS exercised	397,000	–	–	–	397,000
- Share premium from ESOS	–	94,670	–	–	94,670
Balance as at December 31, 2003	<b>66,220,357</b>	<b>3,627,010</b>	<b>1,584,156</b>	<b>10,146,718</b>	<b>81,578,241</b>

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

# CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2003

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
(Loss)/Profit before taxation	(5,767,572)	3,442,611	157,306	5,959,461
Adjustments for:-				
Allowance for doubtful debts	-	15,865	-	1,520
Allowance for inventories written down	-	296,172	-	-
Bad debts written off	5,347	-	-	-
Depreciation	5,744,154	2,770,199	379,441	198,127
Exceptional items	-	(5,850,641)	-	(5,850,641)
Interest income	(464,735)	(198,077)	(180,122)	(45,918)
Inventories written off	1,110,012	624,819	-	-
Gain on disposal of property, plant and equipment	(28,043)	-	(27,999)	-
Loss on disposal of property, plant and equipment	514	3,242	-	-
Property, plant and equipment written off	14,421	700	-	-
Provision for warranty cost	383,029	167,658	-	-
Provision for warranty cost written back	(1,021,461)	(378,000)	-	-
Rental income	(11,220)	(6,120)	-	-
Reversal of allowance for doubtful debts	(24,470)	(184,890)	-	-
Share of results of joint venture company	74,668	20,166	-	-
Unrealised gain on foreign exchange	(131,963)	-	(33,622)	-
Unrealised loss on foreign exchange	2,816	23,934	-	5,494
Operating profit before working capital changes	(114,503)	747,638	295,004	268,043
Increase in inventories	(3,079,084)	(179,905)	-	-
(Increase)/Decrease in receivable	(3,196,005)	12,915,394	(29,840)	311,432
Increase/(Decrease) in payable	7,559,843	(6,653,828)	250,355	(646,296)
Cash from/(used in) operations	1,170,251	6,829,299	515,519	(66,821)
Tax paid	(1,275,737)	(399,068)	(400,470)	(110,789)
Tax refund	500,220	-	-	-
Net cash from/(used in) operating activities	394,734	6,430,231	115,049	(177,610)

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

**CASH FLOW STATEMENT (CONT'D)**  
FOR THE YEAR ENDED DECEMBER 31, 2003

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Advances to joint venture company	(30)	–	(30)	–
Acquisition of other investment	–	(1)	–	(1)
Advances to/(Repayment from) subsidiary companies	–	–	(1,830,868)	1,989,414
Exceptional items	–	7,450,119	–	7,450,119
Interest received	466,426	184,307	182,670	35,109
Acquisitions of property, plant and equipment (note 33)	(2,632,953)	(999,093)	(17,273)	(18,340)
Proceeds from disposal of property plant and equipment	28,502	2,457	28,000	–
Withdrawal of fixed deposits	248,793	401,154	–	–
Acquisition of subsidiary company (note 34)	–	–	(149,999)	–
Rental income	11,220	6,120	–	–
Net cash (used in)/from investing activities	(1,878,042)	7,045,063	(1,787,500)	9,456,301
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Government grant received	30,000	–	–	–
Proceeds from shares issued	591,671	562,000	491,670	562,000
Dividend paid	–	(3,291,168)	–	(3,291,168)
Net cash from/(used in) financing activities	621,671	(2,729,168)	491,670	(2,729,168)
Net (decrease)/increase in cash and cash equivalents	(861,637)	10,746,126	(1,180,781)	6,549,523
Effect of foreign exchange changes	(14,053)	(4,159)	–	–
Cash and cash equivalents brought forward	22,530,911	11,800,537	7,674,537	1,125,014
Effect of foreign exchange changes	80,667	(11,593)	–	–
As restated	22,611,578	11,788,944	7,674,537	1,125,014
Cash and cash equivalents carried forward	21,735,888	22,530,911	6,493,756	7,674,537
<b>REPRESENTED BY:-</b>				
Fixed deposits with licensed banks (note 18)	12,573,264	18,634,736	5,975,524	7,062,067
Cash and bank balances	9,162,624	3,896,175	518,232	612,470
	21,735,888	22,530,911	6,493,756	7,674,537

The annexed notes form an integral part of the financial statements. Auditors' Report - Page 29.

# NOTES TO THE FINANCIAL STATEMENTS

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## 1. CORPORATE INFORMATION

LKT Industrial Berhad is a company incorporated in Malaysia with limited liability and is domicile in Malaysia. The registered office and principal place of business is 14A, Jalan Todak 3, Pusat Bandar Seberang Jaya, 13700 Seberang Jaya, Prai and Plot 17, Hilir Sungai Keluang Tiga, Bayan Lepas FIZ, Phase IV, 11900 Penang respectively.

The total number of employees at balance sheet date of the Group and of the Company is 472 (31.12.02 : 480) and 36 (31.12.02 : 24) respectively.

The audited financial statements were approved and authorised for issue by the Board of Directors on April 2, 2004.

The financial statements are presented in Ringgit Malaysia.

## 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risk arising from the Group's financial instruments are foreign currency risk, market risk and credit risk. The Group does not have any bank borrowings except for small standby overdraft facility with a local bank. As such the Group is not exposed to significant interest rate risk, liquidity and cash flow risk. The Board reviews and agrees on policies for managing each of these risk and they are summarised below. These policies have remained unchanged since the beginning of the financial year 2003.

### Foreign Currency Risk

The Group has a subsidiary company, LKT Engineering (Thailand) Limited which operates in Thailand and whose revenue and expenses are denominated primarily in US Dollar and Thai Baht. The Group finances its investment in this subsidiary company by means of its own internal funds. The Group's exposure to movement in Ringgit Malaysia/US Dollar and Ringgit Malaysia/Thai Baht is not significant due to the size of the operations.

The Group also has transactional currency exposures. Such exposures arise from sales to customers mainly in United States, China, Philippines and Singapore. These are sales priced in Ringgit Malaysia but invoiced primarily in US Dollar and Japanese Yen. The Group also purchases raw materials from overseas which are mainly denominated in US Dollar. The Group policy is to deposit all US Dollar proceeds into a foreign currency account maintained with local banks up to the limit approved by Bank Negara. Any amount in excess of the limit would be converted into Ringgit Malaysia at spot rate.

### Market Risk

The Group's principal exposure to market risk arises mainly from the changes in product cost and cost competitiveness of products sold. This risk is managed through regular review and monitoring of product cost and pricing of products.

### Credit Risk

Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are local financial institutions approved by Bank Negara and reputable multinational organisations. It is the Group's policy to monitor the financial standing of these counter parties on an on going basis to ensure that the Group is exposed to minimal credit risk.

## 3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the requirements of the Companies Act, 1965 and of the Malaysian Accounting Standards Board ("MASB") using the historical cost basis unless indicated otherwise in other significant accounting policies. In compliance with the accounting standards, estimates and assumptions may have to be made by the management which will affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported revenues and expenses for that financial year/period. The Group has applied MASB Standard 31, Accounting for Government Grants and Disclosure of Government Assistance before its effective date.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Consolidation

The Group financial statements include the audited financial statements of the Company and all of its subsidiary companies.

A subsidiary company is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued shares or controls the composition of the Board of Directors or has the power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

The subsidiary companies are consolidated using the acquisition method of accounting from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The difference between the acquisition cost and the fair value of the subsidiary companies' net assets is reflected as goodwill/reserve on consolidation.

The gain or loss on disposal of a subsidiary company is the difference between the net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition.

All intercompany transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the costs cannot be recovered.

Minority share of losses is recognised to the extent of their investments in the subsidiary company.

The financial statements of the Company and its subsidiary companies are all drawn up to the same reporting date.

#### (b) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate exchange rates ruling at the date of the transactions. Assets and liabilities in foreign currencies are translated into Ringgit Malaysia at the approximate exchange rates prevailing at the end of the financial year. All gains and losses on exchange are recognised in the income statement.

