

The directors present their report and the audited financial statements of the Company for the period from 16 November 2000 (date of incorporation) to 31 December 2000 which include supplementary pro forma combined financial statements of the Group (legally created on 4 April 2001) for the year ended 31 December 2000.

### **Group Reorganisation**

The Company was incorporated in Bermuda as an exempted company with limited liability under Company Act 1981 of Bermuda (as amended) on 16 November 2000. Pursuant to a Reorganisation scheme (the "Scheme"), the Company became the new holding company of the Group and replaced Luks Industrial Company Limited ("LICL") as the publicly listed holding company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 April 2001.

Financial information of the Group comprising pro forma combined profit and loss account, statement of recognised gains and losses, balance sheet and cash flow statement has also been presented in order to further apprise the Company's shareholders of the Group's loss and its state of affairs should the Group have been in existence throughout the period presented. The information referring to the Group presented in this director's report has been presented on a basis consistent with that of the preparation of the pro forma financial information which is further explained in note 1 to the financial statements.

### **Principal activities**

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries, jointly-controlled entities and principal associates are set out in notes 18 to 20 to the financial statements, respectively. There were no changes in the nature of the Group's principal activities during the year.

### **Results and dividends**

The Group's pro forma combined net loss from ordinary activities attributable to shareholders for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 65.

The directors do not recommend the payment of any dividend in respect of the year.

**Segmental information**

An analysis of the Group's pro forma combined turnover and contribution to the profit/(loss) from operating activities by principal activity and geographical area of operations for the years ended 31 December 2000 and 31 December 1999 are as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By activity:				
Manufacture and sale of electronic products	2,734	14,827	183	(4,389)
Manufacture and sale of plywood and other wood products	1,220	1,067	(6,483)	(8,091)
Manufacture and sale of cement	117,995	87,731	14,337	6,031
Property investment	–	–	(9,204)	(92,988)
Investment holding	–	–	(619,240)	924,080
	<u>121,949</u>	<u>103,625</u>	<u>(620,407)</u>	<u>824,643</u>
By geographical area:				
The People's Republic of China ("PRC"):				
Hong Kong	5	1,449	(580,221)	905,042
Elsewhere	2,729	4,908	(11,382)	(91,386)
	<u>2,734</u>	<u>6,357</u>	<u>(591,603)</u>	<u>813,656</u>
Vietnam	119,215	97,268	(28,804)	10,987
	<u>121,949</u>	<u>103,625</u>	<u>(620,407)</u>	<u>824,643</u>

**Summary financial information**

A summary of the pro forma combined results and of the assets and liabilities of the Group for the last five financial years prepared on the basis set out in note 1 below:

**Results**

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i> <i>(restated)</i>	1997 <i>HK\$'000</i> <i>(restated)</i>	1996 <i>HK\$'000</i> <i>(restated)</i>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(666,142)</u>	<u>794,434</u>	<u>(288,972)</u>	<u>(180,387)</u>	<u>(251,882)</u>

**Assets and Liabilities**

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i> <i>(restated)</i>	1997 <i>HK\$'000</i> <i>(restated)</i>	1996 <i>HK\$'000</i> <i>(restated)</i>
Total assets	<u>1,016,040</u>	<u>1,866,595</u>	<u>1,087,535</u>	<u>1,763,997</u>	<u>2,473,714</u>
Total liabilities	<u>(223,607)</u>	<u>(388,910)</u>	<u>(424,601)</u>	<u>(802,260)</u>	<u>(1,226,017)</u>
Minority interests	<u>(6,543)</u>	<u>(6,879)</u>	<u>(27,223)</u>	<u>(70,282)</u>	<u>(237,769)</u>
Capital and reserves	<u>785,890</u>	<u>1,470,806</u>	<u>635,711</u>	<u>891,455</u>	<u>1,009,928</u>

*Notes:*

1. The summary of the pro forma combined results of the Group for each of the five years ended 31 December 2000 has been extracted from the audited financial statements. This five-year summary was prepared from the audited financial statement of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 1 to the financial statements. The pro forma combined results of the Group for the year ended 31 December 2000 are those set out on page 22 of the financial statements.
2. Because the Company was incorporated on 16 November 2000 and has become the holding company of the Group since 22 December 2000 pursuant to the Scheme, the audited balance sheet prepared for the Group as at 31 December 2000 was on a pro forma combined basis as set out on pages 24 to 25 of the financial statements.

