

Interim Report 2006

For the six months ended 30th June, 2006



陸氏實業(集團)有限公司

LUKS INDUSTRIAL (GROUP) LIMITED

(Stock Code: 0366)

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Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Benefited from accelerating growth pace of the economy and increasing foreign investments in Vietnam, the Group's two major investments in Vietnam, the cement manufacturing and the property investment recorded an obvious growth during the period.

For the six-month period ended 30 June 2006, the Group recorded a turnover of HK\$178,618,000, representing an increase of 17% as compared to HK\$152,027,000 for the corresponding period of last year. 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\$134,228,000, representing an increase of 17% as compared to that of last year. While the property investment business recorded a turnover of HK\$41,112,000, representing an increase of 21% as compared to that of last year.

The unaudited consolidated net profit from ordinary activities attributable to shareholders for the first half of 2006 was HK\$38,462,000, representing an increase of 22% as compared to HK\$31,393,000 for the same period in 2005.

Cement Business

The Group's cement plant achieved total sales of 434,000 tonnes of cement in the first half of the year, representing an increase of 10% as compared to the same period of last year. Profits before tax of the cement plant recorded a growth of 26% as compared to that of last year. Since the Group's cement plant has reached its maximum capacity, further growth is limited. Only until the new production line comes into operation in the fourth quarter of this year shall there be breakthrough on the quantity of cement produced. At that time, the total capacity of the cement plant shall reach 1,500,000 tonnes per annum.

The growth of profits for the first half of the year was mainly attributed to an increase in proportional sales of cement to that of clinkers. Cement price has increased for about 2%, which could offset the effect of increase in production cost as a result of an overall increase in raw materials costs during the period. The gross profit margin of the Group's cement plant was about 40% during the period. Since Vietnam is currently a coal exporting country, there is abundant supply of high quality coal in local market, which thus resulted in a lower coal price and a more stable supply of coal as compared to other Asian countries, such as China. The costs of coal and electricity share about 41% of the cost of sales of the Group's cement during the period.

The Group's cement plant owns a limestone mine with abundant reserve of limestone, which can support for further expansion of the plant. The Group has submitted an application to the Vietnamese Central Government to invest a new cement production line of 1 million tonnes of annual capacity, so that to increase the total annual capacity of the cement plant to 2.5 million tonnes. The part for clinkers' production of the new line shall be built on the land adjacent to the Group's current cement plant, whereas the clinkers' grinding station shall be built on an industrial land along the Saigon River in the outskirt of Ho Chi Minh City, which can largely reduce the transportation cost of cement. The designated sites of the new line have principally been approved by the local provincial government. If all the processes are going smooth, the new line shall be able to commence operation since the second quarter of 2008. As Vietnam's economy has been growing in a fast but steady pace, national demand of cement is forecasted to grow at a rate of 12% per annum for the coming 5 years according to the Ministry of Construction of the government. Moreover, since the government has a stricter control over investments in cement business, the management is optimistic to the future development of the Group's cement business.

Management Discussion and Analysis

Saigon Trade Centre and Other Investment Properties

The occupancy rate of the Group's Saigon Trade Centre in the city center of Ho Chi Minh City in Vietnam has reached 90% as at 30 June 2006, comparing to that of 86% as at 31 December 2005. For the first half of 2006, increasing foreign enterprises were seen to set up companies or representative office in Vietnam. New tenants of Saigon Trade Centre include the prestigious enterprises, such as INTEL, STANDARD CHARTERED BANK, COLGATE-PALMOLIVE and etc. The average rental rate has increased by about 10% as compared to that of 31 December 2005. Total revenue and EBITA increased by more than 25% and 30% respectively, when compared to the corresponding period in last year. Since the supply of office spaces is still limited, it is expected that the occupancy rate and the rental rate shall further go up in the second half of 2006.

For the Group's other investment properties situated in Hong Kong and the PRC, the rental income as a whole has increased for about 15% as compared to the corresponding period in last year, mostly attributed to an increase in rental value of the properties in Hong Kong.

Traditional Chinese Medicine (TCM) Business

Population ageing is a serious problem in the world today, which has resulted in increasing need for medical cares. Besides, due to economic growth, people are getting richer and thus are more desirous to delay their ageing and to improve their living quality during ageing. Seeing this trend, the Group's TCM business will focus on its anti-ageing product, VI-28 in the coming future.

Medical researchers on anti-ageing studies consider that if a product that can strengthen the function of ATP of human cells in generating energy, and at the same time enhance the ability in clearing of free radical, then the product is regarded as effective in achieving anti-ageing purpose and to improve living quality of the aged (over 50 years old). In light of the above findings, VI-28 was tested through a clinical study on guinea pig conducted by Dr. K.M. KO (Associate Professor of the Department of Biochemistry of the Hong Kong University of Science and Technology) and proven to be effective in achieving the abovementioned criteria. The results of the clinical study have been published on "REJUVENATION RESEARCH", a medical journal in the USA. Currently, further studies on the anti-ageing function of VI-28 are being conducted through the Faculty of Immunity of the Beijing University and the Hong Kong University of Science and Technology.

