

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 cement
- manufacture and sale of holistic health care products (commenced during the year)
- manufacture and sale of electronic products
- property investment
- investment holding

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 36 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 36 to the financial statements.

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 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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.

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.

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

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 a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is 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.

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 10 to 20 years.

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 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.

Prior to the adoption of SSAP 30 "Business combination" in 2001, 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 the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP 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.

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.

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
Leasehold improvements	18% – 20%
Plant and machinery	4% – 15%
Furniture, fixtures and office equipment	9% – 20%
Computer equipment	18% – 20%
Launch	15%
Motor vehicles	14% – 25%

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 and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

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.

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.

Technical know-how

Technical know-how is stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost over its estimated useful life of 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

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 asset 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 purposes, 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.

Short term investments

Short term investments are investments in equity securities held for trading purposes, and 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 short term investments are credited or charged to the profit and loss account in the period in which they arise.

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

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits*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

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 MPF 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, and 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or contributed surplus 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.

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 fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into 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.

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 manufacture and sale of cement products for use in the construction industry;
- (b) the health care products segment includes the Group's manufacture and sale of holistic health care products;
- (c) the property investment segment includes the Group's investments in industrial, commercial and residential premises for their rental income potential;
- (d) the investment segment includes the Group's investments in and holding of short and long term investments;
- (e) the corporate segment comprises corporate income and expense items; and
- (f) the other segment comprises the Group's manufacture 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.

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

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

Group	Health												Consolidated	
	Cement products		care products		Property investment		Investment		Corporate		Others			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	194,634	173,780	2,985	-	48,270	38,485	-	-	-	-	4,406	5,455	250,295	217,720
Other revenue	435	214	20	-	27,022	159	1,060	617	-	-	58	107	28,595	1,097
Total	195,069	173,994	3,005	-	75,292	38,644	1,060	617	-	-	4,464	5,562	278,890	218,817
Segment results	58,709	41,440	(36,809)	-	36,970	9,414	(1,354)	18,477	(9,206)	(6,589)	(540)	(56)	47,770	62,686
Interest and dividend income													4,596	4,779
Unallocated expenses													-	(2,698)
Profit from operating activities													52,366	64,767
Finance costs													(12,871)	(6,966)
Share of profits and losses of a jointly-controlled entity	-	-	-	-	(4,567)	1,449	-	-	-	-	-	-	(4,567)	1,449
Profit before tax													34,928	59,250
Tax													(3,152)	(363)
Profit before minority interests													31,776	58,887
Minority interests													(11,593)	(6,529)
Net profit from ordinary activities attributable to shareholders													20,183	52,358

Notes to Financial Statements (Cont'd)

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4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Group	Health													
	Cement products		care products		Property investment		Investment		Corporate		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Restated)													
Segment assets	361,694	390,007	286,014	–	545,426	533,370	73,797	143,071	20,793	19,723	2,821	3,755	1,290,545	1,089,926
Interest in a jointly-controlled entity	–	–	–	–	(3,039)	2,584	–	–	–	–	–	–	(3,039)	2,584
Unallocated assets													73,851	79,744
Total assets													1,361,357	1,172,254
Segment liabilities	36,505	36,084	19,860	–	78,479	90,834	23,253	19,861	9,274	6,035	8,502	9,631	175,873	162,445
Unallocated liabilities													283,503	129,876
Total liabilities													459,376	292,321
Other segment information:														
Depreciation and amortisation	16,949	17,054	23,119	–	3,215	3,801	3,845	3,041	30	7	1	2	47,159	23,905
Capital expenditure	17,128	12,045	617	–	794	653	–	1,138	110	95	–	3,170	18,649	17,101
Unrealised holding gain on other investments	–	–	–	–	–	–	–	12,900	–	–	–	–	–	12,900
Unrealised holding loss on short term investments	–	–	–	–	–	–	–	(4,025)	–	–	–	–	–	(4,025)
Gain/(loss) on disposal of other investments	–	–	–	–	–	–	(746)	30,951	–	–	–	–	(746)	30,951
Gain on disposal of short term investments	–	–	–	–	–	–	948	–	–	–	–	–	948	–
Impairment of interest in an associate	–	–	–	–	–	–	(241)	(441)	–	–	–	–	(241)	(441)
Impairment of an investment security	–	–	–	–	–	–	(390)	(156)	–	–	–	–	(390)	(156)
Provision for doubtful debts	–	–	–	–	(389)	–	(201)	–	–	–	(25)	(5,387)	(615)	(5,387)

