

1. CORPORATE INFORMATION

The principal office of Luks Industrial (Group) Limited is located at 5/F, Cheong Wah Factory Building, Nos. 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
- manufacture and sale of electronic products
- sale of plywood and other wood products
- property investment
- investment holding

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2004. 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.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits 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 Group/Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group/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 Group/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.

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

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.

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 combinations" 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 and its net selling price.

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

Impairment of assets (Cont'd)

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.

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.

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

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.

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.

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

Leased assets (Cont'd)

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Cash and cash equivalents (Cont'd)**

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.

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.

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

Income tax (Cont'd)

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 service 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 entity and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entity 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 others 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	Cement products		Health care products		Property investment		Investment		Corporate		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	211,954	194,634	4,629	2,985	56,967	48,270	-	-	-	-	4,594	4,406	278,144	250,295
Other revenue	717	435	77	20	6,983	27,022	4,734	1,060	20,000	-	167	58	32,678	28,595
Total	212,671	195,069	4,706	3,005	63,950	75,292	4,734	1,060	20,000	-	4,761	4,464	310,822	278,890
Segment results	58,433	58,709	(45,804)	(36,809)	25,986	36,970	(4,554)	(1,354)	10,233	(9,206)	226	(540)	44,520	47,770
Interest and dividend income													2,115	4,596
Profit from operating activities													46,635	52,366
Finance costs													(3,994)	(12,871)
Share of profits and losses of a jointly-controlled entity	-	-	-	-	6,533	(4,567)	-	-	-	-	-	-	6,533	(4,567)
Profit before tax													49,174	34,928
Tax													(6,309)	(3,152)
Profit before minority interests													42,865	31,776
Minority interests													(12,233)	(11,593)
Net profit from ordinary activities attributable to shareholders													30,632	20,183

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

Group	Cement		Health		Property		Investment		Corporate		Others		Consolidated	
	products		care products		investment									
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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 assets	347,990	361,694	255,123	286,014	561,481	545,426	59,112	73,797	23,754	20,793	4,296	2,821	1,251,756	1,290,545
Interest in a jointly-controlled entity	-	-	-	-	5,697	(3,039)	-	-	-	-	-	-	5,697	(3,039)
Unallocated assets													92,406	73,851
Total assets													1,349,859	1,361,357
Segment liabilities	40,454	36,505	20,603	19,860	70,509	78,479	23,049	23,253	16,635	9,274	8,602	8,502	179,852	175,873
Unallocated liabilities													38,125	283,503
Total liabilities													217,977	459,376
Other segment information:														
Depreciation and amortisation	17,221	16,949	30,912	23,119	5,530	3,215	1,100	3,845	106	30	83	1	54,952	47,159
Capital expenditure	5,738	17,128	212	617	205	794	-	-	462	110	998	-	7,615	18,649
Reversal of impairment of an investment security	-	-	-	-	-	-	234	-	-	-	-	-	234	-
Loss on disposal of other investments	-	-	-	-	-	-	-	(746)	-	-	-	-	-	(746)
Gain on disposal of short term investments	-	-	-	-	-	-	-	948	-	-	-	-	-	948
Impairment of interest in an associate	-	-	-	-	-	-	(128)	(241)	-	-	-	-	(128)	(241)
Impairment of an investment security	-	-	-	-	-	-	-	(390)	-	-	-	-	-	(390)
Provision for doubtful debts	-	-	(3)	-	(20)	(389)	(6,741)	(201)	-	-	(55)	(25)	(6,819)	(615)

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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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>8,416</u>	<u>6,615</u>	<u>10,400</u>	<u>11,537</u>	<u>259,328</u>	<u>232,143</u>	<u>278,144</u>	<u>250,295</u>
Other segment information:								
Segment assets	517,941	540,816	85,767	82,228	746,151	738,313	1,349,859	1,361,357
Capital expenditure	<u>674</u>	<u>727</u>	<u>-</u>	<u>-</u>	<u>6,941</u>	<u>17,922</u>	<u>7,615</u>	<u>18,649</u>

