



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 27 to 108 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

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 Hong Kong Standards on Auditing 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.

Scope limitation-Impairment of goodwill

Included in the consolidated balance sheet as at 31 December 2004 was the goodwill of the Group with a net carrying amount of approximately HK\$247 million in relation to a subsidiary engaged in the manufacture and sale of traditional Chinese medicine products. In view of continuous loss making since acquisition of the subsidiary, the directors are of the opinion that the carrying amount of the goodwill in the consolidated balance sheet exceeded its recoverable amount, and therefore, based on a business valuation performed by directors as at balance sheet date, an impairment loss of approximately HK\$169 million was made. However, 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 as at balance sheet date, and therefore as to whether the carrying amount of the goodwill as at 31 December 2005 of approximately HK\$78 million and the impairment loss provided during the year then ended of approximately HK\$169 million are fairly stated. Any adjustment to the goodwill and impairment loss would have a consequential impact on the Group's net assets as at 31 December 2005 and its results for the year then ended, the amount of the interests in subsidiaries in the Company's balance sheet as at 31 December 2005 and the results of the Company for the year then ended, and the related disclosures thereof in the financial statements. Our report dated 26 April 2005 in respect of the financial statements for the year ended 31 December 2004 was also qualified in respect to the carrying amount of the abovementioned goodwill.

Opinion

Except for any adjustments that might have been found necessary had we been able to satisfy ourselves as to the reasonableness of the bases and assumptions in the business valuation used by the directors to determine the recoverable amount of the goodwill, 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 2005 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.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Ernst & Young

Certified Public Accountants

Hong Kong

20 April 2006