Interim Report

2005

For the six months ended 30th June, 2005

陸氏實業(集團)有限公司
LUKS INDUSTRIAL (GROUP) LIMITED

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

For the six-month period ended 30 June 2005, the Group recorded a turnover of HK$152,027,000, representing an increase of 20% as compared to HK$126,635,000 for the corresponding period of last year.

The unaudited consolidated profit attributable to equity holders of the parent for the first half of 2005 was HK$31,393,000, representing an increase of 19.2% as compared to HK$26,337,000 for the same period in 2004.

The main sources of the Group's turnover came from its cement business and property investment business. The cement business recorded a turnover of HK$114,539,000, representing an increase of 15.3% as compared to that of the same period in last year. While the property investment business recorded a turnover of HK$33,981,000, representing an increase of 42.7% as compared to that of the same period in last year.

The Groups' profit attributable to equity holders of the parent also mainly attributed to the cement business and the property investment business. For the six-month period ended 30 June 2005, profits before taking into account of interest income, finance costs, tax, share of profits and losses of a jointly-controlled entity and minority interests came from the cement business and the property investment business for the period were HK$30,375,000 and HK$23,005,000 respectively, whereas the comparative figures for the corresponding period of last year were HK$30,762,000 and HK$6,320,000 respectively. The Traditional Chinese Medicine products ("TCM") business recorded a loss of HK$7,777,000 as compared to a loss of HK$24,495,000 for the corresponding period of last year. The loss for TCM business for prior period included an amortisation of goodwill of HK$15,413,000. Since commencing from this year, the Group has adopted HKFRS 3 and HKAS 36 (please refer to the accounting policies as set out in note 1(e) to the financial statements of this interim report for details), the directors are in the opinion that the value of the goodwill will be more objectively and reliably estimated at the end of the year and therefore, no provision for impairment to the goodwill was made during the period.

Cement Business

The Group's cement plant situated in Vietnam sold approximately 393,000 tonnes of cement and clinkers for the first six months of the year, representing an increase of 8.0% as compared to the same period of last year, thanks to the booming construction activities in Vietnam. The Group's cement, besides selling to the consumers' market, also supplied to contractors of some major national hydroelectric plants in Vietnam. The modified production lines have been able to achieve stable and smooth running and are expected to produce 750,000 tonnes of clinkers and cement for the full year of 2005. However, costs of direct materials, such as heavy oil, coal and bags increased dramatically during the period, which thus led to an increase in the production cost of cement.

Foreseeing a stable growing demand of cement in the Vietnamese local market for the coming years, the management decided to increase investments in the cement business in Vietnam, which including to increase the Groups' shareholding in the cement plant, as well as to increase the production capacity of the cement plant (please refer to the section "Material acquisitions" under the "Financial Review" of this interim report for details).

Saigon Trade Centre and other Investment Properties

The Group's Saigon Trade Centre, which is located in the Central Business District of Ho Chi Minh City in Vietnam, has taken advantage of the growing Vietnamese economy during the period. The lease-out rate of Saigon Trade Centre has substantially increased to 81% as at 30 June 2005 when compared to 71% as at 31 December 2004, whereas the average rental rate has also increased by about 8% as compared to that of the year-end 2004.

As the momentum of the Vietnamese economy is expected to remain strong, it is anticipated that the lease-out rate of the Group's Saigon Trade Centre shall keep increasing in the second half of 2005.

Most of the Group's other investment properties situated in Hong Kong and the PRC were leased out providing the Group a stable revenue and constant cashflow for the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Traditional Chinese Medicine (TCM) Products Business