4. SEGMENT INFORMATION (Cont'd)
(b) Geographical segments

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

Group	Hong Kong		Mainland China		Vietnam		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Restated)		(Restated)
Segment revenue:								
Sales to external customers	6,615	2,090	11,537	10,372	232,143	205,258	250,295	217,720
Other segment information:								
Segment assets	540,816	314,297	82,228	87,098	738,313	770,859	1,361,357	1,172,254
Capital expenditure	727	1,233	-	-	17,922	15,868	18,649	17,101

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, other revenue and gain is as follows:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of cement	194,634	173,780
Sale of electronic products	3,299	3,684
Sale of holistic health care products	2,985	-
Sale of plywood and other wood products	1,107	1,771
Gross rental income	48,270	38,485
	250,295	217,720
Other revenue and gain		
Interest income	3,758	4,044
Dividend income from listed other investments	838	735
Gain on disposal of short term investments	948	-
Write back of other payable	26,836	-
Others	811	1,097
	33,191	5,876

Notes to Financial Statements (Cont'd)

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6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		118,893	113,773
Depreciation	14 & 15	23,435	22,984
Goodwill amortisation for the year*	16	23,349	921
Amortisation of technical know-how**	17	375	—
Research and development costs*		6,822	—
Auditors' remuneration		618	671
Minimum operating lease payments in respect of land and buildings		462	—
Staff costs (excluding directors' remuneration, note 8):			
Wages and salaries		18,323	15,254
Pension scheme contributions		635	460
		18,958	15,714
Exchange losses, net		2,728	12,251
Impairment of interest in an associate*		241	441
Impairment of an investment security*		390	156
Unrealised holding loss on short term investments*		—	4,025
Loss/(gain) on disposal of fixed assets		73	(29)
Provision for doubtful debts*		615	5,387
Net rental income		(46,168)	(36,433)

* These items are included in "Other operating expenses" on the face of the consolidated profit and loss account.

** This item is included in "Cost of sales" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group 2003 HK\$'000	2002 HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	9,615	6,600
Promissory note repayable within five years	3,014	—
Loans from directors repayable within five years	176	301
Finance leases	66	65
	12,871	6,966

8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	700	1,050
Other emoluments:		
Salaries and allowances	5,362	5,344
Pension scheme contributions	36	45
	5,398	5,389
	6,098	6,439

Fees include HK\$200,000 (2002: HK\$300,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	7	8

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

9. HIGHEST PAID EMPLOYEES

The six highest paid employees during the year included four (2002: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries	1,101	1,575

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

Notes to Financial Statements (Cont'd)

31 December 2003

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2003. 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 legislation, interpretations and practices in respect thereof.

	2003 HK\$'000	2002 HK\$'000
Group		
Current – Hong Kong		
Charge for the year	47	–
Underprovision in prior years	137	–
Current – Elsewhere	148	–
Deferred (note 36)	1,871	–
	<u>2,203</u>	–
Share of tax attributable to a jointly-controlled entity	949	363
	<u>3,152</u>	<u>363</u>

In accordance with the relevant tax rules and regulations in Vietnam, certain of the Group's subsidiaries in Vietnam enjoy income tax exemptions and reductions. At present, the standard income tax rate applicable to these subsidiaries is 7.5%.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entity and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2003