Foreign subsidiary companies are accounted for as foreign entities.

In the Group financial statements, assets and liabilities of the foreign subsidiary companies are translated into Ringgit Malaysia at exchange rates ruling at the balance sheet date. Income and expenditure are translated at the approximate exchange rates ruling on the transaction dates. All exchange translation differences are dealt with in the foreign currency translation reserve.

Any goodwill and fair value adjustments arising on the acquisition of a foreign entity will be treated as assets and liabilities of the foreign entity and translated at the closing rate.

The closing rates of exchange used in the preparation of the financial statements are as follows:-

	<b>31.12.03</b>	<b>31.12.02</b>
	<b>RM</b>	<b>RM</b>
1 Japanese Yen	<b>0.036</b>	0.032
1 Singapore Dollar	<b>2.234</b>	2.189
1 Thai Baht	<b>0.096</b>	0.088
1 US Dollar	<b>3.800</b>	3.800

#### (c) Impairment of Assets

The carrying amount of the assets (excludes deferred tax asset, inventories and financial assets but includes investment in subsidiary companies, associated company and joint venture company) of the Group and of the Company are reviewed at each balance sheet date for any indication that the assets might be impaired. Impairment is measured by comparing the carrying amount of the assets with their recoverable amount. The recoverable amount is the higher of the net selling price and its value in use, which is measured by reference to discounted future cash flows. Recoverable amount are estimated for individual assets, or if it is not possible, for the cash-generating unit.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (c) Impairment of Assets (Cont'd)

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised.

The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

#### (d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost and at valuation less accumulated depreciation and impairment losses, if any.

Land and buildings are stated in the financial statements at cost and at valuation based on open market valuations by professional firms of valuers. Any surplus arising from revaluation is credited to the assets revaluation reserve. Any deficit arising from revaluation is charged against the assets revaluation reserve to the extent of previous surplus held in the assets revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement. Additions to land and buildings subsequent to the valuations and other property, plant and equipment are stated in the financial statements at cost.

The Company adopts the policy of revaluing its properties once every five years.

Leasehold land is amortised equally over the remaining life of the leases.

The leases of the Group will expire on November 22, 2041, May 14, 2051, September 9, 2051, December 31, 2056 and on June 16, 2057.

Depreciation of other property, plant and equipment is calculated to write off the respective costs and valuations on the straight line basis over the estimated useful lives.

The principal annual rates used are as follows:-

Buildings	2% or 40 - 60 years
Air conditioners	10% - 20%
Capital work-in-progress	–
Computer and software	20% - 33.33%
Electrical installations	10% - 20%
Factory furniture and fittings	5% - 20%
Factory equipment	10% - 20%
Fire fighting equipment	10%
Motor vehicles	20%
Mould	10% - 20%
Office equipment	10% - 20%
Office furniture and fittings	5% - 20%
Plant and machinery	20%
Renovation	2% - 25% or 5 years
Research and development equipment	33.33%
Storage system	10%

#### (e) Investment in Subsidiary Companies

Investment in subsidiary companies are stated at cost less impairment losses, if any.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (f) Investment in Associated Company

An associated company is a company in which the Group has a long term equity interest of between 20 and 50 percent and where the Group can exercise significant influence over the financial and operational policies or through board representation, but has no control over those policies.

The investment in the associated company is accounted for in the consolidated financial statements using the cost method less impairment losses, due to severe long term restrictions on the ability of the Company to influence the financial and operational policies of the associated company.

#### (g) Investment in Joint Venture Company

A joint venture company is a company in which the Group had contractually agreed to exercise sharing of control over the economic activities of the joint venture.

Investment in joint venture company is stated at cost plus the Group's share of results of joint venture company less impairment losses, if any. The share of results in joint venture company are included in the Group income statement using the equity method.

#### (h) Financial Instruments

A financial instrument is any contract that gives rise to both an asset in one enterprise and a liability and/or equity in another enterprise.

The accounting policies for financial instruments recognised in the balance sheet are:-

##### (i) Other Investments

Investments in unquoted shares are stated at cost less impairment losses, if any.

##### (ii) Trade Receivables And Other Receivables

Trade receivables and other receivables are stated at amount expected to be recovered. Known bad debts are written off and specific allowance are made for any debts considered to be doubtful of collection.

##### (iii) Amount Owing By Subsidiary Companies, Associated Company And Joint Venture Company

Amount owing by subsidiary companies, associated company and joint venture company are recognised and carried at amount expected to be recovered.

##### (iv) Cash and Cash Equivalents

Cash and cash equivalents are recognised and carried at cost.

Cash and cash equivalents represent items that are readily convertible to amount of cash with insignificant risk of changes in value. The components of cash and cash equivalents are cash and bank balances and fixed deposits with licensed banks.

##### (v) Equity and Liabilities

Financial instruments are classified as equity or liabilities in accordance with the substance of the contractual arrangement on initial recognition. Interest, dividend, losses and gains relating to a liability instrument is reported in the income statement as an expense or an income. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

##### (vi) Trade Payables, Other Payables and Accruals

Trade payables, other payables and accruals are stated at cost which is the fair value of the consideration to be paid for goods and services received.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments are offset when the Group has legally enforceable right of offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

#### (i) Fair Value

##### (i) Other Investments

Unquoted shares for which there are no quoted market prices, a reasonable estimate of fair value has been calculated based on the adjusted net tangible assets of the latest audited financial statements.

(ii) The fair value of the remaining financial assets and liabilities maturing within 12 months approximate their carrying amount as at balance sheet date due to the short term maturity of these instruments.

#### (j) Inventories

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

#### (k) Deferred Income

Deferred income comprises of government grant received in respect of development of Rossetanet project and is recognised as income on a systematic basis over the estimated useful life of the assets when such assets are ready for their intended use.

#### (l) Employee Benefits

##### (i) Short-Term Employee Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by the employees of the Company.

Employee entitlement to annual leave is recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### (ii) Defined Contribution Plan

Contributions to defined contribution pension plan (Employees Provident Fund) are recognised as an expense in the income statement as incurred.

##### (iii) Employee Share Options

No compensation cost or obligation is recognised when share options are issued under employee incentive programme. When options are exercised, equity is increased by the amount of the proceeds received.

#### (m) Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when 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.

##### Provision for Warranty Cost

The Group recognised the estimated liabilities of defects arising from products under warranty at balance sheet date calculated based on past experience. Provision for warranties are written back upon the expiration of the warranty period.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (n) Income Recognition

- (i) Revenue from sale of goods is recognised when the risk and rewards of goods sold are transferred to customers.
- (ii) Support services is recognised when the services is rendered.
- (iii) Interest income from short term investments and deposits are recognised on the accrual basis.
- (iv) Dividend income is recognised when the rights to receive payment is established.
- (v) Rental income is recognised when it is due as a legal debt.

#### (o) Research and Development Expenditure

Research and development expenditure is charged as an expense in the period in which they are incurred except to the extent that these development expenditure are deferred in accordance with MASB Standard 4, Research and Development Costs.

Amortisation of development expenditure is calculated to write-down the cost of the development expenditure on the straight line basis over the estimated number of units commencing from the time when the product is available for sale.

#### (p) Taxation

Taxation is provided based on current year's income as adjusted for tax purposes.

Deferred tax liabilities and assets are provided for using the balance sheet liability method at the current tax rate in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowances.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

#### (q) Dividend Payable

Dividend payable on ordinary shares are accounted for in the Statement of Changes in Equity as an appropriation of retained earnings in the year in which they are authorised for payment.

#### (r) Segment Information

Segment information is presented in respect of the Group's business and geographical segments. The primary reporting segment information is in respect of business segments as the Group risk and rates of return are affected predominantly by differences in the products it produces, while the secondary information is reported geographically.