The Group has pivoted its effort on developing the Traditional Chinese Medicine (TCM) products with therapeutic and adjuvant functions. Promising progresses and results have been achieved through clinical studies as well as scientific researches. Dr. K.M. Ko (Associate Professor, Department of Biochemistry, the Hong Kong University of Science and Technology, HKSAR) has conducted a clinical study, which examined the effect of chronic **VI-28** treatment on red cell CuZn-SOD activity, and mitochondrial ATP generation capacity and antioxidant components in various tissues (including brain, heart, liver and skeleton muscles) of rats. The results are positive and the report has been adopted by the medical journal, Rejuvenation Research, and will be published at the 4th Quarter this year. Dr. K.L. Chow (Associate Professor, Department of Biology, the Hong Kong University of Science and Technology, HKSAR) is currently engaging in studying the effects of **VI-28** in delaying the depletion of telomere which then lengthening cells' lives and thus to achieve anti-ageing. Many medical journals on anti-ageing had pointed out that oxidation will accelerate the loss of telomere and as a result expedite ageing processes. Various pharmaceutical companies as well as medical schools around the world are putting abundant resources into researches on anti-ageing. The Group places the clinical study conducted by Dr Chow with great importance and is very confident to obtain impressive results.

Vineuro, another prepared preparatory TCM formula developed by the Group, is to adjuvant the treatment of patients with Parkinson's or Alzheimer's Diseases. The second phase of multi-center clinical trials conducted by the Clinical Trials Center, Faculty of Medicine of the University of Hong Kong are undergoing at a number of public hospitals such as Prince of Wales Hospital. The study would be last for a year. The theme of the trial is to study the effect on subjects' activity abilities, reducing the symptoms and improving the quality of life by using **Vineuro** as the adjuvant to the medicine-treated Parkinson's Diseases patients.

The clinical trial that conducted in Queen Mary Hospital, which prepared by the Clinical Trials Centre, Faculty of Medicine of the University of Hong Kong was completed last year. The study was to evaluate the efficacy of **Vigchemo** in reducing the impact of chemotherapy-induced side effects and in improving the quality of life of the chemotherapy-treated patients. The efficacy response rate was over 83% denoting an encouraging result. The second phase of multi-center clinical trials has been commenced in certain hospitals in Hong Kong and Mainland China. The clinical trial in Mainland is conducted by the medical school of Beijing University. Six hospitals have joined the study with 240 subjects.

Vigchemo has been for sale in Hong Kong since mid-August this year with positive market response. The Group is confident that the sales will increase accordingly as the research studies have been commenced.

As Vigconic still places its emphasis on clinical studies and scientific researches, expenses on research are significant. As a result, Vigconic still recorded a loss for the first half of 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2005 amounted to HK$111,476,000 (as at 31 December 2004: HK$159,832,000). The Group's total borrowings amounted to HK$81,045,000 (as at 31 December 2004: HK$57,181,000), of which HK$28,818,000 was repayable within 1 year, HK$52,227,000 repayable over 1 year. The percentage of the Group's borrowings denominated in HK$ and Vietnamese Dong ("VND") were 38% and 62% respectively.

The gearing ratio, expressed as the percentage of long-term debt to equity, was 5% as at 30 June 2005 (as at 31 December 2004: 2%).

Material Acquisitions

In early 2005, the Group completed the acquisition of 22.17% equity interest in Luks Thua Thien Hue Company Limited ("Luks-Vaxi") pursuant to the agreement dated 12 October 2004. Luks-Vaxi, with its name being changed to Luks Cement (Vietnam) Limited, has become a 100% foreign-owned enterprise in Vietnam and is 90.27% owned by the Group.

On 23 March 2005, the Group entered into an agreement with China National Aero-Technology Import & Export Corporation Beijing Company for the purchase of a new clinkers' production line to be installed in Luks Cement (Vietnam) Limited, for a total consideration of US$10.709 million (equivalent to approximately HK$83,530,200). The consideration will be financed partly by banks' borrowings and partly by the Group's internal resources. It is expected that after the completion of the installation of the new production line, the maximum capacity of the Group's clinkers and cement production will be increased by 500,000 tonnes per annum, representing approximately an increase of 60% as compared to the existing capacity. The new production line is expected to commence operation in mid-2006.

On 7 July 2005, the Group has entered into an agreement with Vietnam Frontier Fund (in liquidation) to acquire its entire 12.5% equity interest in Luks Cement Company Limited (equivalent to 9.73% indirect interest in Luks Cement (Vietnam) Limited) at a total consideration of US$2.5 million (equivalent to approximately HK$19,500,000). The consideration will be paid by instalments within 2 years and will be financed by the Group's internal resources. On completion of the acquisition, both Luks Cement Company Limited and Luk Cement (Vietnam) Limited will become wholly-owned subsidiaries of the Group.