	Hong Kong HK\$'000	%	Mainland China HK\$'000	%	Vietnam HK\$'000	%	Total HK\$'000	%
Profit/(loss) before tax	(29,905)		(2,676)		67,509		34,928	
Tax at the statutory tax rate	(5,233)	17.5	(883)	33.0	5,063	7.5	(1,053)	(3.0)
Adjustments in respect of current tax of previous periods	137	(0.5)	–	–	–	–	137	0.4
Income not subject to tax	(6,000)	20.0	(476)	17.8	(3,966)	(5.9)	(10,442)	(29.9)
Expenses not deductible for tax	5,867	(19.6)	2,456	(91.8)	114	0.2	8,437	24.1
Tax losses not recognised as deferred tax assets	5,413	(18.0)	–	–	660	1.0	6,073	17.4
Tax charge at the Group's effective rate	<u>184</u>	<u>(0.6)</u>	<u>1,097</u>	<u>(41.0)</u>	<u>1,871</u>	<u>2.8</u>	<u>3,152</u>	<u>9.0</u>

10. TAX (Cont'd)

Group – 2002

	Hong Kong		Mainland China		Vietnam		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>16,076</u>		<u>3,247</u>		<u>39,927</u>		<u>59,250</u>	
Tax at the statutory tax rate	2,572	16.0	1,071	33.0	2,995	7.5	6,638	11.2
Income not subject to tax	(8,041)	(50.0)	(708)	(21.8)	(2,761)	(6.9)	(11,510)	(19.4)
Expenses not deductible for tax	2,222	13.8	–	–	69	0.2	2,291	3.9
Tax losses utilised from previous periods	(45)	(0.3)	–	–	–	–	(45)	(0.1)
Tax exemptions or reductions	–	–	–	–	(1,516)	(3.8)	(1,516)	(2.6)
Tax losses not recognised as deferred tax assets	<u>3,292</u>	<u>20.5</u>	<u>–</u>	<u>–</u>	<u>1,213</u>	<u>3.0</u>	<u>4,505</u>	<u>7.6</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>363</u>	<u>11.2</u>	<u>–</u>	<u>–</u>	<u>363</u>	<u>0.6</u>

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$6,284,000 (2002: HK\$1,647,000) (note 39(b)).

12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim – HK 4 cents (2002: HK 4 cents) per ordinary share	12,759	12,175
Proposed final – HK 6 cents (2002: HK 6 cents) per ordinary share	19,199	18,319
	<u>31,958</u>	<u>30,494</u>

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

Notes to Financial Statements (Cont'd)

31 December 2003

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\$20,183,000 (2002: HK\$52,358,000), and the weighted average of 313,607,482 (2002: 306,183,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$20,183,000. The weighted average number of ordinary shares used in the calculation is the 313,607,482 ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 11,504,587 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year; and the weighted average of 2,551,431 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

A diluted earnings per share for the year ended 31 December 2002 has not been disclosed, as the share options and warrants outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

14. FIXED ASSETS**Group**

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Computer equipment	Launch	Motor Vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:									
At beginning of year	105,448	1,430	361,733	13,795	362	2,307	12,396	638	498,109
Additions	–	298	820	700	172	–	1,373	15,286	18,649
Acquisition of a subsidiary (note 40(a))	–	284	957	11	88	–	–	–	1,340
Disposals	–	–	–	(96)	(12)	–	(583)	–	(691)
Transfers	–	–	12,931	–	–	–	–	(12,931)	–
Exchange realignment	(1,276)	–	(8,249)	(250)	–	–	(171)	(13)	(9,959)
At 31 December 2003	104,172	2,012	368,192	14,160	610	2,307	13,015	2,980	507,448
Accumulated depreciation:									
At beginning of year	29,779	1,430	94,516	9,466	256	2,272	6,353	–	144,072
Provided during the year	1,999	106	14,918	1,728	58	8	1,404	–	20,221
Disposals	–	–	–	(27)	(3)	–	(582)	–	(612)
Exchange realignment	(571)	–	(2,428)	(178)	–	–	(87)	–	(3,264)
At 31 December 2003	31,207	1,536	107,006	10,989	311	2,280	7,088	–	160,417
Net book value:									
At 31 December 2003	72,965	476	261,186	3,171	299	27	5,927	2,980	347,031
At 31 December 2002	75,669	–	267,217	4,329	106	35	6,043	638	354,037