**Fixed assets and investment properties**

Details of movements in the fixed assets and investment properties of the Group are set out in notes 15 and 16 to the financial statements, respectively.

**Subsidiaries**

Particulars of the principal subsidiaries are set out in note 18 to the financial statements.

**Jointly-controlled entities**

Particulars of the Group's interests in its jointly-controlled entities are set out in note 19 to the financial statements.

**Associates**

Particulars of the Group's interests in its principal associates are set out in the note 20 to the financial statements.

**Guaranteed notes**

Details of the guaranteed notes of the Group are set out in note 30 to the financial statements.

**Bank loans, overdrafts and other loans**

Details of the bank loans, overdrafts and other loans of the Group are set out in notes 31 and 32 to the financial statements.

**Share capital and share options**

Details of movements in the Company's share capital since 16 November 2000 (date of incorporation), together with reasons therefor, and details of the Company's share option scheme are set out in note 35 to the financial statements.

**Purchase, sale or redemption of listed securities of the Company**

During the year, LICL repurchased certain of its shares on The Stock Exchange of Hong Kong Limited. Further details of these transactions are set out in note 35 to the financial statement.

Subsequent to balance sheet date, on 4 April 2001, the Company's shares were listed on the Stock Exchange. Other than the foregoing, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period up to the date of this report.

**Reserves**

Details of movements in the reserves of the Group during the year are set out in note 36 to the financial statements.

**Distributable reserves**

As at 31 December 2000, the Company did not have any distributable reserves.

**Major customers and suppliers**

In the year under review, sales to the Group's five largest customers accounted for 48% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 67% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20%.

None of the directors of the Company or any of their associates, or any shareholder (which, to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

**Directors**

The directors of the Company during the period were:

*Executive directors:*

Luk King Tin  
Cheng Cheung  
Wong Hoi Wah  
Luk Yan  
Fan Chiu Tat, Martin

*Independent non-executive directors:*

Lo Kai Yiu, Anthony  
Liang Fang

All the above directors were appointed on 7 December 2000.

In accordance with the Company's articles of association, all directors will retire and being eligible offer themselves for re-election at the forthcoming annual general meeting.

**Directors and senior management biographies**

LUK King Tin, aged 63, is the Chairman of the Board and the Managing Director of the Company. Mr. Luk is also the founder of the Group and has been with the Group for 26 years. He is responsible for formulating the Group's strategy and policy.

CHENG Cheung, aged 60 is an Executive Director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for 26 years. She is mainly responsible for human resources and administrative functions of the Group.

WONG Hoi Wah, aged 57, is an Executive Director of the Company. Mr. Wong has more than 34 years of experience in electronic engineering. He has joined the Group for 22 years.

LUK Yan, aged 36, is an Executive Director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He is now responsible for the Group's property development in the PRC and Vietnam. He has joined the Group for 11 years.

FAN Chiu Tat, Martin, aged 34, is an Executive Director and the Company Secretary of the Company. He graduated from the University of Hong Kong. He is a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Society of Accountants. He has joined the Group for 11 years.

LO Kai Yiu, Anthony, aged 52, is an Independent Non-executive Director of the Company. Mr. Lo has over 20 years of regional and international experience in investment banking and investments. He serves on the board of a number of public and private companies in the region, and is a member of the Takeovers and Mergers Panel of the Securities & Futures Commission and a member of the Listing Committee of the Stock Exchange. He was appointed as a Director in June 1989.

LIANG Fang, aged 48, is an Independent Non-executive Director of the Company. Mr. Liang is a holder of a MBA degree from the Massachusetts Institute of Technology of the United States of America. He has been working in the field of IT business for a number of years. He was appointed as a Director on 17 December 1999.