Segment assets and liabilities include all assets and liabilities directly attributable to the segments but do not include bank borrowings, income tax assets and liabilities.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Pricing for inter segment transactions are determined at arm's length according to the normal course of business. These transactions are eliminated on consolidation.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that is expected to be used for more than one year.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 5. PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, provision of corporate management services and product development. The principal activities of its subsidiary companies are as stated in note 7 of the notes to the financial statements.

### 6. PROPERTY, PLANT AND EQUIPMENT

Particulars of the property, plant and equipment are as follows:-

#### (i) Group

##### (a) VALUATION/COST

	As at 01.01.03 RM	Additions RM	Currency Translation RM	Reclassification RM	*Written off/ Disposals RM	As at 31.12.03 RM
<b>At Valuation</b>						
Short-term leasehold land	6,699,600	–	–	–	–	6,699,600
Long-term leasehold land	4,600,000	–	–	–	–	4,600,000
Buildings	14,065,000	–	–	–	–	14,065,000
<b>At Cost</b>						
Long-term leasehold land	2,438,163	–	–	–	–	2,438,163
Buildings	16,549,496	57,387	–	–	–	16,606,883
Air conditioners	2,316,234	17,750	4,190	–	–	2,338,174
Capital work-in-progress	893,979	563,845	–	(522,000)	–	935,824
Computer and software	6,639,000	510,332	7,685	–	(18,598)	6,967,189
					*(171,230)	
Electrical installations	3,409,881	10,160	7,138	–	*(462)	3,426,717
Factory equipment	4,287,520	373,377	10,101	–	*(450)	4,670,548
Factory furniture and fittings	618,498	40,152	945	–	–	659,595
Fire fighting equipment	802,538	–	–	–	–	802,538
Motor vehicles	2,055,904	–	10,677	–	(64,127)	2,002,454
Mould	1,024,306	21,400	–	–	–	1,045,706
Office equipment	764,322	70,567	1,770	–	*(17,880)	818,779
Office furniture and fittings	1,151,219	28,770	488	–	–	1,180,477
Plant and machinery	22,004,985	876,063	107,936	522,000	–	23,510,984
Renovation	90,109	57,450	6,994	–	*(10,790)	143,763
Research and development equipment	333,962	–	–	–	–	333,962
Storage system	165,069	5,700	–	–	–	170,769
<b>Total</b>	<b>90,909,785</b>	<b>2,632,953</b>	<b>157,924</b>	<b>–</b>	<b>(283,537)</b>	<b>93,417,125</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

#### (b) ACCUMULATED DEPRECIATION

	As at 01.01.03 RM	Current Depreciation RM	Currency Translation RM	Reclassification RM	*Written off/ Disposals RM	As at 31.12.03 RM
<b>At Valuation</b>						
Short-term leasehold land	543,852	136,518	–	–	–	680,370
Long-term leasehold land	245,334	81,778	–	–	–	327,112
Buildings	840,494	281,509	–	–	–	1,122,003
<b>At Cost</b>						
Long-term leasehold land	136,754	41,516	–	–	–	178,270
Buildings	517,787	304,659	–	–	–	822,446
Air conditioners	982,571	215,794	2,095	–	–	1,200,460
Capital work-in-progress	–	–	–	–	–	–
Computer and software	4,940,503	1,156,072	3,094	–	(17,626)	5,911,253
					*(170,790)	
Electrical installations	1,509,848	324,459	3,569	–	–	1,837,876
Factory equipment	1,259,853	410,418	3,508	–	–	1,673,779
Factory furniture and fittings	150,040	44,523	190	–	–	194,753
Fire fighting equipment	248,764	80,254	–	–	–	329,018
Motor vehicles	1,492,227	259,316	5,239	–	(64,126)	1,692,656
Mould	436,702	169,258	–	–	–	605,960
Office equipment	474,721	52,987	750	–	*(10,430)	518,028
Office furniture and fittings	366,907	97,808	260	–	–	464,975
Plant and machinery	17,586,182	2,025,946	39,134	–	–	19,651,262
Renovation	41,612	20,629	3,458	–	*(5,171)	60,528
Research and development equipment	259,879	24,694	–	–	–	284,573
Storage system	62,998	16,016	–	–	–	79,014
<b>Total</b>	<b>32,097,028</b>	<b>5,744,154</b>	<b>61,297</b>	<b>–</b>	<b>(268,143)</b>	<b>37,634,336</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

#### (c) NET BOOK VALUE

	As at 31.12.03 RM	As at 31.12.02 RM
<b>At Valuation</b>		
Short-term leasehold land	6,019,230	6,155,748
Long-term leasehold land	4,272,888	4,354,666
Buildings	12,942,997	13,224,506
<b>At Cost</b>		
Long-term leasehold land	2,259,893	2,301,409
Buildings	15,784,437	16,031,709
Air conditioners	1,137,714	1,333,663
Capital work-in-progress	935,824	893,979
Computer and software	1,055,936	1,698,497
Electrical installations	1,588,841	1,900,033
Factory equipment	2,996,769	3,027,667
Factory furniture and fittings	464,842	468,458
Fire fighting equipment	473,520	553,774
Motor vehicles	309,798	563,677
Mould	439,746	587,604
Office equipment	300,751	289,601
Office furniture and fittings	715,502	784,312
Plant and machinery	3,859,722	4,418,803
Renovation	83,235	48,497
Research and development equipment	49,389	74,083
Storage system	91,755	102,071
Total	<b>55,782,789</b>	<b>58,812,757</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

#### (ii) Company

##### (a) VALUATION/COST

	As at 01.01.03 RM	Additions RM	Disposals RM	Related Company Transfers RM	As at 31.12.03 RM
<b>At Valuation</b>					
Long-term leasehold land	4,600,000	–	–	–	4,600,000
<b>At Cost</b>					
Air conditioners	21,480	–	–	–	21,480
Computer and software	566,177	11,335	–	48,039	625,551
Electrical installations	3,980	–	–	–	3,980
Motor vehicles	1,396,527	–	(64,127)	–	1,332,400
Office equipment	71,572	–	–	–	71,572
Office furniture and fittings	118,802	3,026	–	–	121,828
Storage system	–	900	–	–	900
<b>Total</b>	<b>6,778,538</b>	<b>15,261</b>	<b>(64,127)</b>	<b>48,039</b>	<b>6,777,711</b>

##### (b) ACCUMULATED DEPRECIATION

	As at 01.01.03 RM	Current Depreciation RM	Disposals RM	Related Company Transfers RM	As at 31.12.03 RM
<b>At Valuation</b>					
Long-term leasehold land	245,334	81,778	–	–	327,112
<b>At Cost</b>					
Air conditioners	5,327	2,148	–	–	7,475
Computer and software	410,050	117,446	–	46,027	573,523
Electrical installations	1,492	398	–	–	1,890
Motor vehicles	1,005,244	164,370	(64,126)	–	1,105,488
Office equipment	27,742	7,157	–	–	34,899
Office furniture and fittings	29,016	6,054	–	–	35,070
Storage system	–	90	–	–	90
<b>Total</b>	<b>1,724,205</b>	<b>379,441</b>	<b>(64,126)</b>	<b>46,027</b>	<b>2,085,547</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

#### (c) NET BOOK VALUE

	As at 31.12.03 RM	As at 31.12.02 RM
<b>At Valuation</b>		
Long-term leasehold land	4,272,888	4,354,666
<b>At Cost</b>		
Air conditioners	14,005	16,153
Computer and software	52,028	156,127
Electrical installations	2,090	2,488
Motor vehicles	226,912	391,283
Office equipment	36,673	43,830
Office furniture and fittings	86,758	89,786
Storage system	810	-
Total	<b>4,692,164</b>	5,054,333

The properties of the Group and of the Company were revalued on December 31, 1999 based on independent professional valuations using the open market value basis.