14. FIXED ASSETS (Cont'd)

Company	Furniture, fixtures and office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	84	11	95
Additions	93	17	110
At 31 December 2003	177	28	205
Accumulated depreciation:			
At beginning of year	7	–	7
Provided during the year	27	3	30
At 31 December 2003	34	3	37
Net book value:			
At 31 December 2003	143	25	168
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 2003 HK\$'000	2002 HK\$'000
Situated in Hong Kong:		
Long term leases	44,060	44,060
Situated elsewhere:		
Short term leases	60,112	61,388
	104,172	105,448

At 31 December 2003, certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam, with a net book value of approximately HK\$71,406,000 (2002: HK\$74,658,000) and the Group's plant and machinery, with a net book value of approximately HK\$261,186,000 (2002: HK\$138,704,000), were pledged to secure general banking facilities granted to the Group (note 31).

The net book values of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2003 amounted to HK\$364,000 (2002: HK\$729,000).

15. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	523,741	448,460
Additions	–	44,252
Surplus on revaluation	17,883	37,188
Exchange realignment	(7,143)	(6,159)
At end of year	534,481	523,741
Accumulated depreciation:		
At beginning of year	17,890	15,010
Provided during the year	3,214	2,880
At end of year	21,104	17,890
Net book value:		
At end of year	513,377	505,851

The investment properties are held under the following lease terms:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Situated in Hong Kong:		
Long term leases	9,579	9,560
Medium term leases	67,854	66,720
Situated elsewhere:		
Long term leases	42,754	42,571
Medium term leases	351,780	347,100
Short term leases	41,410	39,900
	513,377	505,851

The investment properties were revalued on 31 December 2003 by Chung, Chan & Associates Chartered Surveyors, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements. Further particulars of the Group's investment properties are included on page 69.

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 <i>HK\$'000</i>
Cost:	
At beginning of year	18,422
Acquisition of a subsidiary (note 40(a))	299,049
	<hr/>
At 31 December 2003	317,471
	<hr/>
Accumulated amortisation:	
At beginning of year	921
Amortisation provided during the year	23,349
	<hr/>
At 31 December 2003	24,270
	<hr/>
Net book value:	
At 31 December 2003	293,201
	<hr/>
At 31 December 2002	17,501
	<hr/>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted, negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve. The amount of such negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001 was HK\$11,813,000, as at 1 January and 31 December 2003.

17. TECHNICAL KNOW-HOW

	Group <i>HK\$'000</i>
Cost:	
Acquisition of a subsidiary and as at 31 December 2003 (note 40(a))	4,375
Accumulated amortisation:	
Amortisation provided during the year and as at 31 December 2003	375
	<hr/>
Net book value:	
At 31 December 2003	4,000
	<hr/>

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	785,890	785,890
Due from subsidiaries	294,793	20,003
Due to subsidiaries	(310,857)	(213,451)
	769,826	592,442

The amount due from Vigconic (International) Limited ("VI") of HK\$14,683,000 is unsecured, bears interest at the rate of 1% over the Hong Kong dollar prime rate per annum and is repayable after more than one year. The remaining amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the 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
			2003	2002	
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
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

18. 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
			2003	2002	
Luks Land Company Limited*	British Virgin Islands/ Hong Kong	US\$100	100	100	Investment holding
Luks Cement Company Limited*	British Virgin Islands/ Hong Kong	US\$50,000	87.5	87.5	Investment holding
Luks Land (Vietnam) Limited*	Vietnam	VND193,639,051,000	100	100	Property investment and management
Prime Wise Investments Limited*	Hong Kong/PRC	HK\$2	100	100	Property investment
Redmond Investments Limited*	Hong Kong/PRC	HK\$2	100	100	Property investment
Vigconic (International) Limited*#	Hong Kong	HK\$400,000	75	10	Manufacture and sale of holistic health care products

* Held through subsidiaries

Newly acquired in the current year

Registered as a wholly-foreign owned enterprise under the PRC law.

