

1. CORPORATE INFORMATION

The principal office of Luks Industrial (Group) Limited is located at 5/F, Cheong Wah Factory Building, 39-41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of electronic products
- manufacture and sale of cement
- property investment
- investment holding

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of these SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on pages 23 to 24 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss account of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Cont'd)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flow from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rate at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes that have resulted from them are included in the accounting policy for "Foreign currencies" in note 3 and in note 37(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 35 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefit from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Associates (Cont'd)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill, to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of an acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Negative goodwill (Cont'd)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill, to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Plant and machinery	4% – 15%
Furniture, fixtures and office equipment	9% – 20%
Motor vehicles	14% – 25%
Launch	15%
Computer equipment	18% – 20%
Leasehold improvements	18% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on then carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties (Cont'd)

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased assets is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Properties under development

Properties under development are stated at cost which includes the cost of land, construction, financing and other directly related expenses, plus, in the case of pre-sold properties or a portion thereof, any attributable profit received on the contracted sales, less any impairment losses.

Development properties where construction has not yet commenced or has been deferred, are included as land held for development and are stated at cost less any impairment losses.

Investment securities

Investment securities are equity investments which are intended to be held on a long term basis for strategic business reasons, and are stated at cost less any impairment losses which are expected to be other than temporary, on an individual investment basis. The amounts of such impairment losses are charged to the profit and loss account for the period in which they arise.

Other investments

Investments in securities intended to be held for capital gain purposes are classified as other investments. Other investments are stated at fair value on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of the other investments are credited or charged to the profit and loss account for the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Short term investments

Short term investments are investments in equity securities held for trading purposes are stated at their fair values on the basis of their quoted market prices or estimated fair values for unlisted investments at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted-average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 37(a) to the financial statements.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Employee benefits (Cont'd)***Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, no charge is recorded in the profit and loss account or balance sheet for their cost. Upon 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 prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividends income, when the shareholders' right to receive payment has been established.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the cement products segment includes the Group's manufacturing and sale of cement products for use in the construction industry;
- (b) the property investment segment includes the Group's investment in industrial, commercial and residential premises for their rental income potential;
- (c) the investment segment includes the Group's investment in and holding of short and long term investments; and
- (d) the other segment comprises the Group's manufacturing and sale of electronic products and plywood products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes To Financial Statements (Cont'd)

31 December 2002

4. SEGMENT INFORMATION (Cont'd)

(i) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Cement products		Property investment		Investment		Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	173,780	163,905	38,485	8,116	–	–	5,455	3,012	217,720	175,033
Other revenue	214	–	159	66	617	244	107	7	1,097	317
Total	173,994	163,905	38,644	8,182	617	244	5,562	3,019	218,817	175,350
Segment results	41,440	34,533	9,414	30,404	11,888	13,703	(56)	(17,454)	62,686	61,186
Interest and dividend income									4,779	25,239
Unallocated expenses									(2,698)	(5,309)
Profit from operating activities									64,767	81,116
Finance costs									(6,966)	(6,638)
Share of profits and losses of jointly-controlled entities	–	–	1,449	(34,503)	–	–	–	–	1,449	(34,503)
Profit before tax									59,250	39,975
Tax									(363)	–
Profit before minority interests									58,887	39,975
Minority interests									(6,529)	(3,513)
Net profit from ordinary activities attributable to shareholders									52,358	36,462