The carrying amount of the revalued properties had the properties been carried at cost less accumulated depreciation are as follow:-

#### (i) Group

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
<b>31 December 2003</b>			
Short-term leasehold land	2,685,899	326,668	2,359,231
Long-term leasehold land	2,559,482	330,351	2,229,131
Buildings	13,526,037	2,139,233	11,386,804
	<b>18,771,418</b>	<b>2,796,252</b>	<b>15,975,166</b>
<b>31 December 2002</b>			
Short-term leasehold land	2,685,899	276,953	2,408,946
Long-term leasehold land	2,559,482	287,674	2,271,808
Buildings	13,526,037	1,890,686	11,635,351
	<b>18,771,418</b>	<b>2,455,313</b>	<b>16,316,105</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

#### (ii) Company

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
<b>31 December 2003</b>			
Long-term leasehold land	2,559,482	330,351	2,229,131
<b>31 December 2002</b>			
Long-term leasehold land	2,559,482	287,674	2,271,808

### 7. INVESTMENT IN SUBSIDIARY COMPANIES

	Company	
	31.12.03 RM	31.12.02 RM
Unquoted shares, at cost		
Balance brought forward	14,410,268	14,410,268
Reclassify from other investments	1	–
Shares acquired during the year	149,999	–
Balance carried forward	14,560,268	14,410,268

Particulars of the subsidiary companies are as follows:-

#### Direct Subsidiary Companies

Name of Company	Principal Activities	Effective Interest		Place of Incorporation
		31.12.03	31.12.02	
LKT Automation Sdn. Bhd. (Company No: 75724 W)	Design and assembly of automation equipment complete with equipment control software	100%	100%	Malaysia
LKT Precision Engineering Sdn. Bhd. (Company No: 43230 K)	Fabrication of precision tools and machinery parts	100%	100%	Malaysia
LKT Plastic Technology Sdn. Bhd. (Company No: 184086 K)	Manufacture of precision plastic parts, moulds and device carriers	100%	100%	Malaysia
LKT Support Services Sdn. Bhd. (Company No: 458323 K)	Providing technical training and equipment maintenance and installation support services	100%	100%	Malaysia
LKT Integration Sdn. Bhd. (Company No: 455256 X)	Development and production of computer process control system for printed circuit board handling system and component assembly line	100%	100%	Malaysia

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 7. INVESTMENT IN SUBSIDIARY COMPANIES (cont'd)

Name of Company	Principal Activities	Effective Interest		Place of Incorporation
		31.12.03	31.12.02	
LKT Technology Sdn. Bhd. (Company No: 418108 T)	Design and manufacture of industrial storage system, material handling system and logistic system	100%	100%	Malaysia
World Depot Sdn. Bhd. (formerly known as LKT Trading Sdn. Bhd.) (Company No: 364890 H)	Trading of machinery hardware, engineering parts and other related activities	100%	100%	Malaysia
LKT Research and Development Sdn. Bhd. (Company No: 422249 P)	Dormant	100%	100%	Malaysia
LKT Holdings Sdn. Bhd. (Company No: 268031 M)	Dormant	100%	100%	Malaysia
LKT Metal Sdn. Bhd. (Company No: 265589 V)	Dormant	100%	100%	Malaysia
Iconext Sdn. Bhd. (Company No: 532031 X)	Dormant	100%	100%	Malaysia
LKT Corporation Berhad (Company No: 530638 U)	Dormant	100%	100%	Malaysia
* Alps Tech Corporation Sdn. Bhd. (Company No: 598863 A)	Dormant	60%	–	Malaysia
<b>Indirect Subsidiary Companies</b>				
LKT Ergonomic System Sdn. Bhd. (Company No: 479992 T)	Design and manufacture of metal and non-metal ergonomic workstation	100%	100%	Malaysia
LKT Manufacturing Sdn. Bhd. (Company No: 364889 X)	Design and manufacture of machinery parts	100%	100%	Malaysia
LKT Wafer Technology Sdn. Bhd. (Company No: 517664 V)	Designing and manufacturing of semiconductor wafer transfer system	100%	100%	Malaysia
LKT Tooling Technology Sdn. Bhd. (Company No: 265822 D)	Dormant	100%	100%	Malaysia
* LKT Engineering (Thailand) Limited	Manufacturing of die, jig and part and cutting tools for disc drive, electronic, semi-conductor and other industries	100%	100%	Thailand
* LKT Ergonomic System Pte. Ltd.	Dormant	100%	100%	Republic of Singapore

\* Not audited by Wong Liu & Partners.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 8. INVESTMENT IN ASSOCIATED COMPANY

	Group/Company	
	31.12.03 RM	31.12.02 RM
Unquoted shares, at cost	5,731,600	5,731,600
Impairment loss	(5,731,599)	(5,731,599)
	<b>1</b>	<b>1</b>

The amount of the Group's cumulative share of losses of the associated company of RM5,731,600 (31.12.02 : RM5,731,600) had not been accounted for under the equity accounting method, however, the loss had been recognised in full through impairment loss recognition.

Based on the unaudited management accounts as at December 31, 2003, the Group's share of the net assets in the associated company is NIL (31.12.02 : NIL).

There is no goodwill on acquisition of the Group's interests in the associated company.

Particulars of the associated company are as follows:-

Name of Company	Principal Activity	Effective Interest		Place of Incorporation
		31.12.03	31.12.02	
LKT Amcosem Sdn. Bhd. (Company No: 367730 X)	Dormant	37.8%	37.8%	Malaysia

### 9. INVESTMENT IN JOINT VENTURE COMPANY

	Group	
	31.12.03 RM	31.12.02 RM
Unquoted shares, at cost	612,000	612,000
Share of results	(202,129)	(127,461)
	<b>409,871</b>	<b>484,539</b>

The Group's share of assets, liabilities, income and expenses in the joint venture company are as follows:-

	31.12.03 RM	31.12.02 RM
Property, plant and equipment	226,988	176,001
Intangible assets	151,653	163,766
Current assets	152,629	162,333
Current liabilities	(121,399)	(17,561)
	<b>409,871</b>	<b>484,539</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 9. INVESTMENT IN JOINT VENTURE COMPANY (cont'd)

	Group	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
Revenue	31,354	–
Cost of goods sold	(31,981)	(871)
	<b>(627)</b>	(871)
General and administrative expenses	(77,837)	(21,775)
Loss from operations	(78,464)	(22,646)
Other income	3,796	2,480
Loss before taxation	(74,668)	(20,166)
Taxation	–	(663)
Loss after taxation	<b>(74,668)</b>	(20,829)

The particulars of the joint venture company are as follows:-

Name of Company	Principal Activity	Effective Interest		Place of Incorporation
		31.12.03	31.12.02	
Spray Devices Technology Sdn. Bhd. (Company No: 521508 P)	Design, development and selling non-gas filled continuous spray devices and its accessories	51%	51%	Malaysia

The above company is treated as joint venture company as there is an agreement to jointly control the company.

The joint venture agreement also provides that in the event that the joint venture company shall require additional funding for its working capital exceeding the sum of RM1,200,000, the shareholders of the joint venture company irrevocably agree to increase the paid-up and issued capital of the joint venture company up to a maximum sum of RM1,500,000 to participate in the additional funding in direct proportion to the shareholding in the joint venture company.

### 10. OTHER INVESTMENTS

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
<b>Malaysian</b>				
Unquoted shares, at cost				
Balance brought forward	25,001	25,000	1	–
Shares acquired during the year	–	1	–	1
Reclassify to investment in subsidiary companies	(1)	–	(1)	–
Balance carried forward	<b>25,000</b>	25,001	–	1

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 11. DEFERRED TAX ASSET

	Group	
	31.12.03 RM	31.12.02 RM
Balance brought forward	76,200	38,000
Transfer (to)/from Income Statement	(76,200)	38,200
	-	76,200

The above represents deferred tax provided for:-

	Group	
	31.12.03 RM	31.12.02 RM
Temporary differences arising from property, plant and equipment	(68,736)	(87,150)
Provision for warranty cost	15,389	163,350
Unabsorbed tax losses	53,347	-
	-	76,200

The provision for warranty cost are estimated liabilities of defects arising from products under warranty. Based on past experience, it is probable that there will be claims for product under warranties ranging from one to three years from date of sales. The difference between accounting and tax treatment gives rise to deductible temporary differences which can be utilised against expected taxable profits in the future periods as the subsidiary company has been making profits.