The above table lists those subsidiaries of the Company 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.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	18,615	24,238
Due to a jointly-controlled entity	(21,654)	(21,654)
	(3,039)	2,584

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 are as follows:

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

* Held through a 68% owned subsidiary

20. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	—	—
Loans to associates	27,815	27,574
	27,815	27,574
Provision for impairment	(27,815)	(27,574)
	—	—

20. INTERESTS IN ASSOCIATES (Cont'd)

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
			2003	2002	
Luks Electronic Company Limited*	Corporate	Hong Kong	40	40	Investment holding
Hainan I Chang International Property Development Corporation#	Corporate	PRC	40	40	Property development

* Indirectly held through a subsidiary

Indirectly held through an associate

The above table lists the associates of the Group which, in the opinion of the directors, are significant to the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

21. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
Land held for development	3,054	3,054
Provision for impairment	(3,054)	(3,054)
	<u>—</u>	<u>—</u>

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

22. INVESTMENT SECURITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed equity investments, overseas, at cost	23,878	23,878
Provision for impairment	(23,878)	(23,488)
	–	390
Unlisted equity investments in Hong Kong, at cost	–	28,610*
	–	29,000

* As at 31 December 2002, the Group had 10% equity interests in VI. The principal activity of VI is the manufacture and sale of holistic health care products. On 31 March 2003, the Group acquired the entire issued share capital of Heritage Ventures International Limited ("Heritage"), which holds 65% equity interests in VI. After the acquisition, VI became a 75% owned subsidiary of the Group, further details of which are included in note 40(a).

23. OTHER INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at fair value	–	28,500

24. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	3,895	2,653
Work in progress	967	679
Finished goods	5,856	3,444
	10,718	6,776

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$92,000 (2002: Nil) as at the balance sheet date.

25. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group allows an average credit period of 60 days to its trade debtors. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	10,647	11,166
31 – 60 days	2,821	874
61 – 90 days	1,139	705
91 – 120 days	419	253
Over 120 days	595	767
Over 1 year	92	23
	15,713	13,788

26. SHORT TERM INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At fair value:				
Listed equity investments in Hong Kong	–	1,392	–	1,392
Unlisted equity investments, overseas	1,788	1,826	–	–
	1,788	3,218	–	1,392

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	70,379	80,823	20,328	15,983
Time deposits	72,221	76,243	70,634	75,154
	142,600	157,066	90,962	91,137
Less: Pledged time deposits for bank overdraft facilities	—	(20,312)	—	(20,312)
Cash and cash equivalents	142,600	136,754	90,962	70,825

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") and Vietnamese Dong ("VND") amounted to HK\$2,988,000 (2002: HK\$603,000) and HK\$7,966,000 (2002: HK\$10,007,000), respectively. The RMB and VND are not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations and Law on Foreign Investment in Vietnam, the Group is permitted to exchange RMB and VND for other currencies through banks authorised to conduct foreign exchange business.

28. TRADE PAYABLES

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 – 30 days	5,058	5,008
31 – 60 days	1,710	1,886
61 – 90 days	79	1,430
91– 120 days	7	86
Over 120 days	99	338
Over 1 year	14,437	14,295
	21,390	23,043

29. DUE TO DIRECTORS

The amounts due to directors of HK\$8,841,000 are unsecured, interest-free and have no fixed terms of repayment.

