

Independent Auditors' Report



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of Luks Industrial (Group) Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Luks Industrial (Group) Limited set out on pages 21 to 95, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (Cont'd)

Basis for qualified opinion

Scope limitation – Prior year audit scope limitation affecting opening balances

As previously explained in our report dated 20 April 2006 on the consolidated financial statements for the year ended 31 December 2005, we were unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the goodwill included in the balance sheet as at 31 December 2005 in the amount of approximately HK\$78 million, and an impairment of goodwill made during the year of approximately HK\$169 million, in relation to a subsidiary engaged in the manufacture and sale of traditional Chinese medicine, were fairly stated. We qualified our opinion on the financial statements for that year on account of this scope limitation. As further detailed in note 17 to the financial statements, the directors considered the goodwill carried forward in relation to the above subsidiary had been fully impaired. Accordingly, an impairment provision of approximately HK\$78 million against goodwill was charged to the income statement in the current year.

Any adjustments that might have been found necessary in respect of the above as at 31 December 2005 would have had a consequential impact on the opening balances of net assets of the Group as at 1 January 2006, its profit for the year ended 31 December 2006, and the related disclosures in the financial statements.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of any adjustment to the profit of the Group for the year ended 31 December 2006 that might have been determined to be necessary had we been able to obtain sufficient evidence relating to the abovementioned goodwill as at 31 December 2005, 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
16 April 2007