Employees and Remuneration Policy

As at 30 June 2005, the Group had approximately 830 employees. Most of them were working in Vietnam. The total staff cost (including directors' remuneration) was approximately HK$14,399,000 for the period. There was no significant change on the Group's remuneration policy as compared to that disclosed on the Group's annual report for the year ended 31 December 2004.

Details of Charges

As at 30 June 2005, the Group has pledged certain fixed assets at a net book value of HK$291,225,000 to secure banking facilities. In addition, bank deposits of HK$29,235,000 of the Group have been pledged to bank for the purchase of fixed assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's investments in Vietnam are subject to the exchange fluctuation, and especially that from the risk of devaluation of VND. As VND is a restricted currency, there is a lack of hedging instruments in the market. The Group's measures to minimise its exposure to the risk have not been changed from those disclosed on its annual report for the year ended 31 December 2004.

Details of Contingent Liabilities

As at 30 June 2005, the Group had no significant contingent liabilities (31 December 2004: Nil).

INTERIM FINANCIAL STATEMENTS

INTERIM RESULTS

The board of directors (the "Board") of Luks Industrial (Group) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005, together with the comparative figures for the corresponding period in 2004. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000 (Restated)
REVENUE	3	**152,027**	126,635
Cost of sales		**(72,697)**	(64,125)
Gross profit		**79,330**	62,510
Other income and gains	4	**8,880**	32,393
Selling and distribution costs		**(12,129)**	(7,924)
Administrative expenses		**(31,735)**	(29,581)
Other operating expenses, net		**(2,729)**	(20,367)
Finance costs	5	**(2,970)**	(3,674)
Share of profits and losses of a jointly-controlled entity		**(2,891)**	1,467
PROFIT BEFORE TAX	6	**35,756**	34,824
Tax	7	**(20)**	(1,755)
PROFIT FOR THE PERIOD		**35,736**	33,069
ATTRIBUTABLE TO:			
Equity holders of the parent		**31,393**	26,337
Minority interests		**4,343**	6,732
		35,736	33,069
EARNINGS PER SHARE	8		
Basic		**6.4 cents**	7.9 cents
Diluted		**N/A**	7.5 cents
DIVIDEND PER SHARE	9	**3.0 cents**	3.0 cents

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	Notes	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets:			
Property, plant and equipment		**326,029**	330,099
Investment properties		**525,444**	529,026
Deposits for purchases of fixed assets		**25,059**	–
Goodwill		**262,375**	262,375
Technical know-how		**3,250**	3,500
Interests in a jointly-controlled entity		**2,793**	5,697
Available-for-sale financial assets		**234**	234
Deferred tax assets		**49**	49
Total non-current assets		**1,145,233**	1,130,980
CURRENT ASSETS			
Inventories		**7,419**	13,548
Trade receivables	*10*	**27,572**	14,201
Prepayments, deposits and other receivables		**33,066**	28,427
Available-for-sale financial assets		**2,862**	2,871
Pledged deposits		**29,235**	–
Cash and cash equivalents		**111,476**	159,832
Total current assets		**211,630**	218,879
CURRENT LIABILITIES			
Trade payables	*11*	**18,492**	22,600
Tax payable		**17,315**	19,407
Dividend payable		**14,721**	–
Other payables and accruals		**86,565**	65,389
Due to a director		**2,726**	26,311
Due to a related company		**7,380**	6,830
Interest-bearing bank and other borrowings		**28,818**	33,779
Total current liabilities		**176,017**	174,316
NET CURRENT ASSETS		**35,613**	44,563
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,180,846**	1,175,543