The remaining amounts due to directors bear interest at the rate of 1% (2002: 1%) over the Hong Kong dollar prime rate per annum, and are unsecured and have no fixed terms of repayment.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current portion of bank loans (note 31)	52,650	60,760
Current portion of finance lease payables (note 32)	289	289
	52,939	61,049

31. INTEREST-BEARING BANK LOANS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans, secured:		
Short term	27,269	34,536
Long term	74,633	101,482
	101,902	136,018
Portion classified as current liabilities (note 30):		
Short term bank loans	27,269	34,536
Long term bank loans repayable within one year	25,381	26,224
	52,650	60,760
Long term portion	49,252	75,258

	Group	
	2003	2002
	HK\$'000	HK\$'000
The interest-bearing bank loans are repayable as follows:		
Within one year	52,650	60,760
In the second year	3,117	3,224
In the third to fifth years, inclusive	46,135	72,034
	101,902	136,018

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

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

- (a) Certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam, with a net book value of approximately HK\$71,406,000 (2002: HK\$74,658,000).
- (b) The Group's plant and machinery, with a net book value of approximately HK\$261,186,000 (2002: HK\$138,704,000).
- (c) Certain of the Group's time deposits, which amounted to HK\$20,312,000 as at 31 December 2002.

32. 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 one to two years.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	354	354	289	289
In the second year	266	354	216	254
In the third to fifth years, inclusive	—	266	—	250
Total minimum finance lease payments	620	974	505	793
Future finance charges	(115)	(181)		
Total net finance lease payables	505	793		
Portion classified as current liabilities (note 30)	(289)	(289)		
Long term portion	216	504		

33. PROMISSORY NOTE

The promissory note with a principal value of HK\$200,000,000 is due to a director, Mr. Luk King Tin, as part of the consideration for the acquisition of a 65% equity interest of VI during the year. The promissory note bears interest at the rate of 2% per annum and falls due five years after the date of issue on 31 March 2003. The interest portion of the promissory note will be waived if the Group settle the principal amount to Mr. Luk King Tin, within the first 24 months after the date of issue.

34. DUE TO A RELATED COMPANY

A portion of the amount due to a related company of HK\$2,200,000 is unsecured, interest-free and is repayable after one year. Apart from this, the remaining amount due to a related company is unsecured, interest-free and is repayable within one year.

35. PROVISIONS**Group**

	Long service payments <i>HK\$'000</i>	Environmental restoration <i>HK\$'000</i>	Total <i>HK\$'000</i>
At beginning of year	3,625	—	3,625
Additional provision	39	600	639
At end of year	<u>3,664</u>	<u>600</u>	<u>4,264</u>

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.

The provision for environmental restoration costs has been determined by the directors based on their best estimates. However, in so far as the effect on the land and the environment from current limestone excavation activities becomes apparent in future periods, the estimate of the associated costs may be subject to change.

36. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities**Group**

	2003 HK\$'000	2002 HK\$'000
At beginning of year		
As previously reported	597	597
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	(597)	(597)
As restated and at end of year	–	–

The deferred tax liabilities were recognised in respect of accelerated tax depreciation.

Deferred tax assets**Group**

	2003 HK\$'000	2002 HK\$'000
At beginning of year		
As previously reported	–	–
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	3,501	3,501
As restated	3,501	3,501
Deferred tax charged to the profit and loss account during the year (note 10)	(1,871)	–
Gross deferred tax assets at end of year	1,630	3,501
Net deferred tax assets at end of year	1,630	3,501

The deferred tax assets were recognised in respect of the losses available for offset against future taxable profits.

The Group has tax losses arising in Hong Kong of HK\$80,298,000 (2002: HK\$70,342,000) that are available indefinitely and tax losses of HK\$4,071,000 (2002: HK\$3,614,000) arising in Vietnam that are available for a maximum of five years. These tax losses can be utilised for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

36. DEFERRED TAX (Cont'd)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK\$1,630,000 and HK\$3,501,000, respectively and a decrease in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK\$597,000. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 December 2003 has been decreased by HK\$1,871,000, and the consolidated retained profits at 1 January 2003 and 2002 have been increased by HK\$2,987,000, after a minority interest share of HK\$1,111,000, as detailed in the consolidated statement of changes in equity.

