

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries, jointly-controlled entities and associates are set out in notes 20 to 22 to the financial statements, respectively. There were no significant changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to the results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

Results and dividends

The Group's net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 81.

An interim dividend of HK8 cents per ordinary share was paid on 22 October 2001. The directors recommend the payment of a final dividend of HK10 cents per ordinary share in respect of the year, to shareholders on the register of members on 28 May 2002. This recommendation has been incorporated in the financial statements as an allocation of contributed surplus within reserves in the balance sheet. Further details of this accounting treatment are set out in note 14 to the financial statements.

Bonus issue of warrants

A bonus issue of 65,172,592 warrants of the Company (the "Bonus Warrants") on the basis of one Bonus Warrant for every five existing shares was distributed to the Company's shareholders on 14 June 2001.

Summary financial information

A summary of the consolidated/pro forma combined results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

Results

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i> <i>(restated)</i>	1998 <i>HK\$'000</i> <i>(restated)</i>	1997 <i>HK\$'000</i> <i>(restated)</i>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>36,462</u>	<u>(666,142)</u>	<u>794,434</u>	<u>(288,972)</u>	<u>(180,387)</u>

Assets and Liabilities

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i> <i>(restated)</i>	1998 <i>HK\$'000</i> <i>(restated)</i>	1997 <i>HK\$'000</i> <i>(restated)</i>
Total assets	1,147,966	1,016,040	1,866,595	1,087,535	1,763,997
Total liabilities	(299,155)	(223,607)	(388,910)	(424,601)	(802,260)
Minority interests	<u>(7,430)</u>	<u>(6,543)</u>	<u>(6,879)</u>	<u>(27,223)</u>	<u>(70,282)</u>
Capital and reserves	<u>841,381</u>	<u>785,890</u>	<u>1,470,806</u>	<u>635,711</u>	<u>891,455</u>

Notes:

1. The summary of the results of the Group for the four years ended 31 December 2000 has been extracted from the audited financial statements of Luks Industrial Company Limited. Such 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 4 to the financial statements. The results of the Group for the year ended 31 December 2001 are extracted from the audited financial statements as set out on page 23 of the financial statements.
2. The only published audited consolidated balance sheet of the existing Group is that as at 31 December 2001, which is, set out on pages 25 to 26 of the financial statements together with the comparative amounts as at 31 December 2000.

Fixed assets and investment properties

Details of movements in the fixed assets and investment properties of the Group are set out in notes 16 and 17 to the financial statements, respectively.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, together with reasons therefor, are set out in note 36 to the financial statements.

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased 20,258,000 of its ordinary shares of HK\$0.01 each on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company.

A summary details of which are as follows:

Month	Numbers of shares repurchased '000	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
April 2001	860	0.73	0.66	570
May 2001	9,374	0.92	0.74	7,275
June 2001	2,418	0.97	0.92	2,287
July 2001	142	1.00	0.93	142
August 2001	1,752	0.95	0.91	1,661
September 2001	2,234	1.00	0.94	2,116
October 2001	980	0.98	0.95	931
December 2001	2,498	1.18	1.08	2,758
	<u>20,258</u>			<u>17,740</u>

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the financial statements.

Distributable reserves

As at 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$739,200,000. In addition, the Company's share premium account, in the amount of HK\$436,000, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 51% 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 37% of the total purchases for the year and purchases from the largest supplier included therein amounted to 12%.

None of the directors of the Company or any of their associates, or any shareholders, (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 or suppliers.

Directors

The directors of the Company during the year 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

Subsequent to the balance sheet date, on 28 March 2002, Mr. Lo Kai Yiu, Anthony resigned as an independent non-executive director of the Company and Mr. Liu Li Yuan was appointed to replace Mr. Lo Kai Yiu, Anthony as the Company's independent non-executive director of the Company.

In accordance with clause 87 of the Company's bye-laws, Mr. Liang Fang will retire, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with clause 86(2) of the Company's bye-laws, Mr. Liu Li Yuan will retire, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Directors' and senior management biographies

Mr. LUK King Tin, aged 64, 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 27 years. He is responsible for formulating the Group's strategy and policy.

Madam CHENG Cheung, aged 61, is an Executive Director of the Company. Madam. Cheng is the wife of Mr. Luk King Tin and has been with the Group for 27 years. She is mainly responsible for Finance, Human resources and Administrative functions of the Group.

Mr. WONG Hoi Wah, aged 58, is an Executive Director of the Company. Mr. Wong has more than 35 years of experience in electronic engineering. He has joined the Group for 23 years.

Mr. LUK Yan, aged 37, 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 investments and management in Vietnam. He has joined the Group for 12 years.

Mr. FAN Chiu Tat, Martin, aged 35, 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 12 years.

Mr. LO Kai Yiu, Anthony, aged 53, 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 of the Company on 7 December 2000 and has resigned on 28 March 2002.

Mr. LIANG Fang, aged 49, is an Independent Non-executive Director of the Company. Mr. Liang is 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 of the Company on 7 December 2000.

Mr. LIU Li Yuan, aged 51, is an Independent Non-executive Director of the Company. Mr. Liu was a graduate with a Diploma from the Faculty of Law of the University of Beijing. He is currently a Managing Director of a property investments and management company in the PRC. He was appointed as a Director of the Company on 28 March 2002.