4. SEGMENT INFORMATION (Cont'd)
(i) Business segments (Cont'd)

Group	Cement products		Property investment		Investment		Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	390,007	353,849	534,459	470,413	237,948	320,841	3,755	1,365	1,166,169	1,146,468
Interest in jointly-controlled entity	-	-	2,584	1,498	-	-	-	-	2,584	1,498
Total assets	<u>390,007</u>	<u>353,849</u>	<u>537,043</u>	<u>471,911</u>	<u>237,948</u>	<u>320,841</u>	<u>3,755</u>	<u>1,365</u>	<u>1,168,753</u>	<u>1,147,966</u>
Segment liabilities	36,084	9,793	90,834	114,503	25,896	73,833	9,631	7,790	162,445	205,919
Unallocated liabilities	-	-	-	-	-	-	-	-	130,473	93,236
Total liabilities	<u>36,084</u>	<u>9,793</u>	<u>90,834</u>	<u>114,503</u>	<u>25,896</u>	<u>73,833</u>	<u>9,631</u>	<u>7,790</u>	<u>292,918</u>	<u>299,155</u>
Other segment information:										
Depreciation and amortisation	17,054	14,080	3,801	2,599	3,048	1,715	2	5,543	23,905	23,937
Unrealised holding gain on other investments	-	-	-	-	12,900	86,362	-	-	12,900	86,362
Unrealised holding loss on short term investments	-	-	-	-	-	-	(4,025)	-	(4,025)	-
Capital expenditure	12,045	9,333	653	-	1,233	1,694	3,170	-	17,101	11,027
Loss on disposal of subsidiaries	-	-	-	-	-	(1,893)	-	-	-	(1,893)
Loss on disposal of associates	-	-	-	-	-	(704)	-	-	-	(704)
Gain/(loss) on disposal of other investments	-	-	-	-	30,951	(31,081)	-	-	30,951	(31,081)
Surplus arising from revaluation of investment properties	-	-	-	699	-	-	-	-	-	699
Impairment of interest in an associate	-	-	-	-	(441)	-	-	-	(441)	-
Written back impairment of interest in a jointly-controlled entity	-	-	-	26,890	-	-	-	-	-	26,890
Impairment of an investment security	-	-	-	-	(156)	(11,153)	-	-	(156)	(11,153)
Impairment of properties under development	-	-	-	-	-	(641)	-	-	-	(641)
Impairment of fixed assets	-	-	-	-	-	-	-	(10,327)	-	(10,327)
Provision for doubtful debts	-	-	-	-	-	-	(5,387)	-	(5,387)	-

4. SEGMENT INFORMATION (Cont'd)

(ii) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Vietnam		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>2,090</u>	<u>4,745</u>	<u>10,372</u>	<u>5,634</u>	<u>205,258</u>	<u>164,654</u>	<u>217,720</u>	<u>175,033</u>
Other segment information:								
Segment assets	314,297	240,526	87,098	205,804	767,358	701,636	1,168,753	1,147,966
Capital expenditure	<u>1,233</u>	<u>1,694</u>	<u>-</u>	<u>-</u>	<u>15,868</u>	<u>9,333</u>	<u>17,101</u>	<u>11,027</u>

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and gross rental income received and receivable from investment properties during the year.

An analysis of the Group's turnover and other revenue is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of cement	173,780	163,905
Sales of electronic products	3,684	2,262
Sales of plywood and other wood products	1,771	750
Gross rental income	<u>38,485</u>	<u>8,116</u>
	<u>217,720</u>	<u>175,033</u>
Other revenue		
Interest income	4,044	22,823
Dividend income from listed other investments	735	2,416
Others	<u>1,097</u>	<u>317</u>
	<u>5,876</u>	<u>25,556</u>

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold		113,773	102,493
Depreciation	14 & 15	22,984	23,937
Goodwill amortisation for the year*	16	921	–
Auditors' remuneration		671	661
Staff costs (excluding directors' remuneration, note 8):			
Wages and salaries		15,254	11,883
Pension scheme contributions		460	459
		15,714	12,342
Exchange losses, net		12,251	10,652
Impairment of interest in an associate*		441	–
Impairment of an investment security*		156	11,153
Impairment of properties under development*		–	641
Impairment of fixed assets*		–	10,327
Unrealised holding loss on short term investments*		4,025	–
Loss on disposal of subsidiaries*		–	1,893
Loss on disposal of associates*		–	704
Surplus arising from revaluation of investment properties*		–	(699)
Written back impairment of interest in a jointly-controlled entity*		–	(26,890)
Provision for doubtful debts*		5,387	–
Net rental income		(36,433)	(7,556)

* These items are included in "Other operating income/(expenses)" on the face of the consolidated profits and loss accounts.

7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans repayable within five years	6,600	6,113
Loans repayable within five years from:		
Directors	301	337
Others	–	139
Finance leases	65	49
	<u>6,966</u>	<u>6,638</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	<u>1,050*</u>	<u>350</u>
Other emoluments:		
Salaries and allowances	5,344	5,078
Bonuses	–	70
Pension scheme contributions	<u>45</u>	<u>48</u>
	<u>5,389</u>	<u>5,196</u>
	<u>6,439</u>	<u>5,546</u>

- * Fees include the under accrual of HK\$350,000 directors' fees for year 2001 and HK\$300,000 (2001: HK\$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: HK\$nil).

8. DIRECTORS' REMUNERATION (Cont'd)

The number of directors whose remuneration fell within the following bands is as follows:

		Number of directors	
		2002	2001
Nil	– HK\$1,000,000	4	4
HK\$1,000,001	– HK\$1,500,000	2	1
HK\$1,500,001	– HK\$2,000,000	1	1
HK\$2,000,001	– HK\$2,500,000	1	1
		<u>8</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors in respect of their services to the Group.

9. HIGHEST PAID EMPLOYEES

The six highest paid employees during the year included four (2001: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid employee are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries	<u>1,575</u>	<u>1,018</u>

The remuneration of the non-director, highest paid employees fell within the band of nil-HK\$1,000,000.