37. SHARE CAPITAL

Shares	2003 HK\$'000	2002 HK\$'000
Authorised:		
760,000,000 ordinary shares of HK\$0.01 each	7,600	7,600
Issued and fully paid:		
319,990,917 (2002: 303,790,244) ordinary shares of HK\$0.01 each	3,200	3,038

During the year, the movements in share capital were as follows:

- 2,370,673 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$0.90 per share pursuant to the exercise of the Company's warrants for a total cash consideration before expenses of HK\$2,133,606.
- The subscription rights attaching to 13,330,000 share options were exercised at a subscription price of HK\$0.65 per share, resulting in the issue of 13,330,000 shares of HK\$0.01 each for a total cash consideration before expenses of HK\$8,664,500.
- The subscription rights attaching to 500,000 share options were exercised at a subscription price of HK\$0.98 per share, resulting in the issue of 500,000 shares of HK\$0.01 each for a total cash consideration before expenses of HK\$490,000.

Notes to Financial Statements (Cont'd)

31 December 2003

37. SHARE CAPITAL (Cont'd)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

		Number of shares in issue	Issued share capital	Share premium account	Total
	<i>Notes</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002		316,422	3,164	436	3,600
Warrants exercised		302	3	269	272
Share options exercised		570	6	365	371
Shares re-purchased		(13,504)	(135)	–	(135)
At 31 December 2002 and 1 January 2003		303,790	3,038	1,070	4,108
Warrants exercised	(a)	2,371	24	2,110	2,134
Share options exercised	(b)	13,330	133	8,531	8,664
Share options exercised	(c)	500	5	485	490
At 31 December 2003		319,991	3,200	12,196	15,396

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 38 to the financial statements.

Warrants

During 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 per share, subject to adjustment, payable in cash.

During 2003, 2,370,673 warrants were exercised for 2,370,673 shares of HK\$0.01 each at a price of HK\$0.90 per share. At the balance sheet date, the Company had 62,246,639 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 62,246,639 additional ordinary shares of the Company and additional share capital of HK\$622,466 and share premium of HK\$55,399,509 (before issue expenses).

38. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The Scheme 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. 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.

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 2003	Number of share options		At 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK\$	Price of Company's shares**	
		Granted during the year	Exercised during the year					At grant date of options HK\$	At exercise date of options HK\$
Directors									
Luk King Tin	6,700,000	-	(6,700,000)	-	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	1.05
Luk Yan	3,000,000	-	(3,000,000)	-	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	1.05
	<u>9,700,000</u>	<u>-</u>	<u>(9,700,000)</u>	<u>-</u>					
Other employees									
In aggregate	5,800,000	-	(500,000)	5,300,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.98	0.68	1.15
	3,890,000	-	(3,630,000)	260,000	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68	1.12
	<u>9,690,000</u>	<u>-</u>	<u>(4,130,000)</u>	<u>5,560,000</u>					
	<u>19,390,000</u>	<u>-</u>	<u>(13,830,000)</u>	<u>5,560,000</u>					

38. 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 changes 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 line.

The 13,830,000 share options exercised during the year resulted in the issue of 13,830,000 ordinary shares of the Company and new share capital of HK\$138,300 and share premium of HK\$9,016,200 (before issue expenses), as detailed in note 37 to the financial statements.

At the balance sheet date, the Company had 5,560,000 share options outstanding under the Scheme, which represented approximately 1.74% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 5,560,000 additional ordinary shares of the Company and additional share capital of HK\$55,600 and share premium of HK\$5,307,400 (before issue expenses).

39. 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 pages 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, 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 entity 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 of subsidiaries prior to 1 January 2001, remains credited to the Group's capital reserve, as further detailed in note 16 to the financial statements.