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 of compensation, other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 43 to the financial statements, no director had a 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 and warrants

At 31 December 2001, the interests of the directors in the share capital and warrants of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Nature of Notes	Number of interest	Number of shares held	Number of warrants held
Luk King Tin	(a)	Personal	38,983,261	7,796,652
Cheng Cheung	(b)	Personal	10,430,000	2,086,000
Wong Hoi Wah		Personal	702,400	140,480
Luk Yan	(c)	Personal	309,000	61,800
Lo Kai Yiu, Anthony		Personal	130,000	26,000

Notes:

- (a) In addition to the above personal interest, Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 47,688,393 shares of HK\$0.01 each and 9,537,678 warrants of the Company at the balance sheet date.
- (b) In addition to the above personal interest, Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 31,574,819 shares of HK\$0.01 each and 6,314,963 warrants of the Company at the balance sheet date.
- (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 and 9,000 warrants of the Company at the balance sheet date.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

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.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The Scheme remains in force for the period from 4 April 2001 to 11 August 2004.

The subscription price will be the higher of 80% of the average of the official closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option and the nominal value of the shares. The consideration for the grant of an option is HK\$1.00 in total and will entitle the holder of such option to subscribe for the Company's share.

The maximum number of shares in respect of which options may be granted under the new share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the new share option scheme.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares*	
	Granted during the year	Exercised during the year	At 31 December 2001				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Luk King Tin	6,700,000	–	6,700,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	–
Luk Yan	3,000,000	–	3,000,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	–
Fan Chiu Tat, Martin	500,000	–	500,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	–
	<u>10,200,000</u>	<u>–</u>	<u>10,200,000</u>					
Other employees								
In aggregate	5,800,000	–	5,800,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.98	0.68	–
	<u>4,290,000</u>	<u>(330,000)</u>	<u>3,960,000</u>	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	0.98
	<u>10,090,000</u>	<u>(330,000)</u>	<u>9,760,000</u>					
	<u>20,290,000</u>	<u>(330,000)</u>	<u>19,960,000</u>					

Share option scheme (Cont'd)

- * The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Summary details of the Company's share option scheme are also set out in note 36 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options.

The directors have obtained the following theoretical valuations of the share options granted during the year, calculated using the Black-Scholes option pricing model (the "Black-Scholes Model") as at 4 April 2001 (the date of the grant of the options):

Grantee	Number of options granted during the year	Theoretical value of share options HK\$
Luk King Tin	6,700,000	1,407,000
Luk Yan	3,000,000	630,000
Fan Chiu Tat, Martin	500,000	105,000
Other employees	<u>10,090,000</u>	<u>1,480,900</u>

The Black-Scholes Model is a generally accepted methodology to calculate the value of share options and one of the recommended options pricing models as set out in Chapter 17.08 of Rules Governing the Listing of Securities on the Stock Exchange. The significant variables and assumptions used in the calculation of the theoretical values of the share options were as follows:

- (a) risk free rate: 5.19% being the approximate yield of the 3-year Exchange Fund Notes traded on 4 April 2001
- (b) expected volatility: 30.5% being the annualised volatility of the closing price of the shares of the Company from the twelve months before the date of grant of share options.
- (c) expected life of the options: 3 years and 4 months

Share option scheme (Cont'd)

- (d) expected dividend yield: 0%, no dividend was declared in the twelve months before the date of grant of the share options
- (e) assumptions:
- (i) There is no material difference between the expected volatility over the whole life of the share options and the historical volatility of the shares of the Company over the twelve months before the date of grant of the share options;
 - (ii) There is no material difference between the expected dividend yield rate over the whole life of the share options and the historical dividend yield rate of the Company over the twelve months before the date of grant of the share options.

The values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of future performance input to the model, and certain inherent limitations of the model itself.

Directors' rights to acquire shares or debentures

Apart from those disclosed under the headings "Directors' interests in shares and warrants" and "Share option scheme", 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 or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders

At 31 December 2001, 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	Percentage of the Company's share capital
KT (Holdings) Limited	47,688,393	15.07

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

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.

Connected transactions

- (a) During the year on 15 September 2001, Luks Land Company Limited, a wholly-owned subsidiary of the Company, acquired the remaining 25% equity interests of Luks Land (Vietnam) Limited from the joint venture partner for a total consideration of approximately HK\$11,895,000. Further details of the acquisition are included in notes 20, 38(d) and 43 to the financial statement.
- (b) Subsequent to the balance sheet date, on 3 January 2002, the Group entered into a Share Purchase Agreement with Vigconic Biotechnology Company Limited, which is beneficially owned by the Company's director Mr. Luk King Tin, to acquire 7,220 ordinary shares of Vigconic (International) Limited, ("VI") representing approximately 7.22% of the existing issued share capital prior to the completion of VI's Share Subscription Agreement, for a cash consideration of approximately HK\$20,036,000. The Group also entered into a Share Subscription Agreement with VI to subscribe 3,090 new ordinary shares, representing approximately 3% of the enlarged issued share capital of VI for a cash consideration of approximately HK\$8,575,000.

Upon the Completion of these transactions, the Group hold approximately 10% of the enlarged issued capital of VI.

Directors' interest in a competing business

During the year and up to the date of this report, no Directors are considered to have interests in business which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors of the Company were appointed as Directors to represent the interests of the Company and/or Group pursuant to the Listing Rules.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 42 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 complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, 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 as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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

24 April 2002