

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

### 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 18 to 20 to the financial statements. Except for the commencement of the manufacture and sale of holistic health care products, there were no significant changes in the nature of the Group's principal activities during the year.

### Results and dividends

The Group's profit for the year ended 31 December 2003 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 68.

An interim dividend of HK4 cents per ordinary share was paid on 15 October 2003. The directors recommend the payment of a final dividend of HK6 cents per ordinary share in respect of the year, to shareholders on the register of members on 28 May 2004. 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 published consolidated/pro forma combined results and assets, liabilities and minority interests of the Group for the last five financial years prepared on the basis set out in the note below:

#### Results

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Net profit/(loss) from ordinary activities attributable to shareholders	<b>20,183</b>	52,358	36,462	(666,142)	794,434

#### Assets, Liabilities and Minority Interests

	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
Total assets	<b>1,361,357</b>	1,172,254	1,147,966	1,016,040	1,866,595
Total liabilities	<b>(459,376)</b>	(292,321)	(298,558)	(223,010)	(388,313)
Minority interests	<b>(27,421)</b>	(15,514)	(7,430)	(6,543)	(6,879)
	<b>874,560</b>	864,419	841,978	786,487	1,471,403

**Summary financial information (Cont'd)**

*Note:*

Pursuant to a scheme of arrangement which became effective on 4 April 2001, Luks Industrial Company Limited became a wholly-owned subsidiary of the Company and its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was withdrawn, with the shares of the Company being listed on the Stock Exchange, in lieu thereof, on 4 April 2001. The summary of the results and the assets, liabilities and minority interests of the Group for the two years ended 31 December 2000 was extracted from the audited financial statements of Luks Industrial Company Limited. The results and the assets, liabilities and minority interests of the Group for the years ended 31 December 2003, 2002 and 2001 were extracted from the audited financial statements of the Company and reclassified as appropriate.

The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting deferred tax, as detailed in note 2 to 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. Further details of the Group's investment properties are set out on page 69.

**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 37 and 38 to the financial statements.

**Pre-emptive rights**

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

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 39(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

**Distributable reserves**

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$639,877,000, of which HK\$19,199,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$12,196,000, 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 less than 30% of the total sales for the year. 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:*

Liu Li Yuan  
Liang Fang

In accordance with clause 87 of the Company's bye-laws, Mr. Wong Hoi Wah and Mr. Fan Chiu Tat, Martin will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

With reference to the Code of Best Practice (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), 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's biographies**

Mr. Luk King Tin, aged 66, 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 29 years. He is responsible for formulating the Group's strategy and policy.

Madam Cheng Cheung, aged 63 is an Executive Director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for 29 years. She is mainly responsible for finance, human resources and administrative functions of the Group.

Mr. Wong Hoi Wah, aged 60, is an Executive Director of the Company. Mr. Wong has more than 37 years of experience in electronic engineering. He has been with the Group for 25 years. Mr. Wong currently also holds positions of Chief Engineer of TCL Multimedia Electronics Company Limited and a director of TCL New Technology Company Limited in the People's Republic of China ("PRC").

Mr. Luk Yan, aged 39, 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 been with the Group for 14 years.

Mr. Fan Chiu Tat, Martin, aged 37, 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 Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Fan is also the Financial Controller of the Company. He has been with the Group for 14 years.

Mr. Liu Li Yuan, aged 53, 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.

**Directors' and senior management's biographies (Cont'd)**

Mr. Liang Fang, aged 51 is an Independent Non-executive Director of the Company. Mr. Liang is the holder of an MBA degree from the Massachusetts Institute of Technology of the United States of America. He has been working in the IT business for a number of years. Mr. Liang is currently the President of Asia of Freeborders Limited.

**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, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

**Directors' interests and short positions in shares, underlying shares and debentures**

At 31 December 2003, the interests and short positions of the directors in the share capital, warrants and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

*Long positions in ordinary shares of the Company:*

Name of director	Notes	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Luk King Tin	(a)	45,683,261	–	47,688,393	93,371,654	29.18%
Cheng Cheung	(b)	10,430,000	–	31,574,819	42,004,819	13.13%
Wong Hoi Wah		702,400	–	–	702,400	0.22%
Luk Yan	(c)	3,309,000	45,000	–	3,354,000	1.05%
Fan Chiu Tat, Martin		500,000	–	–	500,000	0.15%
		<u>60,624,661</u>	<u>45,000</u>	<u>79,263,212</u>	<u>139,932,873</u>	<u>43.73%</u>

**Directors' interests and short positions in shares, underlying shares and debentures (continued)**

Long positions in warrants of the Company:

Name of director	Notes	Number of warrants held, capacity and nature of interest		
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation
Luk King Tin	(a)	7,796,652	—	9,537,678
Cheng Cheung	(b)	2,086,000	—	6,314,963
Wong Hoi Wah		140,480	—	—
Luk Yan	(c)	61,800	9,000	—
		<u>10,084,932</u>	<u>9,000</u>	<u>15,852,641</u>

Long positions in debentures of the Company:

Name of director	Note	Principal value of promissory note held, capacity and nature of interest	
		Directly beneficially owned	HK\$
Luk King Tin	(d)		<u>200,000,000</u>

Long positions in shares of an associated corporation:

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of shares held, capacity and nature of interest		Total	Percentage of the associated corporation's issued share capital
				Directly beneficially owned	Through controlled corporation		
Luk King Tin	(e)	Vigconic (International) Limited	Company's subsidiary	1,000	98,996	99,996	25%

**Directors' interests and short positions in shares, underlying shares and debentures (Cont'd)**

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 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 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 and 9,000 warrants of the Company at the balance sheet date.
- (d) The promissory note was issued by the Company to Mr. Luk King Tin, being part of the consideration for the acquisition of the entire issued share capital of Heritage Ventures International Limited ("Heritage"), which held 260,000 shares of HK\$1 each of Vigconic (International) Limited ("VI") as at the balance sheet date. Further details of the promissory note are set out in note 33 to the financial statements.
- (e) Mr. Luk King Tin had a beneficial interest in Vigconic Biotechnology Company Limited, which held 98,996 shares of HK\$1 each of VI at the balance sheet date.

The interests of the directors in the share options of the Company are separately disclosed in note 38 to the financial statements.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

**Directors' rights to acquire shares or debentures**

Save as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 38 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 minor children, 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' and other persons' interests and short positions in shares and underlying shares

At 31 December 2003, the following interests and short positions of 5% or more of the issued share capital and warrants of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions:*

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of warrants held
KT (Holdings) Limited	Directly beneficially owned	47,688,393	14.90	9,537,678
CC (Holdings) Limited	Directly beneficially owned	31,574,819	9.87	6,314,963

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### Connected transaction

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, which holds 65% of the issued share capital of VI, for a total consideration of HK\$260,000,000 which was payable by cash of HK\$60,000,000 and a promissory note of HK\$200,000,000. Upon completion of the Acquisition on 31 March 2003, the Group granted 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, and are included in notes 40(a) and 43 to the financial statements.

### Code of Best Practice

In the opinion of the directors, the Company complied with the Code as set out in Appendix 14 of the Listing Rules, 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  
27 April 2004