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

30 June 2005

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000 (Restated)
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**52,227**	23,402
Due to a related company	**550**	1,100
Rental deposits	**17,365**	14,695
Provisions	**4,230**	4,233
Deferred tax liabilities	**231**	231
Total non-current liabilities	**74,603**	43,661
	1,106,243	1,131,882
CAPITAL AND RESERVES		
Equity attributable to equity holders of the parent:		
Share capital	**4,907**	4,907
Other reserves	**873,938**	1,017,692
Retained earnings	**203,023**	41,372
Proposed final dividend	**–**	24,535
	1,081,868	1,088,506
Minority interests	**24,375**	43,376
	1,106,243	1,131,882

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Issued share capital (Unaudited) HK$'000	Share premium account (Unaudited) HK$'000	Contributed surplus (Unaudited) HK$'000	Capital reserve (Unaudited) HK$'000	Investment property revaluation reserve (Unaudited) HK$'000	Exchange fluctuation reserve (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	Proposed final dividend (Unaudited) HK$'000	Minority interests (Unaudited) HK$'000	Total (Unaudited) HK$'000
At 1 January 2005										
As previously reported	**4,907**	**198,801**	**743,505**	**10,938**	**132,477**	**(68,029)**	**41,372**	**24,535**	**43,376**	**1,131,882**
Opening adjustments *(notes 1 & 2)*:										
In respect of investment properties	**–**	**–**	**–**	**–**	**(132,477)**	**–**	**134,041**	**–**	**–**	**1,564**
In respect of negative goodwill	**–**	**–**	**–**	**(10,938)**	**–**	**–**	**10,938**	**–**	**–**	**–**
As restated	**4,907**	**198,801**	**743,505**	**–**	**–**	**(68,029)**	**186,351**	**24,535**	**43,376**	**1,133,446**
2004 final dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24,535)**	**–**	**(24,535)**
Exchange realignment	**–**	**–**	**–**	**–**	**–**	**(1,500)**	**–**	**–**	**–**	**(1,500)**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**31,393**	**–**	**4,343**	**35,736**
Acquisition of minority interests	**–**	**–**	**–**	**–**	**–**	**1,161**	**–**	**–**	**(38,749)**	**(37,588)**
Capital contributions by minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,405**	**15,405**
Interim dividend *(note 9)*	**–**	**–**	**–**	**–**	**–**	**–**	**(14,721)**	**–**	**–**	**(14,721)**
At 30 June 2005	**4,907**	**198,801***	**743,505***	**–**	**–**	**(68,368)***	**203,023**	**–**	**24,375**	**1,106,243**
1 January 2004	3,200	12,196	783,855	10,938	111,719	(77,287)	10,740	19,199	27,421	901,981
2003 final dividend paid	–	–	(1,094)	–	–	–	–	(19,199)	–	(20,293)
Exercise of warrants	592	52,720	–	–	–	–	–	–	–	53,312
Consideration shares issued for early redemption of promissory note	1,115	127,085	–	–	–	–	–	–	–	128,200
Exchange realignment	–	–	–	–	(4,135)	(13,548)	–	–	71	(17,612)
Profit for the period	–	–	–	–	–	–	26,337	–	6,732	33,069
Interim dividend *(note 9)*	–	–	–	–	–	–	(14,721)	–	–	(14,721)
At 30 June 2004	4,907	192,001	782,761	10,938	107,584	(90,835)	22,356	–	34,224	1,063,936

* These reserve accounts comprise the consolidated other reserves of approximately HK$873,938,000 in the consolidated balance sheet as at 30 June 2005.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**3,172**	24,384
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(57,963)**	(3,309)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(9,131)**	(2,057)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(63,922)**	19,018
Cash and cash equivalents at beginning of period	**131,908**	142,600
Effect of foreign exchange rate changes, net	**(34)**	(253)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**67,952**	161,365
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**60,490**	74,876
Non-pledged time deposits with original maturity of less than three months when acquired	**7,462**	86,489
	67,952	161,365

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

1. ACCOUNTING POLICIES (CONTINUED)

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 31, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. In summary:

(a) HKAS 1 has affected certain presentations in the condensed consolidated balance sheet, condensed consolidated income statement and condensed consolidated statement of changes in equity, including the followings:

- investment properties, which were previously included in fixed assets, are now presented separately on the face of the condensed consolidated balance sheet;

- tax of a jointly-controlled entity attributable to the Group, which was previously included in the tax charge on the condensed consolidated income statement, are now included in the share of profits and losses of a jointly-controlled entity; and

- minority interests are now included in the equity section of the condensed consolidated balance sheet.