During the year, no share options were granted to the non-director, highest paid employee in respect of their service to the Group.

10. TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of tax attributable to jointly-controlled entity	363	–

No provision for Hong Kong profits tax has been made as the Group had no assessable profits which were earned in or derived from Hong Kong for either of the year ended 31 December 2002 and 2001. Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statement of the Company is HK\$1,647,000. (2001: HK\$3,556,000).

12. DIVIDENDS

	Group and Company	
	2002	2001
	HK\$'000	HK\$'000
Interim dividend of HK 4 cents (2001: HK 8 cents) per ordinary share	12,175	25,575
Final dividend of HK 6 cents (2001: HK 10 cents) per ordinary share	18,319	30,579
	30,494	56,154

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$52,358,000 (2001: HK\$36,462,000) and the weighted average of 306,183,000 (2001: 326,183,000) ordinary shares in issue during the year.

A diluted earnings per share amount for the years ended 31 December 2002 and 2001 have not been disclosed, as the share options and warrants outstanding during the years had no dilutive effects on the earnings per share.

14. FIXED ASSETS
Group

	Exchange					
	2001 realignment	Additions	Transfer	Disposal	2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:						
Leasehold land and buildings	106,687	(1,239)	–	–	–	105,448
Plant and machinery	356,193	(7,744)	1,877	11,407	–	361,733
Furniture, fixtures and office equipment	13,290	(229)	988	–	(254)	13,795
Motor vehicles	11,140	(143)	2,101	–	(702)	12,396
Launch	2,307	–	–	–	–	2,307
Computer equipment	302	–	90	–	(30)	362
Leasehold improvements	1,430	–	–	–	–	1,430
Construction in progress	–	–	12,045	(11,407)	–	638
	<u>491,349</u>	<u>(9,355)</u>	<u>17,101</u>	<u>–</u>	<u>(986)</u>	<u>498,109</u>
Accumulated depreciation and impairment:						
Leasehold land and buildings	28,279	(527)	2,027	–	–	29,779
Plant and machinery	81,636	(2,057)	14,937	–	–	94,516
Furniture, fixtures and office equipment	7,908	(137)	1,947	–	(252)	9,466
Motor vehicles	5,981	(69)	1,143	–	(702)	6,353
Launch	2,239	–	33	–	–	2,272
Computer equipment	269	–	17	–	(30)	256
Leasehold improvements	1,430	–	–	–	–	1,430
Construction in progress	–	–	–	–	–	–
	<u>127,742</u>	<u>(2,790)</u>	<u>20,104</u>	<u>–</u>	<u>(984)</u>	<u>144,072</u>
Net book value	<u>363,607</u>					<u>354,037</u>

14. FIXED ASSETS (Cont'd)

Company	Furniture, fixtures and office equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
Cost:			
Additions and at 31 December 2002	84	11	95
Accumulated depreciation:			
Provided during the year and at 31 December 2002	7	–	7
Net book value:			
At 31 December 2002	77	11	88

The Group's leasehold land and buildings included above are held at cost, under the following lease terms:

	Group	
	2002 HK\$'000	2001 HK\$'000
Situated in Hong Kong:		
Long term leases	44,060	44,060
Situated elsewhere:		
Short term leases	61,388	62,627
	105,448	106,687

At 31 December 2002, certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam, with a net book value of approximately HK\$74,658,000 (2001: HK\$78,150,000) and certain of the Group's plant and machinery, with a net book value of approximately HK\$138,704,000 (2001: HK\$148,517,000), were pledged to secure general banking facilities granted to the Group (note 30).

The net book values of the Group's fixed assets held under finance lease included in the total amount of motor vehicles at 31 December 2002, amounted to HK\$729,000 (2001: HK\$1,093,000).

15. INVESTMENT PROPERTIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Valuation:		
Balance at beginning of year	448,460	128,911
Exchange realignment	(6,159)	–
Additions	44,252	–
Transfer from fixed assets	–	6,712
Acquisition of a subsidiary	–	312,000
Surplus on revaluation	37,188	837
	<hr/>	<hr/>
Balance at end of year	523,741	448,460
Accumulated depreciation:		
Balance at beginning of year	15,010	12,411
Provided during the year	2,880	2,599
	<hr/>	<hr/>
Balance at end of year	17,890	15,010
Net book value:		
At end of year	<hr/> 505,851	<hr/> 433,450

The investment properties are held under the following lease terms:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Situated in Hong Kong:		
Long term leases	9,560	9,590
Medium term leases	66,720	72,810
Situated elsewhere:		
Long term leases	42,571	–
Medium term leases	347,100	312,000
Short term leases	39,900	39,050
	<hr/>	<hr/>
	505,851	433,450