5. TURNOVER, REVENUE AND GAINS

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 gains is as follows:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale of cement	211,954	194,634
Sale of electronic products	2,431	3,299
Sale of holistic health care products	4,629	2,985
Sale of plywood and other wood products	2,163	1,107
Gross rental income	<u>56,967</u>	<u>48,270</u>
	<u>278,144</u>	<u>250,295</u>
Other revenue and gains		
Interest income	2,115	3,758
Dividend income from listed other investments	-	838
Gain on disposal of short term investments	-	948
Write-back of other payables	6,438	26,836
Write-back of impairment of interest in a jointly-controlled entity	4,901	-
Write-back of impairment of an investment security	234	-
Gain on early redemption of the principal of a promissory note	20,000	-
Others	<u>1,105</u>	<u>811</u>
	<u>34,793</u>	<u>33,191</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
	<i>Notes</i>	2004	2003
		HK\$'000	HK\$'000
Cost of inventories sold		137,218	118,893
Depreciation	14 & 15	23,626	23,435
Goodwill amortisation*	16	30,826	23,349
Amortisation of technical know-how**	17	500	375
Research and development costs*		4,581	6,822
Auditors' remuneration		919	618
Minimum operating lease payments			
in respect of land and buildings		792	462
Staff costs (excluding directors' remuneration, note 8):			
Wages and salaries		19,146	18,323
Pension scheme contributions		811	635
		19,957	18,958
Exchange losses, net		1,325	2,728
Impairment of interest in an associate*		128	241
Impairment/(reversal of impairment) of			
an investment security		(234)	390
Provision for doubtful debts*		6,819	615
Loss/(gain) on disposal of fixed assets*		(283)	73
Loss on write-off of a deregistered subsidiary*		3,708	–
Net rental income		(54,735)	(46,168)

* 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	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	6,898	9,615
Promissory note repayable within five years	–	3,014
Loans from directors repayable within five years	44	176
Finance leases	66	66
	<u>7,008</u>	<u>12,871</u>
Waive of interest expense on a promissory note	<u>(3,014)</u>	<u>–</u>
	<u>3,994</u>	<u>12,871</u>

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	
	2004	2003
	HK\$'000	HK\$'000
Fees	<u>625</u>	<u>700</u>
Other emoluments:		
Salaries and allowances	5,362	5,362
Pension scheme contributions	36	36
	<u>5,398</u>	<u>5,398</u>
	<u>6,023</u>	<u>6,098</u>

Fees include HK\$225,000 (2003: HK\$200,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

8. DIRECTORS' REMUNERATION (Cont'd)

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

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	5	4
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>8</u>	<u>7</u>

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

9. HIGHEST PAID EMPLOYEES

The six highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries	<u>1,600</u>	<u>1,101</u>

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

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	Group	
	2004	2003
	HK\$'000	HK\$'000
Group		
Current – Hong Kong		
Charge for the year	–	47
Underprovision/(overprovision) in prior years	(72)	137
Current – Elsewhere	1,842	148
Deferred (note 35)	1,812	1,871
	<u>3,582</u>	<u>2,203</u>
Share of tax attributable to a jointly-controlled entity	<u>2,727</u>	<u>949</u>
Total tax charge for the year	<u>6,309</u>	<u>3,152</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%.

10. TAX (Cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of 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 – 2004

	Hong Kong		Mainland China		Vietnam		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(48,060)		9,332		87,902		49,174	
Tax at the statutory tax rate	(8,411)	(17.5)	3,079	33.0	6,593	7.5	1,261	2.6
Lower tax rate for specific provinces or local tax authority	-	-	(161)	(1.7)	-	-	(161)	(0.3)
Adjustments in respect of current tax of previous periods	(72)	(0.1)	-	-	-	-	(72)	(0.1)
Income not subject to tax	(6,315)	(13.1)	(628)	(6.7)	(2,997)	(3.4)	(9,940)	(20.2)
Expenses not deductible for tax	9,639	20.0	745	7.9	313	0.4	10,697	21.8
Tax losses utilised	-	-	-	-	(512)	(0.6)	(512)	(1.0)
Tax losses not recognised	5,036	10.4	-	-	-	-	5,036	10.2
Tax charge at the Group's effective rate	(123)	(0.3)	3,035	32.5	3,397	3.9	6,309	13.0