(b) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings should be separated into leasehold land and leasehold buildings. The leasehold land should be classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and should be reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

In the opinion of the directors, the leasehold land and buildings of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments are included in the cost of land and buildings and are amortised over the shorter of the lease terms and useful lives.

Save as disclosed above, this change in accounting policy has had no effect on the interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. ACCOUNTING POLICIES (CONTINUED)

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior periods, the Group classified its investments in equity securities as long term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale financial assets. Available-for-sale financial assets are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment; or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale financial asset is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale financial asset previously recognised in the income statement.

The adoption of these HKASs has had no material impact on the interim financial statements.

(c) HKAS 40 – Investment Property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

1. ACCOUNTING POLICIES (CONTINUED)

(c) HKAS 40 – Investment Property (continued)

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

In prior periods, depreciation was provided on the then carrying amount of investment properties with unexpired term of the lease of 20 years or less over the remaining term of the lease. Upon the adoption of HKAS 40, the investment properties are not depreciated and are stated at their fair value.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements. The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements.

(d) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The adoption of this accounting policy retrospectively did not have any impact to the consolidated income statement for the six months ended 30 June 2004 as all outstanding options as at 30 June 2004 were granted to employees on or before 7 November 2002 and were vested already before the effective date of this HKFRS, under which the new recognition and measurement policies are not applied.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. ACCOUNTING POLICIES (CONTINUED)

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill, and to derecognise the carrying amounts of negative goodwill included in consolidated capital reserve against retained earnings.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

Included in the consolidated balance sheet as at 30 June 2005 is goodwill of the Group with a carrying amount of approximately HK$247 million relating to the acquisition of subsidiaries engaged in the manufacture and sale of traditional Chinese medicine products (the "Acquired Business"). The forecast revenue of the Acquired Business for the six months ended 30 June 2005 on which the business valuation performed in the prior year to determine the recoverable amount of the goodwill was based was not met. In the opinion of the directors, a business valuation of the Acquired Business as at 31 December 2005 would be performed as at year end to assess the recoverable amount of the goodwill.

(f) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material effect on the interim financial statements.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the opening adjustments are summarised as follows:

Effect on opening balance of equity at 1 January 2005

Effect of new policies Increase/(decrease)	*Notes*	**Capital reserve (Unaudited)** HK$'000	**Investment property revaluation reserve (Unaudited)** HK$'000	**Retained earnings (Unaudited)** HK$'000	**Total (Unaudited)** HK$'000
Opening adjustments:					
HKAS 40					
Surplus on revaluation of investment properties	*1(c)*	–	(132,477)	132,477	–
Depreciation of investment properties	*1(c)*	–	–	1,564	1,564
HKFRS 3					
Derecognition of negative goodwill	*1(e)*	(10,938)	–	10,938	–
Total effect at 1 January 2005		(10,938)	(132,477)	144,979	1,564

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

3. SEGMENT INFORMATION

The Group's operating business are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following table presents revenue and results for the Group's primary segments for the six months ended 30 June 2005 and 2004.

	Cement products		Traditional Chinese medicine products		Property investment		Investment		Corporate		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	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
Revenue:														
External sales	**114,539**	99,312	**2,211**	1,813	**33,981**	23,817	**-**	–	**-**	–	**1,296**	1,693	**152,027**	126,635
Other income and gains	**235**	400	**8**	16	**6,683**	109	**641**	16	**-**	29,814	**-**	182	**7,567**	30,537
	114,774	99,712	**2,219**	1,829	**40,664**	23,926	**641**	16	**-**	29,814	**1,296**	1,875	**159,594**	157,172
Segment results	**30,375**	30,762	**(7,777)**	(24,495)	**23,005**	6,320	**(1,145)**	(2,566)	**(4,437)**	24,875	**283**	279	**40,304**	35,175
Interest income													**1,313**	1,856
Finance costs													**(2,970)**	(3,674)
Share of profits and losses of a jointly-controlled entity													**(2,891)**	1,467
Profit before tax													**35,756**	34,824
Tax													**(20)**	(1,755)
Profit for the period													**35,736**	33,069