### 12. INVENTORIES

	Group	
	31.12.03 RM	31.12.02 RM
<b>At Cost</b>		
Raw materials	3,236,032	3,362,277
Work-in-progress	8,227,515	6,261,588
Spare parts	853,502	-
Finished goods	1,452,240	1,450,986
	13,769,289	11,074,851
<b>At Net Realisable Value</b>		
Work-in-progress	-	690,972
Finished goods	18,227	33,745
	18,227	724,717
	13,787,516	11,799,568

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 13. TRADE RECEIVABLES

	Group	
	31.12.03 RM	31.12.02 RM
Trade receivables	20,505,854	17,392,102
Allowance for doubtful debts	(174,373)	(213,188)
	<b>20,331,481</b>	<b>17,178,914</b>

The credit terms of trade receivables normally range from 30 to 75 days.

53% of total receivables of the Group are amount owing by two major multinational organisations whereby the credit terms are extended until the approval of the products by the customers.

The foreign currency exposure of trade receivables of the Group are as follows:-

	Group	
	31.12.03	31.12.02
Japanese Yen	4,492,366	4,535,898
Singapore Dollar	40,088	36,528
US Dollar	3,077,362	3,115,947

### 14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENT

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Other receivables	564,976	652,618	398,104	369,260
Deposits	159,148	134,763	6,650	6,650
Prepayment	1,306,900	979,293	16,366	17,918
	<b>2,031,024</b>	<b>1,766,674</b>	<b>421,120</b>	<b>393,828</b>
Allowance for doubtful debts	(303,555)	(303,555)	(303,555)	(303,555)
	<b>1,727,469</b>	<b>1,463,119</b>	<b>117,565</b>	<b>90,273</b>

### 15. AMOUNT OWING BY SUBSIDIARY COMPANIES

The amount owing by subsidiary companies are non-trade in nature, unsecured, interest free and have no fixed term of repayment.

The foreign currency exposure of amount owing by subsidiary companies of the Company are as follows:-

	Company	
	31.12.03	31.12.02
Singapore Dollar	19,238	19,238
Thai Baht	5,516,305	1,689,208

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 16. AMOUNT OWING BY ASSOCIATED COMPANY

	Group/Company	
	31.12.03 RM	31.12.02 RM
Amount owing by associated company	1,520	1,520
Allowance for doubtful debts	(1,520)	(1,520)
	-	-

The amount owing by associated company is non-trade in nature, unsecured, interest free and has no fixed term of repayment.

### 17. AMOUNT OWING BY A JOINT VENTURE COMPANY

The amount owing by a joint venture company is non-trade in nature, unsecured, interest free and has no fixed term of repayment.

### 18. FIXED DEPOSITS WITH LICENSED BANKS

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Pledged as securities*	-	247,314	-	-
Others	12,573,264	18,634,736	5,975,524	7,062,067
	12,573,264	18,882,050	5,975,524	7,062,067

\* These fixed deposits are pledged to local banks for bank guarantees issued in favour of third parties.

The foreign currency exposure of bank balances and fixed deposits with licensed banks of the Group are as follows:-

	Group	
	31.12.03	31.12.02
US Dollar	1,066,863	915,979

### 19. SHARE CAPITAL

	Group/Company	
	31.12.03 RM	31.12.02 RM
Authorised:		
100,000,000 ordinary shares of RM1 each	100,000,000	100,000,000
Issued and fully paid up ordinary shares of RM1 each		
Balance brought forward	65,823,357	65,504,357
Share options exercised under the ESOS	397,000	319,000
Balance carried forward	66,220,357	65,823,357

The new ordinary shares issued rank pari passu with the existing ordinary shares of the Company in all respects.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 20. SHARE PREMIUM

	Group/Company	
	31.12.03 RM	31.12.02 RM
Balance brought forward	3,532,340	3,289,340
Share options exercised under the ESOS	94,670	243,000
Balance carried forward	<b>3,627,010</b>	3,532,340

### 21. ASSETS REVALUATION RESERVE

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Non distributable				
Surplus on revaluation of properties	<b>4,483,003</b>	4,483,003	<b>1,584,156</b>	1,584,156

### 22. ACCUMULATED PROFIT CARRIED FORWARD

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the payment of dividend out of all the accumulated profit as at December 31, 2003.

### 23. DEFERRED INCOME

	Group	
	31.12.03 RM	31.12.02 RM
Government grant	<b>30,000</b>	–

The above represents 30% down payment of the approved government grant.

### 24. DEFERRED TAX LIABILITY

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Balance brought forward	<b>2,792,155</b>	3,026,860	<b>647,700</b>	669,200
Transfer to income statement	<b>(234,203)</b>	(234,705)	<b>(41,130)</b>	(21,500)
Balance carried forward	<b>2,557,952</b>	2,792,155	<b>606,570</b>	647,700

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 24. DEFERRED TAX LIABILITY (cont'd)

The above represents deferred tax provided for:-

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Temporary differences arising from property, plant and equipment	1,165,412	1,068,472	34,318	64,496
Revaluation, net of related depreciation	2,030,692	2,074,982	572,252	583,204
Provision for warranty cost	(200,234)	(231,034)	–	–
Unabsorbed tax losses	(437,918)	–	–	–
Allowance for inventories written down	–	(120,265)	–	–
	<b>2,557,952</b>	<b>2,792,155</b>	<b>606,570</b>	<b>647,700</b>

### 25. TRADE PAYABLES

The credit terms of trade payables normally range from 30 to 75 days.

The foreign currency exposure of trade payables of the Group are as follows:-

	Group	
	31.12.03	31.12.02
Japanese Yen	5,715,804	460,000
Singapore Dollar	141,778	35,021
Thai Baht	1,384	–
US Dollar	112,230	9,055

### 26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Other payables	241,306	551,185	11,872	–
Accruals	2,283,863	1,543,527	471,067	232,584
	<b>2,525,169</b>	<b>2,094,712</b>	<b>482,939</b>	<b>232,584</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 27. PROVISION FOR WARRANTY COST

	Group	
	31.12.03 RM	31.12.02 RM
Balance brought forward	1,408,513	1,618,855
Current year provision	383,029	167,658
	<b>1,791,542</b>	1,786,513
Provision written back	<b>(1,021,461)</b>	(378,000)
Balance carried forward	<b>770,081</b>	1,408,513

The above are estimated liabilities of defects arising from products under warranties. Based on past experience, it is probable that there will be claims for products under warranties ranging one to three years from the date of sales.

