



安永會計師事務所

To the members

Luks Industrial (Group) Limited*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 28 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Impairment of goodwill

Included in the consolidated balance sheet as at 31 December 2004 is goodwill of the Group with a carrying amount of approximately HK\$247 million. The subsidiary to which this goodwill is related is engaged in the manufacture and sale of health care products. The directors are of the opinion, based on a business valuation performed as at the balance sheet date, that the recoverable amount of the goodwill exceeds its carrying amount in the consolidated balance sheet and no provision for impairment is necessary. However, the forecast revenue for the year ended 31 December 2004 on which the business valuation performed in the prior year was based was not met and furthermore, we have been unable to obtain sufficient reliable evidence to satisfy ourselves as to the reasonableness of the bases and assumptions used by the directors in arriving at the business valuation performed at the balance sheet date. Accordingly, in our view, a provision for impairment in respect of the goodwill should be made. However, in the absence of further information, we are unable to quantify the amount of the provision required. Any adjustment to the goodwill would have a consequential impact on the Group's net assets as at 31 December 2004 and results for the year then ended, on the amount of the interests in subsidiaries in the Company's balance sheet as at 31 December 2004 and the loss of the Company for the year then ended, and the related disclosures thereof in the financial statements.

Opinion

Except for the absence of a provision against the carrying amount of the goodwill of the Group and the amounts of the Company's interests in subsidiaries referred to above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

26 April 2005