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Gain on early redemption of promissory note	**–**	29,814
Interest income	**1,313**	1,856
Excess of the Group's interest in the net fair value of the investees' indentifiable assets, liabilities and contingent liabilities over cost recognised as income	**639**	–
Write back of trade payables	**6,637**	–
Others	**291**	723
	8,880	32,393

5. FINANCE COSTS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest expense on:		
Bank loans wholly repayable within five years	**2,937**	3,597
Loans from directors repayable within five years	**–**	44
Finance leases	**33**	33
	2,970	3,674

6. PROFIT BEFORE TAX

Profit before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation	**11,066**	10,891
Amortisation of goodwill	**–**	15,413
Amortisation of technical know-how	**250**	250
Gain on disposal of fixed assets	**–**	(172)

7. TAX

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Current – The People's Republic of China (the "PRC") corporate income tax	**20**	125
Deferred	**–**	1,630
Total tax charge for the period	**20**	1,755

No provision for Hong Kong profits tax has been made as the relevant Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the period (2004: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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7. TAX (CONTINUED)

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 tax rate applicable to these subsidiaries is 7.5%.

The PRC corporate income tax in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

Share of tax attributable to a jointly-controlled entity amounting to approximately HK$1,543,000 for prior period is included in "Share of profits and losses of a jointly-controlled entity" on the face of the condensed consolidated income statement. No tax attributable to a jointly-controlled entity has been shared during the period as the jointly-controlled entity did not generate any assessable profits arising in the PRC during the period.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the unaudited profit attributable to equity holders of the parent of approximately HK$31,393,000 (six months ended 30 June 2004: HK$26,337,000), and the weighted average number of 490,705,418 (six months ended 30 June 2004: 335,481,978) ordinary shares in issue during the period.

A diluted earnings per share for the six months ended 30 June 2005 has not been disclosed as no diluting events existing during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2004 is based on the profit attributable to equity holders of the parent of approximately HK$26,337,000. The weighted average number of ordinary shares used in the calculation is 335,481,978 ordinary shares in issue during prior period, as used in the basic earnings per share calculation; the weighted average of 14,295,943 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during prior period; and the weighted average of 1,164,098 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during prior period.

9. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK 3 cents (2004: HK 3 cents) per ordinary share in issue in respect of the six months ended 30 June 2005 payable on or before 31 October 2005 to shareholders whose names are on the Registers of Members on 19 October 2005.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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10. 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 to its trade debtors. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, net of provision for impairment, is as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
0 – 30 days	**14,170**	9,826
31 – 60 days	**4,442**	951
61 – 90 days	**1,112**	546
91 – 120 days	**1,706**	688
Over 120 days	**5,994**	2,015
Over 1 year	**148**	175
	27,572	14,201

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

11. TRADE PAYABLES

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

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
0 – 30 days	**8,917**	6,891
31 – 60 days	**668**	692
61 – 90 days	**594**	82
91 – 120 days	**85**	53
Over 120 days	**588**	501
Over 1 year	**7,640**	14,381
	18,492	22,600

12. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties 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 30 June 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Within one year	**52,800**	39,541
In the second to fifth years, inclusive	**25,337**	20,194
After five years	**48**	311
	78,185	60,046

(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 to two years.

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Within one year	**792**	396
In the second to fifth years, inclusive	**149**	281
	941	677

13. COMMITMENTS

In addition to the operating lease arrangement detailed in note 12(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Audited) HK$'000
Authorised and contracted for fixed assets	**30,492**	3,128
Capital contributions to an associate	**2,282**	2,282
Acquisition of additional interest in subsidiary	**–**	31,200
Total capital commitments	**32,774**	36,610

14. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

(a) The Group had the following material transactions with related parties during the period:

		For the six months ended 30 June	
	Notes	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000
Directors:			
Interest expense on directors' loans	*(i)*	**–**	42
Redemption of a promissory note	*(ii)*	**–**	200,000
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' loan are interest-free thereafter.