Group – 2003

	Hong Kong		Mainland China		Vietnam		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	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	5,413	18.0	-	-	660	1.0	6,073	17.4
Tax charge at the Group's effective rate	184	0.6	1,097	41.0	1,871	2.8	3,152	9.0

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK\$13,233,000 (2003: HK\$6,284,000) (note 38(b)).

12. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim – HK 3 cents (2003: HK 4 cents) per ordinary share	14,721	12,759
Proposed final – HK 5 cents (2003: HK 6 cents) per ordinary share	24,535	19,199
	<u>39,256</u>	<u>31,958</u>

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$30,632,000 (2003: HK\$20,183,000), and the weighted average of 413,517,805 (2003: 313,607,482) 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\$30,632,000 (2003: HK\$20,183,000). The weighted average number of ordinary shares used in the calculation is the 413,517,805 (2003: 313,607,482) ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 7,200,449 (2003: 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 733,130 (2003: 2,551,431) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

14. FIXED ASSETS
Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Launch <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construc- tion in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:									
At beginning of year	104,172	2,012	368,192	14,160	610	2,307	13,015	2,980	507,448
Additions	834	50	2,397	359	250	–	740	2,985	7,615
Disposals	–	–	–	(316)	–	–	(730)	(2,539)	(3,585)
Transfers	–	–	2,567	–	–	–	–	(2,567)	–
Exchange realignment	(388)	–	(2,601)	(79)	–	–	(57)	(19)	(3,144)
At 31 December 2004	104,618	2,062	370,555	14,124	860	2,307	12,968	840	508,334
Accumulated depreciation:									
At beginning of year	31,207	1,536	107,006	10,989	311	2,280	7,088	–	160,417
Provided during the year	2,002	173	15,215	1,131	88	7	1,333	–	19,949
Disposals	–	–	–	(291)	–	–	(730)	–	(1,021)
Exchange realignment	(183)	–	(834)	(65)	–	–	(28)	–	(1,110)
At 31 December 2004	33,026	1,709	121,387	11,764	399	2,287	7,663	–	178,235
Net book value:									
At 31 December 2004	71,592	353	249,168	2,360	461	20	5,305	840	330,099
At 31 December 2003	72,965	476	261,186	3,171	299	27	5,927	2,980	347,031

14. FIXED ASSETS (Cont'd)

Company

	Furniture fixture and office equipment HK\$'000	Computer equipment HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Cost:				
At beginning of year	177	28	–	205
Additions	13	14	435	462
At 31 December 2004	190	42	435	667
Accumulated depreciation:				
At beginning of year	34	3	–	37
Provided during the year	37	5	63	105
At 31 December 2004	71	8	63	142
Net book value:				
At 31 December 2004	119	34	372	525
At 31 December 2003	143	25	–	168

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Situated in Hong Kong:		
Long term leases	44,060	44,060
Situated elsewhere:		
Short term leases	60,558	60,112
	104,618	104,172

At 31 December 2004, certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam with an aggregate net book value of approximately HK\$46,824,000 (2003: HK\$71,406,000) and the Group's plant and machinery with a net book value of approximately HK\$219,938,000 (2003: HK\$261,186,000) were pledged to secure general banking facilities granted to the Group (note 30).

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2004 was nil (2003: HK\$364,000).

15. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	534,481	523,741
Surplus on revaluation	21,596	17,883
Exchange realignment	(2,270)	(7,143)
At end of year	553,807	534,481
Accumulated depreciation:		
At beginning of year	21,104	17,890
Provided during the year	3,677	3,214
At end of year	24,781	21,104
Net book value:		
At end of year	529,026	513,377

The investment properties are held under the following lease terms:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Situated in Hong Kong:		
Long term leases	10,854	9,579
Medium term leases	70,040	67,854
Situated elsewhere:		
Long term leases	45,231	42,754
Medium term leases	367,089	351,780
Short term leases	35,812	41,410
	529,026	513,377

The investment properties were revalued on 31 December 2004 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 40(a) to the financial statements. Further particulars of the Group's investment properties are included on page 82.

16. GOODWILL AND NEGATIVE GOODWILL

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

	Group HK\$'000
Cost:	
At beginning of year and at 31 December 2004	317,471
Accumulated amortisation:	
At beginning of year	24,270
Provided during the year	30,826
At 31 December 2004	55,096
Net book value:	
At 31 December 2004	262,375
At 31 December 2003	293,201

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 2004.

The directors are of opinion that the recoverable amount of the goodwill exceeds the carrying amount in the consolidated balance sheet and no provision for impairment is necessary.

17. TECHNICAL KNOW-HOW

	Group HK\$'000
Cost:	
At beginning of year and at 31 December 2004	4,375
Accumulated amortisation:	
At beginning of year	375
Provided during the year	500
At 31 December 2004	875
Net book value:	
At 31 December 2004	3,500
At 31 December 2003	4,000

18. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	785,890	785,890
Due from subsidiaries	309,849	294,793
Due to subsidiaries	(371,550)	(310,857)
	724,189	769,826
Provision for impairment	(29,680)	–
	694,509	769,826

The amount due from Vigconic (International) Limited ("VI") of HK\$29,680,000 (2003: HK\$14,683,000) is unsecured, bears interest at the rate of 1% (2003:1%) over the Hong Kong dollar prime rate per annum and is not repayable within one year. The remaining amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable within one year.

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
			2004	2003	
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

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
			2004	2003	
Luks Timber (Vietnam) Limited ^{***}	Vietnam	VND 15,715,698,000	100	–	Sale of plywood
Luks – Vaxi Company Limited*	Vietnam	VND329,356,867,000	68.1	68.1	Manufacture and sale of cement
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	75	Manufacture and sale of holistic health care products

* Held through subsidiaries

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

Newly set up during the year

The above table lists the 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	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	27,351	18,615
Due to a jointly-controlled entity	(21,654)	(21,654)
	<u>5,697</u>	<u>(3,039)</u>

The amount due to the 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 Voting power	Profit sharing	Principal activity
Chengdu Leming House Development Company Limited	Corporate	PRC	75	57	75	Property development

The above jointly-controlled entity is held through a 68% owned subsidiary.

20. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	—	—
Loans to associates	27,943	27,815
	<u>27,943</u>	<u>27,815</u>
Provision for impairment	(27,943)	(27,815)
	<u>—</u>	<u>—</u>

20. INTERESTS IN ASSOCIATES (Cont'd)

The loans to the 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
			2004	2003	
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	
	2004 HK\$'000	2003 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 SECURITY

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed equity investment, overseas, at cost	23,878	23,878
Provision for impairment	(23,644)	(23,878)
	234	–

23. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	3,079	3,895
Work in progress	2,123	967
Finished goods	8,346	5,856
	13,548	10,718

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2003: HK\$92,000) as at the balance sheet date.

24. 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 for 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	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	9,826	10,647
31 – 60 days	951	2,821
61 – 90 days	546	1,139
91 – 120 days	688	419
Over 120 days	2,015	595
Over 1 year	175	92
	<u>14,201</u>	<u>15,713</u>

25. SHORT TERM INVESTMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At fair value:				
Listed debts investments, overseas	1,094	–	1,094	–
Unlisted equity investments, overseas	1,777	1,788	–	–
	<u>2,871</u>	<u>1,788</u>	<u>1,094</u>	<u>–</u>

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	42,297	70,379	22,015	20,328
Time deposits	117,535	72,221	92,355	70,634
	159,832	142,600	114,370	90,962
Less: Non-pledged time deposits with original maturity of not less than three months when acquired	(27,924)	–	(27,924)	–
	131,908	142,600	86,446	90,962

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) and Vietnamese Dong (“VND”) amounted to HK\$2,277,000 (2003: HK\$2,988,000) and HK\$6,391,000 (2003: HK\$7,966,000), 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 the 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.