15. INVESTMENT PROPERTIES (Cont'd)

The investment properties were revalued on 31 December 2002 by Chung, Chan & Associates Chartered Surveyors, an independent professional valuer, at an aggregate open market value based on their existing use. The investment properties are leased to third parties under operating leases, further details of which are included in note 38 to the financial statements. The details of the investment properties, which are 100% attributable to the Group, were as follows:

Location	Use	Tenure
Store Rooms 4, 5 and 6 on Upper Basement Floor, Fu Hang Industrial Building, No. 1 Hok Yuen Street, Hung Hom, Kowloon, Hong Kong	Industrial building for rental	Medium term leases
G/F to 13/F, Luks Industrial Building, Tuen Mun Town Lot No. 145, No. 6 Tsun Wen Road, Tuen Mun, New Territories, Hong Kong	Industrial building for rental	Medium term leases
Flat A2, 3/F, Flat B, 4/F, Flat B, 5/F, Flat C, 7/F and Flat A1 & A2, 9/F, Cheong Wah Factory Building, Nos. 39 – 41 Sheung Heung Road, and No. 60 Cheung Ning Street, Tokwawan, Kowloon, Hong Kong	Industrial building for rental	Long term leases
Workshops E2 & F2, 7/F, Hang Fung Industrial Building, Phase II, No. 2G, Hok Yuen Street East, Hung Hom, Kowloon, Hong Kong	Industrial building for rental	Medium term leases
Units A and B on G/F & 4/F and the whole floor of 1/F, Block 2, Hua Jian Industrial Building, Xinghua Road, Shekou Industrial Zone, Shenzhen, PRC	Industrial building for rental	Short term leases
The whole block of Luks Industrial Building and Dormitory, Xinan 3rd Road, Xinanban Zone No. 28, Bao An Area, Shenzhen, PRC	Industrial and residential building for rental	Short term leases
1st and 2nd Floors of the Dormitory, 2nd of 05A, Area 33, Bao An Area, Shenzhen, PRC	Residential building for rental	Short term leases

15. INVESTMENT PROPERTIES (Cont'd)

Location	Use	Tenure
Saigon Trade Centre, No. 37, Ton Duc Thang Street, District 1, Ho Chi Minh City Vietnam	Commercial building for rental	Medium term leases
Flat 101, 104-106, 204-206, 304-306, 403-406, 503-506, 604-606, 704-706 and 803-806, Block 3, Mandarin City, Gubei, Shanghai, PRC	Residential building for rental	Long term leases

At 31 December 2001, certain of the Group's investment properties situated in Hong Kong with a value of approximately HK\$63,930,000 and certain floors of Saigon Trade Centre ("STC") situated in Vietnam, with a carrying value for the whole block of property approximately HK\$312,000,000 were pledged to secure general banking facilities granted to the Group (note 30). During the year 2002, the bank loans were fully repaid and the above pledged assets were released.

16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group HK\$'000
Cost:	
At beginning of year and at 31 December 2002	18,422
Accumulated amortisation:	
Amortisation provided during the year and at 31 December 2002	921
Net bank value:	
At 31 December 2002	17,501

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permits, negative goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain credited to the capital reserve. The amounts of such negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to 1 January 2001 was HK\$11,813,000, as at 1 January and 31 December 2002.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	785,890	785,890
Due from subsidiaries	20,003	–
Due to subsidiaries	(213,451)	(71,232)
	<u>592,442</u>	<u>714,658</u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Luks Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US\$2	100	100	Investment holding
Luks Industrial Company Limited*	Hong Kong	HK\$168,048,482	100	100	Property investment and investment holding
Luks Industrial (Bao An) Company Limited*	PRC	HK\$39,000,000	100	100	Property investment
Luks Vietnam Company Limited*	British Virgin Islands/ Hong Kong	US\$3	100	100	Investment holding
Luks Timber Investments Limited*	Hong Kong	HK\$2	100	100	Investment holding

17. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Luks – Vaxi Company Limited*	Vietnam	VND329,356,867,000	68.1	68.1	Manufacture and sale of cement
Luks – Lavi Company Limited*	Vietnam	VND74,520,000,000	71	71	Sale of plywood
Luks Land Company Limited*	British Virgin Islands/ Hong Kong	US\$100	100	100	Investment holding
Luks Cement Company Limited*	British Virgin Islands/ HongKong	US\$50,000	87.5	87.5	Investment holding
Luks Land (Vietnam) Limited*	Vietnam	VND193,639,051,000	100	100	Property investment and management