### 28. REVENUE

Analysis of revenue of the Group and of the Company:-

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
Revenue from goods sold	59,700,308	24,907,771	-	-
Revenue from support services rendered	730,233	608,177	-	-
Interest income	180,122	45,918	180,122	45,918
Management fees	-	-	4,755,518	2,179,000
	<b>60,610,663</b>	25,561,866	<b>4,935,640</b>	2,224,918

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 29. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging:-

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
Audit fee				
- Company auditor	44,600	28,100	7,000	5,000
- Other auditors	11,436	23,367	-	-
Allowance for doubtful debts	-	15,865	-	1,520
Allowance for inventories written down	-	296,172	-	-
Bad debts written off	5,347	-	-	-
Depreciation	5,744,154	2,770,199	379,441	198,127
Directors' remuneration:				
Directors of the Company				
- fees - current year/period	128,000	55,500	128,000	55,500
- prior period/year	7,500	(19,000)	7,500	(19,000)
- other emoluments	751,319	346,563	751,319	346,563
- EPF contribution	70,500	32,316	70,500	32,316
- accumulating compensated absences	12,587	-	12,587	-
- benefits in kind	36,250	18,125	36,250	18,125
Directors of the subsidiary companies				
- fees	3,500	2,500	-	-
- other emoluments	609,113	310,807	540,410	310,807
- EPF contribution	56,160	32,940	56,160	32,940
- accumulating compensated absences	15,923	-	15,923	-
- benefits in kind	-	600	-	-
Inventories written off	1,110,012	624,819	-	-
Loss on disposal of property, plant and equipment	514	3,242	-	-
Realised loss on foreign exchange	21,538	33,021	261	-
Unrealised loss on foreign exchange	2,816	23,934	-	5,494
Property, plant and equipment written off	14,421	700	-	-
Provision for warranty cost	383,029	167,658	-	-
Rental of premises	459,856	108,833	81,261	48,000
Rental of machine and equipment	44,619	23,012	7,488	3,744
Research and development expenditure	2,934,667	691,301	-	-
Staff costs				
- staff salaries and related costs	14,751,930	7,559,245	2,130,438	894,104
- EPF contribution	1,244,222	646,098	214,876	88,856
- accumulating compensated absences	260,121	-	41,048	-
- voluntary separation scheme	233,248	-	8,713	-
And crediting:-				
Exceptional items	-	5,850,641	-	5,850,641
Gain on disposal of property, plant and equipment	28,043	-	27,999	-
Interest income	464,735	198,077	180,122	45,918
Rental income	11,220	6,120	-	-
Reversal of allowance for doubtful debts	24,470	184,890	-	-
Provision for warranty cost written back	1,021,461	378,000	-	-
Unrealised gain on foreign exchange	131,963	-	33,622	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 30. TAXATION

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
Current year/period				
- Tax payable	500,173	356,300	244,000	87,000
- Deferred taxation	(92,193)	(272,905)	(35,285)	(21,500)
	<b>407,980</b>	<b>83,395</b>	<b>208,715</b>	<b>65,500</b>
Prior period/year under/(over) provision in				
- Tax payable	(82,892)	(77,540)	–	(13,138)
- Deferred taxation	(65,810)	–	(5,845)	–
	<b>259,278</b>	<b>5,855</b>	<b>202,870</b>	<b>52,362</b>

Reconciliation of statutory tax rate to effective tax rate:-

	Group		Company	
	01.01.03 to 31.12.03 %	01.07.02 to 31.12.02 %	01.01.03 to 31.12.03 %	01.07.02 to 31.12.02 %
Statutory tax rate	–	28	28	28
Tax rate applicable to current year accounting loss	(28)	–	–	–
Tax rate applicable to expenses that are not deductible when determining taxable profit	40	31	104	2
Tax rate applicable to utilisation of reinvestment allowance	(5)	(2)	–	–
Tax rate applicable to revenue that is not taxable when determining taxable profit	(1)	(55)	–	(29)
Tax rate applicable to prior year underprovision in				
- tax payable	(1)	(2)	–	–
- deferred taxation	(1)	–	(3)	–
Effective tax rate	<b>4</b>	<b>–</b>	<b>129</b>	<b>1</b>

Three of the subsidiary companies had been granted 100% tax exemption ranging from five to ten years under the Promotion of Investment Act, 1986 (as amended).

The subsidiary company in Thailand is enjoying exemption from corporate income tax for a period of 8 years commencing from September 4, 2000 and deduction of taxable income at 5% of the incremental export sales for a period of 10 years.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 30. TAXATION (cont'd)

The deferred tax effects of the following temporary differences have not been provided in the financial statements:-

	Group	
	31.12.03 RM	31.12.02 RM
Arising from property, plant and equipment	(1,654,760)	(1,267,234)
Inventories written down	(26,978)	(101,653)
Unabsorbed tax losses	(8,417,841)	(9,391,422)
	<b>(10,099,579)</b>	(10,760,309)
Deferred tax assets @ 28%	<b>(2,827,882)</b>	(3,012,887)

### 31. EARNINGS PER SHARE

The basic earnings per share for the financial year/period has been calculated on the Group's net (loss)/profit attributable to shareholders of RM(6,003,007) (01.07.02 to 31.12.02 : RM3,436,093) based on the weighted average number of ordinary shares in issue of 66,010,190 (31.12.02 : 65,767,857).

The diluted earnings per share for the year/period has been calculated on the Group's net (loss)/profit attributable to shareholders of RM(6,003,007) (01.07.02 to 31.12.02 : RM3,436,093) based on the adjusted weighted average number of ordinary shares issued and issuable of 66,010,190 (31.12.02: 67,890,331).

The adjusted weighted average number of ordinary shares issued and issuable has been calculated as follows:-

	31.12.03 Unit	31.12.02 Unit
Weighted average number of ordinary shares used for calculation of basic earnings per share		
Issued ordinary shares at beginning of year/period	65,823,357	65,504,357
Effect of shares issued during the year/period	186,833	263,500
Weighted average number of ordinary shares	<b>66,010,190</b>	65,767,857
Weighted average number of ordinary shares used for calculation of diluted earnings per share		
Issued ordinary shares at beginning of year/period	65,823,357	65,504,357
Effect of shares issued during the year/period	186,833	263,500
Effect of share options	*	2,122,474
Weighted average number of ordinary shares	<b>66,010,190</b>	67,890,331

\* Not taken into account in the computation of diluted loss per share because the effect on basic loss per share is anti-dilutive.

### 32. PROPOSED DIVIDENDS

The Board of Directors proposed a 4% first and final tax exempt dividend in respect of the current financial year.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 33. ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT

	Group		Company	
	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM	01.01.03 to 31.12.03 RM	01.07.02 to 31.12.02 RM
Total acquisitions	<b>2,632,953</b>	2,582,221	<b>15,261</b>	18,340
Amount owing to vendor companies	-	(225,165)	-	-
Capitalised from inventories	-	(1,357,963)	-	-
Net book value of property, plant and equipment transferred from a subsidiary company	-	-	<b>2,012</b>	-
Net cash outflow	<b>2,632,953</b>	999,093	<b>17,273</b>	18,340

### 34. ACQUISITION OF SUBSIDIARY COMPANY

During the financial year under review, the Group acquired 60% equity interest in Alps Tech Corporation Sdn. Bhd. (Company No: 598863 A) for RM149,999.

(a) The effect of the acquisition on the results of the Group for the current financial year from the date of the acquisition is as follows:-

	Period from date of acquisition to 31.12.03 RM
Revenue	-
Other operating income	4,669
Administrative expenses	(64,276)
Minority interest	23,843
	<b>(35,764)</b>

(b) The effect of the acquisition on the financial position of the Group as at 31.12.03 is as follows:-

	RM
Cash and bank balances	226,094
Amount owing to holding company	(35,000)
Other payables and accruals	(701)
Minority interest	(76,157)
Group's share of net assets	<b>114,236</b>

There is no effect of acquisition on the financial position and results of the preceding period as the subsidiary company acquired is a newly incorporated company.

(c) The details of net assets acquired and cash flow arising from the acquisition are as follows:-

	At date of acquisition RM
Net assets of the subsidiary company acquired	149,999
Cash balances acquired	(149,999)
Net cash outflow on acquisition of the subsidiary company	-

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 35. FINANCIAL INSTRUMENTS

#### (a) Interest Rate Risk

The interest rate risk that financial instruments' value will fluctuate as a result of changes in market interest rates, and the effective interest rates on classes of financial assets exposed to interest rate risk are as follows:-

	Interest bearing less than one year RM	Non interest bearing RM	Total RM	Effective interest rate during the year/ period %
<b>Group</b>				
<b>31.12.03</b>				
<b>Financial Assets</b>				
Fixed deposits with licensed banks	12,573,264	–	12,573,264	1.5 to 4.2
Cash and bank balances	1,300,614	7,862,010	9,162,624	1.0 to 1.5
<b>31.12.02</b>				
<b>Financial Assets</b>				
Fixed deposits with licensed banks	18,882,050	–	18,882,050	1.0 to 4.2
Cash and bank balances	727,949	3,168,226	3,896,175	1.0 to 1.5
<b>Company</b>				
<b>31.12.03</b>				
<b>Financial Asset</b>				
Fixed deposits with licensed banks	5,975,524	–	5,975,524	2.6 to 3.0
<b>31.12.02</b>				
<b>Financial Asset</b>				
Fixed deposits with licensed banks	7,062,067	–	7,062,067	2.6 to 3.2

The remaining financial assets and liabilities are not exposed to interest rate risk.