27. TRADE PAYABLES

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	6,891	5,058
31 – 60 days	692	1,710
61 – 90 days	82	79
91 – 120 days	53	7
Over 120 days	501	99
Over 1 year	14,381	14,437
	22,600	21,390

28. DUE TO DIRECTORS

The amounts due to directors totalling of HK\$11,742,000 are unsecured, interest-free and have no fixed terms of repayment.

The remaining amounts due to directors are interest-free (2003: 1% over the Hong Kong dollar prime rate per annum) commencing from 1 July 2004, unsecured and have no fixed terms of repayment.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current portion of bank loans (note 30)	33,563	52,650
Current portion of finance lease payables (note 31)	216	289
	<u>33,779</u>	<u>52,939</u>

30. INTEREST-BEARING BANK LOANS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loans, secured:		
Short term	5,025	27,269
Long term	51,940	74,633
	<u>56,965</u>	<u>101,902</u>
Portion classified as current liabilities (note 29):		
Short term bank loans	5,025	27,269
Long term bank loans repayable within one year	28,538	25,381
	<u>33,563</u>	<u>52,650</u>
Long term portion	<u>23,402</u>	<u>49,252</u>

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

The interest-bearing bank loans are repayable as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	33,563	52,650
In the second year	2,934	3,117
In the third to fifth years, inclusive	20,468	46,135
	<u>56,965</u>	<u>101,902</u>

At the balance sheet date, the following assets were pledged to secure the 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\$46,824,000 (2003: HK\$71,406,000) (note 14).
- (b) The Group's plant and machinery with a net book value of approximately HK\$219,938,000 (2003: HK\$261,186,000) (note 14).

31. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles. These leases are classified as finance leases and have remaining lease terms of less than one year.

At 31 December 2004, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	266	354	216	289
In the second year	–	266	–	216
Total minimum finance lease payments	266	620	216	505
Future finance charges	(50)	(115)		
Total net finance lease payables	216	505		
Portion classified as current liabilities (note 29)	(216)	(289)		
Long term portion	–	216		

32. PROMISSORY NOTE

The promissory note with a principal value of HK\$200 million was due to a director, Mr. Luk King Tin, as part of the consideration for the acquisition of a 65% equity interest of VI in 2003. The promissory note bore interest at the rate of 2% per annum and fell due five years after the date of issue on 31 March 2003.

On 6 May 2004, the Company entered into an Early Redemption Agreement with Mr. Luk 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, 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 was waived as the Group settled the principal amount to Mr. Luk within the first 24 months after the date of issue.

33. DUE TO A RELATED COMPANY

A portion of the amount due to a related company of HK\$1,100,000 is unsecured, interest-free and is repayable after one year. The remaining amount due to the related company is unsecured, interest-free and is repayable within one year.

34. PROVISIONS**Group**

	Long service payments HK\$'000	Environmental restoration HK\$'000	Total HK\$'000
At beginning of year	3,664	600	4,264
Additional provision	411	–	411
Amounts utilised during the year	(74)	–	(74)
Reversal of unutilised amounts	(364)	–	(364)
Exchange realignment	–	(4)	(4)
At 31 December 2004	3,637	596	4,233

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.