**Emoluments of directors and the highest paid employees**

Details of the directors' emoluments and those of the highest paid employees in the Group are set out in notes 9 and 10 to the financial statements, respectively.

**Directors' service contracts**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

**Directors' interests in contracts**

Save as disclosed in note 42 to the financial statements, no director had other material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

**Directors' interests in shares**

Subsequent to the balance sheet date, on 4 April 2001, the Company replaced LICK was listed on the Stock Exchange. Accordingly, as at the date of this report, the interests of the directors in the share capital of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as set out below:

Name of director	Notes	Nature of interest	Number of shares held
Luk King Tin	(a)	Personal	38,983,261
Cheng Cheung	(b)	Personal	10,430,000
Wong Hoi Wah		Personal	702,400
Luk Yan	(c)	Personal	309,000
Lo Kai Yiu, Anthony		Personal	130,000

*Notes:*

- (a) In addition to the above personal interest, Mr. Luk King Tin had a beneficial interest in K T (Holdings) Limited, which held 47,688,393 shares of HK\$0.01 each of the Company at the date of this report.
- (b) In addition to the above personal interest, Madam Cheng Cheung had a beneficial interest in C C (Holdings) Limited, which held 31,574,819 shares of HK\$0.01 each of the Company at the date of this report.
- (c) In addition to the above personal interest, Mr. Luk Yan had a family interest, which held 45,000 shares of HK\$0.01 each of the Company at the date of this report.

The interests of the directors in the share options of the Company are separately disclosed below in the section "Directors' rights to acquire shares".

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company, or any of its associated corporations as defined in the SDI Ordinance.

**Directors' rights to acquire shares**

Pursuant to LICL's share option scheme approved on 23 June 1999, LICL granted options on the ordinary shares in favour of certain directors, the details of which are as follows:

Name of director	Number of share options outstanding at beginning and end of year
Luk King Tin	6,700,000
Luk Yan	3,000,000
Fan Chiu Tat, Martin	500,000
	<u>10,200,000</u>

Each share option entitles the holders to subscribe in cash for fully paid ordinary share of HK\$0.50 each in LICL at a subscription price of HK\$0.65 per share. The share options are exercisable during the period from 23 June 1999 to 22 June 2002. As a result of the Scheme, the existing share option scheme was terminated and replaced by the new share option scheme. Further details of the Company's new share option scheme are set out in note 35 to the financial statements.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement 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.

**Substantial shareholders**

At the date of this report, the following interest of 10% or more of the share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held
KT (Holdings) Limited	<u>47,688,393</u>

The above interest has also been disclosed as an interest of Mr. Luk King Tin under the section "Directors' interests in shares".

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.



**Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

**Related party transactions**

Particulars of related party transactions entered into by the Group is set out in note 42 to the financial statements.

**Connected transaction**

On 19 September 2000, the Company acquired from the directors of the Company, Mr. Luk King Tin and Madam Cheng Cheung, a property for a cash consideration of HK\$38,500,000, which was determined by reference to an independent professional valuation, in accordance with the terms of a Sales and Purchase Agreement. The Company intended to hold the property as long term investment and used it as directors' quarter for its executive directors for the time being.

**Loans to jointly-controlled entities and associates**

At the balance sheet date, the Group had loans to jointly-controlled entities and associates of HK\$295,528,000 and HK\$30,855,000 further details of which are set out in notes 19 and 20 to the financial statements, respectively. The combined balance sheet of these jointly-controlled entities and associates, disclosed pursuant to Practice Note 19 of the Listing Rules, is set out below:

	<i>HK\$'000</i>
Non-current assets	310,668
Current assets	40,673
Current liabilities	(187,812)
Non-current liabilities	(208,544)
	<u>(45,015)</u>
Share capital	143,485
Accumulated losses	(188,500)
	<u>(45,015)</u>

**Retirement benefits scheme**

Details of the retirement benefits scheme of the Group are set out in note 3 to the financial statements.

**Pre-emptive rights**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

**Code of best practice**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

**Auditors**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Luk King Tin**

*Chairman*

Hong Kong, 23 April 2001