(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.

(b) On 12 October 2004, the Company entered into an agreement with Thua Thien Hue Construction Corporation ("TCC") pursuant to which Luks Vietnam Company Limited, a wholly-owned subsidiary of the Company, acquired from TCC its 22.17% equity interest in Luks Thua Thien Hue Company Limited ("Luks-Vaxi") for 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 completed in January 2005. The amount due to the related company included in other payables and accruals as at 30 June 2005 was approximately HK$21,840,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

14. RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short-term employee benefits	**3,288**	3,288
Post-employment benefits	**24**	24
Total compensation paid to key management personnel	**3,312**	3,312

15. POST BALANCE SHEET EVENTS

(a) Acquisition of additional interests in Luks Cement Company Limited

On 7 July 2005, Luks Vietnam Company Limited, a wholly-owned subsidiary of the Company, entered into an agreement to acquire from Vietnam Frontier Fund (in liquidation) its entire 12.5% equity interest in Luks Cement Company Limited at a total consideration of US$2.5 million (equivalent to approximately HK$19.5 million). Further details of the transaction were set out in the announcement of the Company dated 13 July 2005 and the circular of the Company dated 4 August 2005. In the opinion of the directors, the amount of goodwill, if any, can only be reliably estimated upon completion of the acquisition.

(b) Purchase of equipment and machinery

On 5 August 2005, Best Deluxe Assets Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party for the purchase of equipment and machinery for a total consideration of US$942,000 (approximately HK$7,321,000).

16. COMPARATIVE FIGURES

As further explained above in note 1 to these unaudited condensed consolidated interim financial statements, due to the adoption of new HKFRSs during the period, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated and reclassified to conform with the current period's presentation.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 17 October 2005 to Wednesday, 19 October 2005, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars, Tengis Limited, at G/F., BEA Harbour View Centre 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 14 October 2005. Cheques for interim dividends will be despatched on or before 31 October 2005.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2005, the interests 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 of Hong Kong Limited (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:

		Number of shares held, capacity and nature of interest				
Name of director	*Notes*	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Luk King Tin	*(a)*	167,229,286	–	57,226,071	224,455,357	45.74
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
		183,556,886	54,000	94,138,098	277,748,984	56.60

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.

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 30 June 2005, none of the directors had registered an interest or short position in the shares or underlying shares 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

At no time during the period 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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2005, the following interests 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 in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of 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 30 June 2005, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests 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.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Code") throughout the accounting period covered by the interim report, except for the following:

(i) For some regular board meetings held during the period, the Company did not give notice of at least 14 days as required under code provision A.1.3 of the Code. The Company has commenced giving at least 14 days' notice for regular board meetings in order to comply with the provision.

(ii) The Company has not separated the roles of the Chairman of the Board and the Chief Executive Officer of the Group as required under code provision A.2.1 of the Code. Mr. Luk King Tin is the founder of the Group and has been appointed the Chairman of the Board and the Chief Executive Officer of the Group since the Company's establishment in 1975. Mr. Luk is in charge of the overall management of the Group. The Company considers that the combination of the roles is more efficient in formulating and implementing the Group's strategies and policies. The Company considers that through the supervision of the Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

(iii) According to the Company's Bye-laws, the Chairman or Managing Director of the Company is not subject to retirement by rotation, which constitutes a deviation from code provision A.4.2 of the Code that requires every director should be subject to retirement by rotation at least once every three years. To comply with code provision A.4.2 of the Code, relevant amendments to the Company's Bye-laws will be proposed for the shareholders' approval at the forthcoming general meeting.

(iv) Under code provision B1.1 of the Code, a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties throughout the period. The Company has established a remuneration committee and adopted its own terms of reference to deal with its authority and duties on 29 June 2005 in order to comply with code provision B.1.1 of the Code.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS ("MODEL CODE")

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim 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. These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005 now reported have been reviewed by the Company's audit committee.

ON BEHALF OF THE BOARD

Luk King Tin
Chairman

Hong Kong
27 September 2005