35. DEFERRED TAX

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

Deferred tax liabilities

	Accelerated tax depreciation	
	2004	2003
	HK\$'000	HK\$'000
Deferred tax charged to the profit and loss account during the year and at end of year (note 10)	<u>1,591</u>	<u>–</u>

Deferred tax assets

	Losses available for offsetting against future taxable profit	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	1,630	3,501
Deferred tax charged to the profit and loss account during the year (note 10)	<u>(221)</u>	<u>(1,871)</u>
At end of year	<u>1,409</u>	<u>1,630</u>
Deferred tax assets/(liabilities) at end of year	<u>(182)</u>	<u>1,630</u>

The Group has tax losses arising in Hong Kong of HK\$86,751,000 (2003: HK\$80,298,000) that are available indefinitely, and in Vietnam of HK\$3,466,000 (2003: HK\$4,071,000) that are available for a maximum of five years 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 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint venture as the Group has no liability to additional tax should such amounts be remitted.

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

36. SHARE CAPITAL

Shares	2004 HK\$'000	2003 HK\$'000
Authorised:		
760,000,000 ordinary shares of HK\$0.01 each	7,600	7,600
Issued and fully paid:		
490,705,418 (2003: 319,990,917) ordinary shares of HK\$0.01 each	4,907	3,200

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

- 59,236,384 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\$53,312,746.
- 111,478,117 shares of HK\$0.01 each were issued at a subscription price of HK\$1.211 per share pursuant to the early redemption of the Company's promissory note for a total consideration before expenses of HK\$135,000,000.

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 HK\$'000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2003	303,790	3,038	1,070	4,108
Warrants exercised	2,371	24	2,110	2,134
Share options exercised	13,830	138	9,016	9,154
At 31 December 2003 and 1 January 2004	319,991	3,200	12,196	15,396
Warrants exercised (a)	59,236	592	52,720	53,312
Share issued (b)	111,478	1,115	133,885	135,000
At 31 December 2004	490,705	4,907	198,801	203,708

Share options

Details of the Company's share option scheme are set out in note 37 to the financial statements.

36. SHARE CAPITAL (Cont'd)

Warrants

The movements in warrants during the year were as follows:

Name or category of participant	Number of warrants			At 31 December 2004
	At 1 January 2004	Exercise during the year	Lapsed during the year	
Directors				
Luk King Tin	17,334,330	(17,273,586)	(60,744)	–
Chen Cheung	8,400,963	(7,364,008)	(1,036,955)	–
Wong Hoi Wah*	140,480	–	(140,480)	–
Luk Yan	70,800	(70,800)	–	–
	<u>25,946,573</u>	<u>(24,708,394)</u>	<u>(1,238,179)</u>	<u>–</u>
Others				
In aggregate	<u>36,300,066</u>	<u>(34,527,990)</u>	<u>(1,772,076)</u>	<u>–</u>
	<u>62,246,639</u>	<u>(59,236,384)</u>	<u>(3,010,255)</u>	<u>–</u>

* Wong Hoi Wah resigned as a director on 30 September 2004.

37. 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, remained 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.

37. SHARE OPTION SCHEME (Cont'd)

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 to dividends, or to vote at shareholders' meetings.

The movements in share options under the Scheme during the year were as follows:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options	Exercise	Price of
	At 1	Lapsed	At 31			price	Company's
	January	during	December			of share	shares at
	2004	the year	2004			options*	grant date
						HK\$	of options**
							HK\$
Other employees							
In aggregate	5,300,000	(5,300,000)	–	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.98	0.68
	260,000	(260,000)	–	4 Apr 2001	4 Apr 2001 to 11 Aug 2004	0.65	0.68
	<u>5,560,000</u>	<u>(5,560,000)</u>	<u>–</u>				

* 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.

At the balance sheet date, all share options under the Scheme had been expired.

38. 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 31 to 32 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.

The amount of negative goodwill of HK\$11,813,000 which arose on the 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.