* Held through subsidiaries

The above table lists those subsidiaries which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	29,139	28,053
Due to a jointly-controlled entity	(21,654)	(21,654)
	7,485	6,399
Provision for impairment	(4,901)	(4,901)
	2,584	1,498

The amount due to a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity at 31 December 2002 is as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Chengdu Leming House Development Company Limited *	Corporate	PRC	75	57	75	Property development

* Held through a 68% owned subsidiary

19. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net liabilities	(2,686)	(2,686)
Loans to associates	27,574	27,133
	24,888	24,447
Provision for impairment	(24,888)	(24,447)
	-	-

The loans to associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Luks Electronic Company Limited*	Corporate	Hong Kong	40	40	Investment holding
Hainan I Chang International Property Development Corporation#	Corporate	PRC	40	40	Property development

* The associate is indirectly held through a subsidiary.

The associate is indirectly held through an associate.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Land held for development	3,054	3,054
Provision for impairment	(3,054)	(641)
	<u>—</u>	<u>2,413</u>

The Group's properties under development comprise land held for development situated in Vietnam and are held under medium term leases.

21. INVESTMENT SECURITIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed equity investment in overseas, at cost	23,878	23,878
Provision for impairment	(23,488)	(23,332)
	<u>390</u>	<u>546</u>
Unlisted equity investment in Hong Kong, at cost	28,610*	—
	<u>29,000</u>	<u>546</u>

- * As at year end, the Group has 10% equity interest in Vigconic (International) Limited ("VI"). The principal activity of VI is engaged in the research, development, and future manufacture and sale of holistic health care products. Subsequent to the balance sheet date, on 3 January 2003, the Group acquired the entire issued share capital of Heritage Ventures International Limited (the "Heritage"), representing 65% of the enlarged issued share capital of VI. After the acquisition, VI become a 75% owned subsidiary of the Group in year 2003. Further details of the acquisition are set out with the Company's circular dated 7 March 2003.

22. OTHER INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
At fair value:		
Equity investments listed in the PRC:		
Hong Kong	28,500	52,520
Elsewhere	–	137,449
	28,500	189,969

Particulars of the other investments are as follows:

Name	Place of Incorporation/ registration and operations	Class of shares held	Proportion of shares held	
			2002	2001
TCL International Holdings Limited ("TCL")	Cayman Islands/ Hong Kong	Ordinary	0.46%	1.61%
Shenzhen Huafa Electronics Co., Ltd ("Huafa")	PRC	Founder share	–	10.97%

During the year 2001, the restriction on the transfer of the Huafa shares held by the Group, which were founder shares, was uplifted by the relevant PRC authority and these shares are now freely tradable on the Shenzhen Stock Exchange, PRC.

On 30 November 2001, the Group entered into agreements with three independent third party purchasers to dispose of 30,000,000 Huafa shares representing 10.59% of the issued share capital of Huafa at a total consideration of HK\$135,000,000. The purchase price represented a discount of approximately 28.6% to the closing price of HK\$6.30 per share quoted on the Shenzhen Stock Exchange as at 30 November 2001. As at year ended 31 December 2001, the Group received HK\$51,800,000 from the purchasers and included in "Deposits received for disposal of certain other investments" in consolidated balance sheet. Further details of the Disposal of Shares are set out in the Company's circular dated 3 December 2001.

The above agreements for the disposal of the Group's equity interest in Shenzhen Huafa Electronics Co. Ltd. were completed in the year 2002.

23. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	2,653	3,587
Work in progress	679	1,113
Finished goods	3,444	3,113
	<u>6,776</u>	<u>7,813</u>

The inventories were carried at cost as at the balance sheet date.

24. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	11,166	8,649
31 – 60 days	874	1,073
61 – 90 days	705	143
91 – 120 days	253	–
Over 120 days	767	1,002
Over 1 year	23	2
	<u>13,788</u>	<u>10,869</u>

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

25. SHORT TERM INVESTMENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At fair value:				
Listed equity investments in Hong Kong	1,392	–	1,392	–
Unlisted equity investment in overseas	1,826	–	–	–
	<u>3,218</u>	<u>–</u>	<u>1,392</u>	<u>–</u>

26. DUE TO DIRECTORS

The amounts due to directors bear interest at the rate of 1% (2001: 1.5%) over the Hong Kong prime rate, are unsecured and have no fixed terms of repayment.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	80,823	43,731	15,983	25,196
Time deposits	76,243	4,702	75,154	–
	<u>157,066</u>	<u>48,433</u>	<u>91,137</u>	<u>25,196</u>
Less: Pledged time deposits for bank overdraft facilities	(20,312)	–	(20,312)	–
Cash and cash equivalents	<u>136,754</u>	<u>48,433</u>	<u>70,825</u>	<u>25,196</u>

28. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	5,008	5,978
31 – 60 days	1,886	948
61 – 90 days	1,430	143
91– 120 days	86	–
Over 120 days	338	436
Over 1 year	14,295	15,679
	<u>23,043</u>	<u>23,184</u>

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current portion of bank loans (note 30)	60,760	54,149
Current portion of finance lease payables (note 31)	<u>289</u>	<u>289</u>
	<u>61,049</u>	<u>54,438</u>

30. INTEREST-BEARING BANK LOANS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank loans, secured:		
Short term	34,536	46,821
Long term	101,482	33,709
	<u>136,018</u>	<u>80,530</u>
Portion classified as current liabilities (note 29):		
Short term bank loans	34,536	46,821
Long term bank loans repayable within one year	26,224	7,328
	<u>60,760</u>	<u>54,149</u>
Long term portion	<u>75,258</u>	<u>26,381</u>

	Group	
	2002	2001
	HK\$'000	HK\$'000
The interest-bearing bank loans are repayable as follows:		
Within one year	60,760	54,149
In the second year	3,224	6,116
In the third to fifth year, inclusive	72,034	20,265
	<u>136,018</u>	<u>80,530</u>

At the balance sheet date, the following assets were pledged to secure above bank loans and general banking facilities granted to the Group:

- Certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam, with a net book value of approximately HK\$74,658,000 (2001: HK\$78,150,000).
- Certain of the Group's investment properties situated in Hong Kong, with a carrying value of HK\$63,930,000 for year 2001.
- Certain of the Group's plant and machinery, with a net book value of approximately HK\$138,704,000 (2001: HK\$148,517,000).

30. INTEREST-BEARING BANK LOANS (Cont'd)

- (d) Certain floors of the Group's investment properties situated in Vietnam, with a carrying value for the whole block of properties of HK\$312,000,000 for year 2001.
- (e) Certain of the Group's time deposits of HK\$20,312,000.

31. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles. These leases are classified as finance leases and have remaining lease terms ranging from 3 to 4 years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

	Minimum lease payments		Present Value of Minimum lease payments	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	354	354	289	289
In the second year	354	354	254	254
In the third to fifth years, inclusive	266	620	250	539
Total minimum finance lease payments	974	1,328	793	1,082
Future finance charges	(181)	(246)		
Total net finance lease payables	793	1,082		
Portion classified as current liabilities (note 29)	(289)	(289)		
Long term portion	504	793		

32. PROVISIONS

Group	Long service payments HK\$'000
At beginning of year	3,993
Amounts utilised during the year	(330)
Reverse of unutilised amounts	(38)
At 31 December 2002	3,625

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

33. DEFERRED TAX

The provision for deferred tax relates to timing differences arising from accelerated capital allowances for fixed assets which are expected to crystallise in the foreseeable future.

There were no significant potential deferred tax liabilities for which provision had not been made at the balance sheet date.

34. SHARE CAPITAL

Shares	2002 HK\$'000	2001 HK\$'000
Authorised:		
760,000,000 ordinary shares of HK\$ 0.01 each	7,600	7,600
Issued and fully paid:		
303,790,244 (2001: 316,422,156) ordinary shares of HK\$0.01 each	3,038	3,164

34. SHARE CAPITAL (Cont'd)

The movements in share capital were as follows.

- (a) During the year, 302,088 warrants were exercised at a subscription price of HK\$0.90 per share, resulting in the issue of 302,088 new ordinary shares of HK\$0.01 each for a total cash consideration before expenses of HK\$271,879.
- (b) During the year, 570,000 share options were exercised at the subscription price of HK\$0.65 per share, resulting in the issue of 570,000 new ordinary shares of HK\$0.01 each for a total cash consideration before expenses of HK\$370,500.
- (c) Pursuant to a general mandate permitting the re-purchase by the Company of its own shares, a total of 13,504,000 shares were re-purchased on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. Further details of the re-purchase of own shares are included in the "Purchase, redemption or sale of listed securities of the Company" section of the Report of the Directors.

A summary of the movement in the Company's issued share capital was as follows:

		Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Notes					
Shares allotted and issued nil paid on 7 December 2000		10,000	–	–	–
Shares issued as consideration for the acquisition of Luks Industrial Company Limited		326,097	3,261	–	3,261
Application of contributed surplus to pay up nil paid shares		–	100	–	100
Warrant exercised		253	3	225	228
Share options exercised		330	3	211	214
Share re-purchased		(20,258)	(203)	–	(203)
At 31 December 2001 and 1 January 2002		316,422	3,164	436	3,600
Warrants exercised	(a)	302	3	269	272
Share options exercised	(b)	570	6	365	371
Share re-purchased	(c)	(13,504)	(135)	–	(135)
Balance at 31 December 2002		303,790	3,038	1,070	4,108

34. SHARE CAPITAL (Cont'd)**Share options**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

Warrants

During the year 2001, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 8 June 2001, resulting in 65,172,592 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 from the date of issue to 17 June 2004, at a subscription price of HK\$0.90 subject to adjustment per share, payable in cash.