#### (b) Credit Risk Exposures

The credit risk for financial assets of the Group and of the Company which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any allowance for doubtful debts.

#### (c) Fair Value

The fair value of other investment (note 10 of the notes to the financial statements) is based on net tangible assets using the audited financial statements of the investee company as at December 31, 2002 is RM60,262 (December 31, 2001: RM68,427)

The fair value of remaining financial assets and liabilities of the Group and of the Company approximates their carrying amount in the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 36. SEGMENT REPORTING

Primary Segment - Business

The Group's operations comprise the following business segments :-

- (a) Manufacturing of precision equipment, automation equipment, industrial storage, plastic parts and injection moulds
- (b) Investment holding
- (c) Trading and others

31.12.03	← Manufacturing →			Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
	Precision Engineering RM	Equipment Division RM	Plastic and Industrial Storage Division RM				
<b>Revenue</b>							
External sales	15,476,822	34,917,233	10,036,486	180,122	–	–	60,610,663
Inter segment sales	4,800,572	12,334,160	700,104	4,755,518	–	(22,590,354)	–
	<b>20,277,394</b>	<b>47,251,393</b>	<b>10,736,590</b>	<b>4,935,640</b>	<b>–</b>	<b>(22,590,354)</b>	<b>60,610,663</b>
<b>Results</b>							
Segment result	(1,886,220)	(1,597,580)	(2,396,535)	(22,816)	(73,477)	(181,011)	(6,157,639)
Interest income							464,735
Share of results of joint venture			(74,668)				(74,668)
Loss before taxation	(1,864,654)	(1,374,578)	(2,435,827)	157,306	(68,808)	(181,011)	(5,767,572)
Taxation							(259,278)
Loss after taxation							(6,026,850)
Minority interest							23,843
Net loss attributable to shareholders							(6,003,007)

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 36. SEGMENT REPORTING (cont'd)

31.12.02	← Manufacturing →			Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
	Precision Engineering RM	Equipment Division RM	Plastic and Industrial Storage Division RM				
<b>Other information</b>							
Segment assets	31,449,618	43,242,800	27,410,060	11,297,516	226,103	–	113,626,097
Investment in joint venture	–	–	409,871	–	–	–	409,871
Unallocated corporate assets							856,421
Total assets							114,892,389
Segment liabilities	4,052,550	7,189,676	2,166,099	482,939	3,341	–	13,894,605
Unallocated corporate liabilities							2,704,279
Total liabilities							16,598,884
Capital expenditure	779,479	372,826	1,465,387	15,261	–	–	2,632,953
Depreciation	2,308,323	1,279,204	1,777,186	379,441	–	–	5,744,154
<b>Other significant non cash transactions</b>							
Provision for warranty cost	–	383,029	–	–	–	–	383,029
Provision for warranty cost written back	–	(1,021,461)	–	–	–	–	(1,021,461)
Inventories written off	664,111	150,645	295,256	–	–	–	1,110,012
Unrealised gain on foreign exchange	(98,341)	–	–	(33,622)	–	–	(131,963)

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 36. SEGMENT REPORTING (cont'd)

Secondary Segment - Geographical

In determining the geographical segments of the Group, revenue is based on the geographical location of customers. Total assets and capital expenditure are based on the geographical location of assets.

	Revenue RM	Total Assets RM	Capital Expenditure RM
Thailand	6,323,000	3,134,781	39,516
Singapore	3,245,000	61,508	–
Malaysia	27,630,663	111,696,100	2,593,437
United States of America	6,774,000	–	–
Philippines	3,744,000	–	–
China	10,838,000	–	–
Others	2,056,000	–	–
	<b>60,610,663</b>	<b>114,892,389</b>	<b>2,632,953</b>

Inter segment pricing on inter segment transactions are determined at arm's length according to the normal course of business.

31.12.02	← Manufacturing →			Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
	Precision Engineering RM	Equipment Division RM	Plastic and Industrial Storage Division RM				
<b>Revenue</b>							
External sales	7,514,588	13,971,552	4,029,808	45,918	–	–	25,561,866
Inter segment sales	1,803,643	10,943,587	243,977	2,179,000	–	(15,170,207)	–
	<u>9,318,231</u>	<u>24,915,139</u>	<u>4,273,785</u>	<u>2,224,918</u>	<u>–</u>	<u>(15,170,207)</u>	<u>25,561,866</u>
<b>Results</b>							
Segment results	(523,845)	(731,819)	(1,359,026)	62,902	(3,830)	(30,323)	(2,585,941)
Interest income							198,077
Share of result of joint venture	–	–	(20,166)	–	–	–	(20,166)
Exceptional items	–	–	–	5,850,641	–	–	5,850,641
Profit before taxation							<u>3,442,611</u>
Taxation							<u>(6,518)</u>
Profit after taxation							<u><u>3,436,093</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 36. SEGMENT REPORTING (cont'd)

31.12.02	← Manufacturing →			Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
	Precision Engineering RM	Equipment Division RM	Plastic and Industrial Storage Division RM				
<b>Other information</b>							
Segment assets	30,944,798	42,174,383	26,223,957	12,819,145	11	–	112,162,294
Investment in joint venture	–	–	484,539	–	–	–	484,539
Unallocated corporate assets							1,330,991
Total assets							<u>113,977,824</u>
Segment liabilities	1,581,053	3,768,863	1,365,819	232,584	3,420	–	6,951,739
Unallocated corporate liabilities							3,438,110
Total liabilities							<u>10,389,849</u>
Capital expenditure	310,249	1,680,029	573,603	18,340	–	–	2,582,221
Depreciation	1,113,243	619,502	839,327	198,127	–	–	2,770,199
<b>Other significant non cash transactions</b>							
Provision for warranty cost	–	167,658	–	–	–	–	167,658
Provision for warranty cost written back	–	(378,000)	–	–	–	–	(378,000)
Inventories written off	–	315,055	309,764	–	–	–	624,819
Allowance for inventories written down	–	270,194	25,978	–	–	–	296,172
Reversal of allowance for Doubtful debts	(9,360)	(175,530)	–	–	–	–	(184,890)

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 36. SEGMENT REPORTING (cont'd)

Secondary Segment - Geographical

In determining the geographical segments of the Group, revenue is based on the geographical location of customers. Total assets and capital expenditure are based on the geographical location of assets.

	Revenue RM	Total Assets RM	Capital Expenditure RM
Thailand	4,092,000	2,949,276	19,279
Singapore	1,213,000	14,546	-
Malaysia	9,540,866	111,014,002	2,562,942
United States of America	4,013,000	-	-
Philippines	3,607,000	-	-
Others	3,096,000	-	-
	25,561,866	113,977,824	2,582,221

Inter segment pricing on inter segment transactions are determined at arm's length according to the normal course of business.

### 37. EMPLOYEES SHARE OPTION SCHEME ("ESOS")

The details of share options for the year under review are as follows:-

Effective Price RM	Date Granted	As at 01.01.03	Number of options over ordinary shares of RM1 each			As at 31.12.03
			Granted	Lapsed	Exercised	
1.23	12.03.03	-	946,000	(16,000)	(373,000)	557,000
1.37	12.03.03	-	75,000	(6,000)	(24,000)	45,000
		-	1,021,000	(22,000)	(397,000)	602,000

Fair value of the ordinary shares issued during the year pursuant to ESOS is RM801,800 (2002 : RM726,690).

