

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

**Principal activities**

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 18 to 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

**Results and dividends**

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 81.

An interim dividend of HK 3 cents per ordinary share was paid on 15 October 2004. The directors recommend the payment of a final dividend of HK 5 cents per ordinary share in respect of the year, to shareholders on the register of members on 20 May 2005. This recommendation has been incorporated in the financial statements as an allocation 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**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>30,632</u>	<u>20,183</u>	<u>52,358</u>	<u>36,462</u>	<u>(666,142)</u>

**Assets, Liabilities and Minority Interests**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Total assets	<u>1,349,859</u>	<u>1,361,357</u>	<u>1,172,254</u>	<u>1,147,966</u>	<u>1,016,040</u>
Total liabilities	<u>(217,977)</u>	<u>(459,376)</u>	<u>(292,321)</u>	<u>(298,558)</u>	<u>(223,010)</u>
Minority interests	<u>(43,376)</u>	<u>(27,421)</u>	<u>(15,514)</u>	<u>(7,430)</u>	<u>(6,543)</u>
	<u>1,088,506</u>	<u>874,560</u>	<u>864,419</u>	<u>841,978</u>	<u>786,487</u>

*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subsidiary of the Company and its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was withdrawn, with the shares of the Company being listed on the Stock Exchange, in lieu thereof, on 4 April 2001.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 year 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 2004, 2003, 2002 and 2001 were extracted from the audited financial statements of the Company and reclassified as appropriate.

The amounts for each of the years ended 31 December in 2002, 2001 and 2000 have been adjusted for the effects of the retrospective changes in accounting policy affecting deferred tax.

**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 82.

**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 36 and 37 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 38(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

**Distributable reserves**

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK\$591,630,000, of which HK\$24,535,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$198,801,000, 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 43% of the total sales for the year and sales to the largest customer included therein amounted to 25%. 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.

**Directors**

The directors of the Company during the year were:

*Executive directors:*

Luk King Tin

Cheng Cheung

Wong Hoi Wah (resigned on 30 September 2004)

Luk Yan

Fan Chiu Tat, Martin

*Independent non-executive directors:*

Liang Fang

Liu Li Yuan

Chan Yuk Tong (appointed on 30 September 2004)

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

In accordance with clause 86(2) of the Company's bye-laws, Mr. Chan Yuk Tong, being the independent non-executive director of the Company, will retire, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

**Directors' and senior management's biographies**

Mr. Luk King Tin, aged 67, 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 30 years. He is responsible for formulating the Group's strategies and policies.

Madam Cheng Cheung, aged 64, is an executive director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for 30 years. She is mainly responsible for finance, human resources and administrative functions of the Group.

Mr. Luk Yan, aged 40, 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 15 years.

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

Mr. Fan Chiu Tat, Martin, aged 38, 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 Institute of Certified Public Accountants. Mr. Fan is also the Financial Controller of the Company. He has been with the Group for 15 years.

Mr. Liang Fang, aged 52, 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.

Mr. Liu Li Yuan, aged 54, 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 investment and management company in the People's Republic of China (the "PRC").

Mr. Chan Yuk Tong, aged 42, is an independent non-executive director of the Company. Mr. Chan is a shareholder and a director of a CPA firm and a financial consulting firm in Hong Kong. He is the holder of a Bachelor Degree in Commerce from the University of Newcastle in Australia. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He has around 20 years of experience in auditing, accounting, management consultancy and financial advisory services. He is currently an independent non-executive director of two other listed companies in Hong Kong, namely Daisho Microline Holdings Limited and Kam Hing International Holdings 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 42 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 and underlying shares**

At 31 December 2004, the interests and short positions of the directors in the share capital and underlying shares 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 Issuers (the "Model Code"), were as follows:

*Long positions in ordinary shares of the Company:*

Name of director	Notes	Number of shares held, capacity and nature of interest			Percentage of the	
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	Company's issued share capital
Luk King Tin	(a)	164,897,286	–	57,226,071	222,123,357	45.27
Cheng Cheung	(b)	12,456,800	–	36,912,027	49,368,827	10.06
Luk Yan	(c)	3,370,800	54,000	–	3,424,800	0.70
Fan Chiu Tat, Martin		500,000	–	–	500,000	0.10
		<u>181,224,886</u>	<u>54,000</u>	<u>94,138,098</u>	<u>275,416,984</u>	<u>56.13</u>

*Long positions in shares of an associated corporation:*

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

**Directors' interests and short positions in shares and underlying shares (Cont'd)***Notes:*

- (a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 57,226,071 shares of the Company at the balance sheet date.
- (b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 shares of the Company at the balance sheet date.
- (c) Mr. Luk Yan had a family interest, which held 54,000 shares of the Company at the balance sheet date.
- (d) Mr. Luk King Tin had a beneficial interest in Vigconic Biotechnology Company Limited, which held 98,996 shares of HK\$1 each of Vigconic (International) Limited ("VI") at the balance sheet date.

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, as at 31 December 2004, 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.

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

Save as disclosed under the warrant disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares 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 2004, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 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
KT (Holdings) Limited	Directly beneficially owned	57,226,071	11.66
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.52

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" 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 with Mr. Luk King Tin to acquire the entire issued share capital of Heritage Ventures International Limited, which holds 65% of the issued share capital of VI, at a total consideration of HK\$260 million, satisfied as to HK\$60 million in cash and HK\$200 million by way of issuance of a promissory note. The promissory note bore interest at the rate of 2% per annum and falls due five years after the date of issue on 31 March 2003, on which the acquisition was completed. The interest portion of the promissory note will be waived if the Group settles the principal amount to Mr. Luk King Tin within the first 24 months after the date of issue.

On 6 May 2004, the Group entered into an Early Redemption Agreement with Mr. Luk King Tin in relation to the early redemption of the promissory note. Pursuant to the Early Redemption Agreement, the promissory note was fully redeemed by payment of HK\$180 million to Mr. Luk King Tin, representing a discount of 10% to the principal sum of the promissory note, as to HK\$45 million in cash and HK\$135 million by issuing 111,478,117 ordinary shares of the Company at a subscription price of HK\$1.211 per share. The interest portion of the promissory note of approximately HK\$3 million was waived, as the Group settled the principal amount to Mr. Luk King Tin within the first 24 months after the date of issue of the promissory note. Further details of the early redemption are set out in the Company's circular dated 31 May 2004.



**Post balance sheet events**

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.

**Code of Best Practice**

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report.

**Audit committee**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three 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

26 April 2005