During the year 2002, 302,088 (2001: 253,192) warrants were exercised for the subscription of 302,088 shares of HK\$0.01 each at the exercise price of HK\$0.90 per share. At the balance sheet date, the Company had 64,617,312 warrants outstanding and the exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 64,617,312 additional shares of HK\$0.01 each.

35. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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 became effective on 4 April 2001, and unless otherwise cancelled or amended, will remain in force for three and a half years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2002, the number of shares issuable under share options granted under the Scheme was 19,390,000, which represented approximately 6.4% of the Company's shares in issue as at that date. The maximum number of shares in respect of which options may be granted to any eligible participant may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Scheme.

Notes To Financial Statements (Cont'd)

31 December 2002

35. SHARE OPTION SCHEME (Cont'd)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences and ends on a date which is not later than three and a half years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of the share; and (ii) 80% of the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders either as to dividends, or to vote at shareholders' meetings.

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

Name or category of participant	At 1 January 2002	Number of share options		At 31 December 2002	Date of grant of share options	Exercise period of share options	Exercise	Price of Company's shares**	
		Granted during the year	Exercised during the year				price of share options*	At grant date of options	At exercise date of options
							HK\$	HK\$	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	1.14
	<u>10,200,000</u>	<u>-</u>	<u>(500,000)</u>	<u>9,700,000</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	-
	3,960,000	-	(70,000)	3,890,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	0.99-1.14
	<u>9,760,000</u>	<u>-</u>	<u>(70,000)</u>	<u>9,690,000</u>					
	<u>19,960,000</u>	<u>-</u>	<u>(570,000)</u>	<u>19,390,000</u>					

35. SHARE OPTION SCHEME (Cont'd)

- * The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar charges in the Company's share capital.
- ** 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 570,000 share options exercised during the year resulted in the issue of 570,000 ordinary shares of the Company and new share capital of HK\$5,700 and share premium of HK\$364,800 (before issue expenses) , as detailed in note 34 to the financial statements.

At the balance sheet, the Company had 19,390,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 19,390,000 additional ordinary shares of the Company and additional shares capital of HK\$193,900 and share premium of HK\$14,323,600 (before issue expenses).

36. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 to 24 of the financial statements.

The contributed surplus of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Luks Industrial Company Limited pursuant to the Group Reorganisation, and the consolidated net asset value of Luks Industrial Company Limited so acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain prescribed circumstances.

Pursuant to the relevant laws and regulations for Sino-foreign, joint venture enterprises, a portion of the profits of the Group's associates and jointly-controlled entities which are incorporated in the PRC has been transferred to reserve funds which may only be utilised by the Group in accordance with the relevant legislation.

HK\$11,813,000 of negative goodwill which arose on acquisition prior to 1 January 2001, remains credited to the Group's capital reserve, as further detailed in note 16 to the financial statements.

36. RESERVES (Cont'd)

(b) Company

		Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Notes					
Arising on issue of shares for the acquisition of the entire issued share capital of Luks Industrial Company Limited		–	782,827	–	782,827
Premium arising on exercise on subscription rights:					
Warrants	34	225	–	–	225
Share options	34	211	–	–	211
Arising from repurchase of shares		–	(18,052)	–	(18,052)
Net loss for the year		–	–	(3,556)	(3,556)
Interim dividend	12	–	(25,575)	–	(25,575)
Proposed final dividend	12	–	(30,579)	–	(30,579)
At 31 December 2001 and beginning of year		436	708,621	(3,556)	705,501
Premium arising on exercise as subscription rights:					
Warrants	34	269	–	–	269
Share options	34	365	–	–	365
Arising from repurchase of share		–	(13,168)	–	(13,168)
Net loss for the year		–	–	(1,647)	(1,647)
Interim dividend	12	–	(12,175)	–	(12,175)
Proposal final dividend	12	–	(18,319)	–	(18,319)
		1,070	664,959	(5,203)	660,826

36. RESERVES (Cont'd)**(b) Company (Cont'd)**

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus in certain circumstances.

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest and dividend received are now included in cash flows from investing activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

(b) Major non-cash transactions

During the year 2001, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,298,000.