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

		Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
	<i>Notes</i>				
At 1 January 2003		1,070	664,959	(5,203)	660,826
Exercise of warrants	36	2,110	–	–	2,110
Exercise of share options	36	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
Exercise of warrants	36	52,720	–	–	52,720
Issue of shares	36	133,885	–	–	133,885
Underprovision of 2003 final dividend		–	(1,094)	–	(1,094)
Net loss for the year		–	–	(13,233)	(13,233)
Interim dividend	12	–	(14,721)	–	(14,721)
Proposed 2004 final dividend	12	–	(24,535)	–	(24,535)
At 31 December 2004		198,801	591,815	(24,720)	765,896

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 38(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.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	Note	2003 HK\$'000
Net assets acquired:		
Fixed assets		1,340
Technical know-how		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		299,049
		<u>288,610</u>
Satisfied by:		
Cash		60,000
Promissory note	32	200,000
Reclassification to interest in a subsidiary from investment securities		28,610
		<u>288,610</u>

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	<u>(59,597)</u>

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

(a) Acquisition of a subsidiary (Cont'd)

The subsidiary acquired in the prior year 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.

(b) Major non-cash transaction

During the year, 111,478,117 shares of HK\$0.01 each were issued at a price of HK\$1.211 per share as part of the consideration for the early redemption of the promissory note. Further details of the early redemption of the promissory note are included in note 32 to the financial statements.

40. 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 six 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 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	39,541	34,681
In the second to fifth years, inclusive	20,194	42,775
After five years	311	—
	<u>60,046</u>	<u>77,456</u>

40. 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 two years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	396	644
In the second to fifth years, inclusive	281	676
	<u>677</u>	<u>1,320</u>

41. COMMITMENTS

In addition to the operating lease arrangements detailed in note 40(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Authorised and contracted for fixed assets	3,128	2,134
Capital contributions to an associate	2,282	2,282
Acquisition of additional interest in a subsidiary	31,200	—
Total capital commitments	<u>36,610</u>	<u>4,416</u>

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

42. 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 2004 HK\$'000	2003 HK\$'000
Directors:			
Interest expense on directors' loans	(i)	44	176
Director:			
Interest expense on a promissory note		–	3,014
Director:			
Redemption of a promissory note	(ii)	200,000	–
Director:			
Waive of interest on a promissory note	(ii)	3,014	–

Notes:

- (i) The interest expense was paid to the directors on the amounts due to them at the rate of 1% over the Hong Kong dollar prime rate per annum before 1 July 2004. The directors' loans are interest-free thereafter.

Details of the Group's amounts due to directors are included in note 28 to the financial statements.

- (ii) A promissory note with a principal value of HK\$200 million was early redeemed by the Group on 18 June 2004, and the related interest of HK\$3,014,000 was waived. Further details of the transaction are included in the note 32 to the financial statements and in the "Connected transaction" section of the Report of the Directors on page 24.

43. POST BALANCE SHEET EVENTS

(a) Acquisition of additional interest in Luks-Vaxi Company Limited

On 12 October 2004, the Company entered into an agreement pursuant to which Luks Vietnam Company Limited, a wholly-owned subsidiary of the Company, agreed to acquire from Thua Thien Hue Construction Corporation its 22.17% equity interest in Luks-Vaxi Company Limited ("Luks-Vaxi") at a total cash consideration of US\$4 million (approximately HK\$31,200,000). Luks-Vaxi is engaged in the manufacture and sale of cement for use in the construction industry in Vietnam. The acquisition was not completed and negative goodwill arising from this acquisition is estimated to be approximately HK\$8 million. The relevant capital commitment in respect of the acquisition is disclosed in note 41 to the financial statements.

43. POST BALANCE SHEET EVENTS (Cont'd)**(b) Purchase of clinkers' production line in Vietnam**

On 23 March 2005, Best Deluxe Assets Limited, a wholly-owned subsidiary of the Company, entered into an agreement with China National Aero-Technology Import & Export Corporation Beijing Company for the purchase of equipment, machinery and parts in connection with a clinkers' production line to be installed in Vietnam for a total consideration of US\$10,709,000 (approximately HK\$83,530,200) satisfied as to US\$3,212,700 (approximately HK\$25,059,060) in cash and US\$7,496,300 (approximately HK\$58,471,140) by way of letter of credit.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2005.