39. RESERVES (Cont'd)
(b) Company

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002		436	708,621	(3,556)	705,501
Exercise of warrants	37	269	–	–	269
Exercise of share options	37	365	–	–	365
Arising from repurchase of shares		–	(13,168)	–	(13,168)
Net loss for the year		–	–	(1,647)	(1,647)
Interim dividend	12	–	(12,175)	–	(12,175)
Proposed 2002 final dividend	12	–	(18,319)	–	(18,319)
At 31 December 2002		1,070	664,959	(5,203)	660,826
Exercise of warrants	37	2,110	–	–	2,110
Exercise of share options	37	9,016	–	–	9,016
Underprovision of 2002 final dividend		–	(836)	–	(836)
Net loss for the year		–	–	(6,284)	(6,284)
Interim dividend	12	–	(12,759)	–	(12,759)
Proposed 2003 final dividend	12	–	(19,199)	–	(19,199)
At 31 December 2003		12,196	632,165	(11,487)	632,874

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 39(a), over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus in certain circumstances.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Acquisition of a subsidiary**

	Notes	2003 HK\$'000
Net assets acquired:		
Fixed assets	14	1,340
Technical know-how	17	4,375
Trade receivables		15
Other receivables, prepayments and deposits		226
Cash and bank balances		403
Trade payables		(376)
Other payables and accruals		(40)
Due to a director		(8,726)
Due to a related company		(7,656)
		(10,439)
Goodwill on acquisition	16	299,049
		288,610
Satisfied by:		
Cash		60,000
Promissory note	33	200,000
Reclassification to interest in a subsidiary from investment securities	22	28,610
		288,610

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2003 HK\$'000
Cash consideration	(60,000)
Cash and bank balances acquired	403
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(59,597)

Since its acquisition, VI contributed HK\$2,985,000 to the Group's turnover and a loss of HK\$14,381,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(b) Disposal of subsidiaries**

	2002 HK\$'000
Net assets disposed of:	
Other investments	134,100
Other debtors, prepayments and deposits	649
Deposits received from disposal of certain other investments	(51,800)
	<u>82,949</u>
Satisfied by:	
Cash	<u>82,949</u>
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:	
Cash consideration	<u>82,949</u>

The results of the subsidiary disposed of in the year ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

41. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to four 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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2003 HK\$'000	2002 HK\$'000
Within one year	34,681	29,488
In the second to fifth years, inclusive	42,775	46,927
	<u>77,456</u>	<u>76,415</u>

41. OPERATING LEASE ARRANGEMENTS (Cont'd)**(b) As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between one and three years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	644	—
In the second to fifth years, inclusive	676	—
	1,320	—

42. COMMITMENTS

In addition to the operating lease arrangements detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Authorised and contracted for fixed assets	2,134	5,901
Capital contributions to an associate	2,282	2,282
Total capital commitments	4,416	8,183

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

43. RELATED PARTY TRANSACTIONS

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

	Notes	Group 2003 HK\$'000	2002 HK\$'000
Investee companies:			
Rental income	(i)	—	312
Directors:			
Interest expense on directors' loans	(ii)	176	301
Directors:			
Interest expense on promissory note	(iii)	3,014	—

Notes:

- (i) The 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.
- (ii) The interest expense was paid to the directors on the amounts due to them at the rate of 1% (2002: 1%) over the Hong Kong dollar prime rate per annum.
- (iii) The interest expense was paid to a director on the promissory note due to him at the rate of 2% (2002: Nil) per annum.

Details of the Group's amounts due to directors are included in note 29 to the financial statements.

During the year, the Group acquired the entire issued share capital of Heritage, which holds 65% equity interests in VI, from Mr. Luk King Tin, for a total consideration of HK\$260,000,000 which was settled by cash of HK\$60,000,000 and a promissory note of HK\$200,000,000. The consideration was arrived with reference to a business valuation of VI carried out by an independent valuer. Further details of the transaction are included in note 40(a) and in the "Connected transaction" section of the Report of the Directors on page 17.

44. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2004.