The main features of the ESOS are as follows:-

- (i) The eligibility for participation in the ESOS shall be at the discretion of the ESOS Committee appointed by the Board of Directors.
- (ii) The total number of shares to be offered under the ESOS shall not exceed 10% of the issued capital of the Company at any point of time during the existence of the ESOS, which shall be in force for a period of five (5) years commencing from January 2, 2003 to January 1, 2008
- (iii) The option price for each share shall be the weighted average market price of the shares of the Company as shown in the daily official list issued by MASEB for the five (5) Market Days immediately preceding the date of offer or at the par value of the shares, whichever is higher.
- (iv) No option shall be granted for less than 1,000 shares and not more than 500,000 shares to any eligible employee and director.
- (v) The new ordinary shares issued pursuant to the ESOS rank pari passu with the existing ordinary shares of the Company in all respects.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 38. CAPITAL COMMITMENTS

As at December 31, 2003, capital commitments by subsidiary companies are as follows:-

(a)

	Group	
	31.12.03 RM	31.12.02 RM
Capital expenditure contracted for acquisition of property, plant and equipment not provided in the financial statements	<b>1,149,148</b>	960,130

(b) The joint venture agreement for investment in Spray Devices Technology Sdn. Bhd. (Company No: 521508 P) also provides that in the event that the joint venture company shall require additional funding for its working capital exceeding the sum of RM1,200,000, the shareholders of the joint venture company irrevocably agree to increase the paid-up and issued capital of the joint venture company up to a maximum sum of RM1,500,000 to participate in the additional funding in direct proportion to the shareholding in the joint venture company.

### 39. CONTINGENT LIABILITIES

	Group		Company	
	31.12.03 RM	31.12.02 RM	31.12.03 RM	31.12.02 RM
Corporate guarantees for facilities granted to subsidiary companies - unsecured	-	-	<b>13,020,000</b>	14,644,000

### 40. SIGNIFICANT RELATED PARTIES DISCLOSURES

(a) Significant transactions with subsidiary companies are as follows:-

	Company	
	31.12.03 RM	31.12.02 RM
Acquisition of property, plant and equipment from subsidiary company LKT Precision Engineering Sdn. Bhd.	<b>2,012</b>	-
Management fees from subsidiary companies	<b>4,755,518</b>	2,179,000
Rental of premises charged by a subsidiary company	<b>80,111</b>	48,000

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

### 40. SIGNIFICANT RELATED PARTIES DISCLOSURES (cont'd)

(b) Significant transactions with other related party:-

	Group	
	31.12.03	31.12.02
	RM	RM
Service support billed to Spray Devices Technology Sdn. Bhd. (Company No. 521508 P)	60,615	–

The above are transacted at prices negotiated between the parties concerned.

(c) Transactions with directors and key management personnel

There were no other transactions with the directors of the Company and key management personnel other than the remuneration package paid to them in accordance with the terms and conditions of their appointment and other transactions as disclosed in note 29 of the notes to the financial statements and share options granted to directors as disclosed in the directors' report of the Company.

The share options granted to the key management personnel pursuant to the ESOS as at December 31, 2003 are as follows:-

	Number of options over ordinary shares of RM1 each
Lim Yee @ Lim Wei Yee	29,000
Victor Tan Pang Hau	29,000
Thomas Woo Seow Keat	25,000

(d) The identities of the related parties and their relationship with the Group and the Company are disclosed in note 7, 8 and 9 of the notes to the financial statements.

The related parties' balances are disclosed in note 15, 16 and 17 of the notes to the financial statements.

### 41. MATERIAL LITIGATION

There is no pending material litigation other than as follows:

In the arbitration matter of LKT vs. N.V. Gelderse Ontwikkelingsmaatschappij (the Netherlands), Richard H.J. Fierkens, Albert Chun Ying Ho, Jaap Van Der Werff [Case No. 10209/OL/ESR], enforcement efforts are ongoing in the Netherlands and Australia against the 2nd and 3rd Respondents.

### 42. VOLUNTARY SEPARATION SCHEME

During the financial year under review, the Group implemented a voluntary separation scheme in conjunction with the streamlining and reorganisation of business operations of the Group.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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### 43. COMPARATIVE FIGURES

The comparative figures cover the period from July 1, 2002 to December 31, 2002 as a result of the change in financial year end from June 30 to December 31 in the year 2002.

The following comparative figures have been reclassified to conform to the current year's presentation.

	<b>As restated RM</b>	<b>Group As previously reported RM</b>
<b>Balance Sheet</b>		
Other receivables, deposits and prepayments	1,463,119	1,491,628
Amount owing by a joint venture company	28,509	–
<b>Notes To Financial Statements</b>		
(i) Other receivables	652,618	681,127
(ii) (Loss)/Profit Before Taxation		
Staff costs		
- staff salaries and related costs	7,559,245	7,234,998
- EPF contribution	646,098	–

# PROXY FORM

For The 10th Annual General Meeting

**LKT INDUSTRIAL BERHAD** (298188-A)  
(Incorporated in Malaysia)

No. of shares held	
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I/We \_\_\_\_\_ (Full name in block letters)  
of \_\_\_\_\_ (Address)

being a member/members of the abovenamed Company, hereby appoint \_\_\_\_\_  
\_\_\_\_\_ (Full name in block letters)

of \_\_\_\_\_ (Address)

or failing him, the Chairman of the Meeting as my/our Proxy to vote for me/our behalf at the Tenth Annual General Meeting of the Company to be held at the LKT Training Centre of LKT Plastic Technology Sdn. Bhd. factory premises, Plot 17 Hilir Sungai Keluang Tiga, Bayan Lepas Free Industrial Zone, Phase IV, 11900 Penang on Tuesday, 25 May 2004 at 10.00 a.m. and at any adjournment thereof in the manner indicated below:-

Resolution	For	Against
To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2003 together with the Reports of the Directors and Auditors <b>Resolution 1</b>		
To declare a first and final tax exempt dividend of 4% for the financial year ended 31 December 2003 <b>Resolution 2</b>		
To re-elect the following as Directors:- (a) Mr. Loh Khee Lian <b>Resolution 3</b>		
(b) Tuan Haji Syed Saleh Bin Syed Abdul Rahman <b>Resolution 4</b>		
(c) Dato' Mohamed Salleh Bin Bajuri <b>Resolution 5</b>		
(d) Mr. Lim Heng Jin <b>Resolution 6</b>		
To approve Directors' fees of RM126,000.00 for the financial year ended 31 December 2003 <b>Resolution 7</b>		
To re-appoint Messrs. Wong Liu & Partners as the Company's Auditors <b>Resolution 8</b>		
To empower the Directors to issue up to 10% of the issued share capital of the Company <b>Resolution 9</b>		

(Please indicate with an "X" in the appropriate box against each Resolution how you wish your proxy to vote. If no instruction is given this form will be taken to authorise the proxy to vote at his/her discretion.)

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2004.

\_\_\_\_\_  
Signature of Shareholder or Common Seal

Notes:-

1. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. To be valid this form must be duly completed and deposited at the registered office of the Company, 14A, Jalan Todak 3, Pusat Bandar, Bandar Seberang Jaya, 13700 Seberang Jaya, Prai, not less than forty-eight (48) hours before the time for holding the meeting.
3. A member shall be entitled to appoint more than one (1) proxy to attend and vote at the same meeting.
4. Where a member appoints more than one (1) proxy the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
5. If the appointor is a corporation, this form must be executed under its Common Seal or under the hand of its attorney.

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fold along this line

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*Affix  
Postage  
Here*

The Company Secretary  
**LKT INDUSTRIAL BERHAD** (298188-A)  
14A, Jalan Todak 3, Pusat Bandar  
Bandar Seberang Jaya  
13700 Seberang Jaya  
Prai, Pulau Pinang, Malaysia.

fold along this line

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