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Acquisition of a subsidiary

	Notes	2001 HK\$'000
Net assets acquired in 2001:		
Fixed assets		4,565
Investment properties	15	312,000
Cash and bank balances		5,107
Trade receivables		4,779
Other receivables, prepayments and deposits		160
Bank loans		(672)
Trade payables		(1,947)
Other payables and accruals		(7,130)
Due to a director		(930)
Due to a holding company		(300,206)
Rental deposits		(7,516)
		<hr/>
		8,210
Goodwill on acquisition	16	18,422
		<hr/>
		26,632
		<hr/>
		2001 HK\$'000
Satisfied by:		
Reclassification to interest in a subsidiary		
from interest in a jointly controlled entity		(25,634)
Written back impairment of interest in a jointly-controlled entity		31,791
Cash consideration		4,265
Other payables and accruals		16,210
		<hr/>
		26,632
		<hr/>

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)
(c) Acquisition of a subsidiary (Cont'd)

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary in 2001.

	2001 <i>HK\$'000</i>
	<hr/>
Cash consideration	(4,265)
Cash and bank balances acquired	5,107
	<hr/>
	842
	<hr/>

Since the acquisition of the subsidiary was effective on 31 December 2001, its acquisition had no effect on the Group's cash flows for the year ended 31 December 2001, other than the HK\$842,000 net inflow of cash and cash equivalents detailed above, and no effect on the Group's turnover or profit for that year.

(d) Disposal of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
	<hr/>	<hr/>
Net assets disposed of:		
Fixed assets	–	12,214
Other investments	134,100	–
Other debtors, prepayments and deposits	649	–
Other payables and accruals	–	(5,124)
Deposits received from disposal of certain other investments	(51,800)	–
Due to a related party	–	(29,656)
Minority interests	–	(3,632)
	<hr/>	<hr/>
	82,949	(26,198)
Forfeiture of amounts due from subsidiaries	–	29,656
	<hr/>	<hr/>
	82,949	3,458
Loss on disposal of subsidiaries	–	(1,893)
	<hr/>	<hr/>
	82,949	1,565
	<hr/>	<hr/>
Satisfied by:		
Cash consideration	82,949	1,565
	<hr/>	<hr/>

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(d) Disposal of subsidiaries (Cont'd)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	82,949	1,565

The results of the subsidiaries disposed of in the years ended 31 December 2002 and 2001 had no significant impact on the Group's consolidated turnover or profit after tax for the years.

38. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	29,488	21,957
In the second to fifth years, inclusive	46,927	36,763
	76,415	58,720

39. COMMITMENTS

In addition to the operating lease arrangements detailed in note 38 above, the Group had the following capital commitments at the balance sheet date.

	Group	
	2002	2001
	HK\$'000	HK\$'000
Authorised and contracted for fixed assets	5,901	–
Capital contributions to an associate	2,282	2,282
Total capital commitments	8,183	2,282

The Company did not have any capital commitments at the balance sheet date.

40. POST BALANCE SHEET EVENTS

On 3 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, which holds 65% of the enlarged issued share capital of VI, for a total consideration of HK\$260,000,000 which is payable by a cash consideration of HK\$60,000,000 and the issue of promissory note of HK\$200,000,000, which bears interest at the rate of 2% per annum and falling due five years after the date of issue of the promissory note. Upon completion of the Acquisition on 31 March 2003, the Group grants a revolving loan facilities of up to HK\$30,000,000 to VI. Further details of the Acquisition are set out with the Company’s circular dated 7 March 2003.

41. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statement, the Group had the following transactions with related parties during the year:

		Group	
	Notes	2002	2001
		HK\$'000	HK\$'000
Jointly-controlled entities:			
Interest income	(i)	–	20,691
Investee companies:			
Sales of raw materials	(ii)	–	299
Purchases of finished goods	(iii)	–	967
Rental income	(iv)	312	–
Directors:			
Interest expense	(v)	301	337

41. RELATED PARTY TRANSACTIONS (Cont'd)*Notes:*

- (i) Interest income was charged on a loans advanced to a jointly-controlled entity at 7% per annum.
- (ii) The sales of raw materials to investee companies were charged at cost plus a margin.
- (iii) The purchases of finished goods from investee companies were made according to the prices negotiated between the parties.
- (iv) Rental income was received from the leasing of the Group's investment properties to an investee company and was calculated by reference to open market rentals.
- (v) Interest expense was paid to the directors on the amounts due to them at the rate of 1% (2001: 1.5%) over the Hong Kong prime rate.

Details of the Group's loans to jointly-controlled entities, associates and amounts due to directors are included in notes 18, 19 and 26, respectively, to the financial statements.

42. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2003.