

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2002.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries, jointly-controlled entity and associates are set out in notes 17 to 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 73.

An interim dividend of 4 cents per ordinary share was paid on 23 October 2002. The directors recommend the payment of a final dividend of 6 cents per ordinary share in respect of the year, to shareholders on the register of members on 28 May 2003. This recommendation has been incorporated in the financial statements as an allocation of contributed surplus within the capital and reserves section of the balance sheet.

Summary financial information

The following is a summary of the consolidated/pro forma combined results and assets and liabilities of the Group for the last five financial years prepared on the basis set out in the notes below:

Results

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Net profit/(loss) from ordinary activities attributable to shareholders	52,358	36,462	(666,142)	794,434	(288,972)

Assets, Liabilities and Minority Interests

	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Total assets	1,168,753	1,147,966	1,016,040	1,866,595	1,087,535
Total liabilities	(292,918)	(299,155)	(223,607)	(388,910)	(424,601)
Minority interests	(14,403)	(7,430)	(6,543)	(6,879)	(27,223)
	861,432	841,381	785,890	1,470,806	635,711

Notes:

1. The summary of the results of the Group for the three 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. The results of the Group for the years ended 31 December 2002 and 2001 are extracted from the audited financial statements as set out on page 20 of the financial statements.
2. The only published audited consolidated balance sheets of the existing Group are that as at 31 December 2002 and 2001, which are set out on page 21 to 22 of the financial statements.

Fixed assets and investment properties

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 14 and 15 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 notes 34 and 35 to the financial statements.

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased 13,504,000 ordinary shares of HK\$0.01 each on the Hong Kong Stock Exchange, details of which are set out below and these shares were subsequently cancelled by the Company.

Month	Numbers of shares repurchased '000	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2002	2,366	1.02	0.86	2,308
February 2002	5,982	1.01	0.98	5,907
March 2002	2,318	1.00	0.96	2,252
June 2002	734	0.97	0.93	686
July 2002	972	0.95	0.90	890
August 2002	546	0.91	0.90	486
October 2002	432	0.95	0.93	402
November 2002	154	0.95	0.93	144
	<u>13,504</u>			<u>13,075</u>

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$678,075,000, of which HK\$18,319,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$1,070,000, 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 33% of the total sales for the year and sales to the largest customer included therein amounted to 21%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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	(resigned on 28 March 2002)
Liu Li Yuan	(appointed on 28 March 2002)
Liang Fang	

In accordance with clause 87 of the Company's bye-laws, Madam Cheng Cheung and Mr. Luk Yan will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

By referring to the Code of Best Practice of the Listing Rules of the Hong Kong Stock Exchange, Mr. Liu Li Yuan and Mr. Liang Fang, being the independent non-executive directors of the Company will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and senior management biographies

Mr. Luk King Tin, aged 65, 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 28 years. He is responsible for formulating the Group's strategy and policy.

Madam Cheng Cheung, aged 62 is an Executive Director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for 28 years. She is mainly responsible for finance, human resources and administrative functions of the Group.

Mr. Wong Hoi Wah, aged 59, is an Executive Director of the Company. Mr. Wong has more than 36 years of experience in electronic engineering. He has joined the Group for 24 years.

Mr. Luk Yan, aged 38, 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 13 years.

Directors' and senior management biographies (Cont'd)

Mr. Fan Chiu Tat, Martin, aged 36, 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 13 years.

Mr. Lo Kai Yiu, Anthony, aged 54, 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 Hong Kong 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 50 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 of the Company on 7 December 2000.

Mr. Liu Li Yuan, aged 52, is an Independent Non-executive Director of the Company. Mr. Liu is 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 41 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 2002, 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	Notes	Nature 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
Fan Chiu Tat, Martin		Personal	500,000	—

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 note 35 to the financial statements.

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 or debentures

Apart from those disclosed under the heading "Directors' interests in shares and warrants" above and in the share option scheme disclosures in note 35 to the financial statements, 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.

Share option scheme

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 35 to the financial statements.

Substantial shareholders

At 31 December 2002, the following interest of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Notes	Number of shares held	Percentage of the Company's issued share capital
KT (Holdings) Limited		47,688,393	15.69
CC (Holdings) Limited		31,574,819	10.39
Luk King Tin	(a)	128,676,473	42.36
Cheng Cheung	(b)	<u>128,676,473</u>	<u>42.36</u>

Notes:

- (a) The number of shares comprises of 38,983,261 shares held by Mr. Luk King Tin in person, 47,688,393 shares held by KT (Holdings) Limited of which he had a beneficial interest, and 10,430,000 shares held by his spouse, Madam Cheng Cheung in person, 31,574,819 shares held by CC (Holdings) Limited of which Madam Cheng Cheung had a beneficial interest.
- (b) The number of shares comprises of 10,430,000 shares held by Madam Cheng Cheung in person, 31,574,819 shares held by CC (Holdings) Limited of which she had a beneficial interest, and 38,983,261 shares held by her spouse, Mr. Luk King Tin in person, 47,688,393 shares held by KT (Holdings) Limited of which Mr. Luk King Tin had a beneficial interest.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and warrants" above, 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 transaction

Subsequent to the balance sheet date, on 23 January 2003, the Group entered into an acquisition agreement (the "Acquisition") with Mr. Luk King Tin, to acquire the entire issued share capital of Heritage Ventures International Limited (the "Heritage"), which holds 65% of the enlarged issued share capital of Vigconic (International) Limited ("VI"), for a total consideration of HK\$260,000,000 which is payable to a cash consideration of HK\$60,000,000 and promissory note of HK\$200,000,000. Upon completion of the Acquisition on 31 March 2003, the Group grants a revolving loan facility of up to HK\$30,000,000 to VI. Further details of the Acquisition are set out in the Company's circular dated 7 March 2003.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 40 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 (the "Code"), 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.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code, 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 2003