In the past years, the Group's TCM business has concentrated on research and development. As sales revenue was not much whereas research expenditure was huge and thus resulted in losses attributed to the Group. Since a large part of the research studies are near to completion, research expenditure shall thereafter be getting lesser and losses are narrowing as well. For the first half of 2006, operating loss of the TCM business was HK\$4,345,000, representing a decrease of approximately 44% as compared to HK\$7,777,000 of the corresponding period in last year. It is expected that the operating loss of the TCM business shall be less than HK\$10 million for the full year of 2006 (loss of HK\$21,565,000 for the full year of 2005).

Dividend

Since the Group has achieved a stable cash inflow, the board of directors has resolved to declare an interim dividend of HK\$0.03 per share to the shareholders.

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2006 amounted to HK\$119,912,000 (as at 31 December 2005: HK\$133,094,000). The Group's total borrowings amounted to HK\$118,330,000 (as at 31 December 2005: HK\$121,123,000), of which HK\$59,131,000 was repayable within 1 year, HK\$59,199,000 repayable over 1 year. The percentage of the Group's borrowings denominated in HK\$ and Vietnamese Dong ("VND") were 23% and 77% respectively.

The gearing ratio, expressed as the percentage of long-term debt to equity, was 6% as at 30 June 2006 (as at 31 December 2005: 6%).

Employees and Remuneration Policy

As at 30 June 2006, the Group had approximately 875 employees. Most of them were working in Vietnam. The total staff cost (including directors' remuneration) was approximately HK\$15,380,000 for the period. Share options were granted to a part of the employees in order to encourage their contributions to the Group during the period. Save for the above, 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 2005.

Details of Charges

As at 30 June 2006, the Group has pledged certain fixed assets at a net book value of HK\$358,958,000 to secure banking facilities. In addition, bank deposits of HK\$27,994,000 of the Group have been pledged to bank for the purchase of fixed assets.

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 exchange rate of VND to USD recorded a devaluation of 0.5% as at 30 June 2006 when compared to the rate as at 31 December 2005. The Group's measures to minimize its exposure to the risk have not been changed from those disclosed on its annual report for the year ended 31 December 2005.

Details of Contingent Liabilities

As at 30 June 2006, the Group had no significant contingent liabilities (31 December 2005: 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 2006, together with the comparative figures for the corresponding period in 2005. 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 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
REVENUE		178,618	152,027
Cost of sales		(83,382)	(72,697)
Gross profit		95,236	79,330
Other income and gains	3	6,208	8,880
Selling and distribution costs		(11,759)	(12,129)
Administrative expenses		(33,193)	(31,735)
Other expenses, net		(6,447)	(2,729)
Finance costs	4	(5,938)	(2,970)
Share of profits and losses of a jointly-controlled entity		(1,244)	(2,891)
PROFIT BEFORE TAX	5	42,863	35,756
Tax	6	(4,401)	(20)
PROFIT FOR THE PERIOD		38,462	35,736
ATTRIBUTABLE TO:			
Equity holders of the parent		38,462	31,393
Minority interests		–	4,343
		38,462	35,736
EARNINGS PER SHARE	7		
Basic		7.8 cents	6.4 cents
Diluted		7.8 cents	N/A
DIVIDEND PER SHARE	8	3.0 cents	3.0 cents

Interim Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		414,940	375,383
Investment properties		655,849	657,310
Prepaid land lease payments		23,437	24,494
Goodwill		93,558	93,558
Interests in a jointly-controlled entity		1,662	2,906
Available-for-sale equity investments		995	995
Time deposit		–	15,600
Total non-current assets		1,190,441	1,170,246
CURRENT ASSETS			
Inventories		8,104	13,464
Trade receivables	9	31,673	20,091
Prepayments, deposits and other receivables		32,284	28,463
Debt investments at fair value through profit or loss		1,231	1,094
Pledged deposits		27,994	27,351
Cash and cash equivalents		91,918	90,143
Total current assets		193,204	180,606
CURRENT LIABILITIES			
Trade payables	10	24,977	24,875
Tax payable		30,470	27,694
Other payables and accruals		72,429	49,371
Due to directors		1,360	287
Due to a related company		–	7,930
Interest-bearing bank borrowings		59,131	58,329
Total current liabilities		188,367	168,486
NET CURRENT ASSETS		4,837	12,120
TOTAL ASSETS LESS CURRENT LIABILITIES		1,195,278	1,182,366

Interim Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

30 June 2006

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES		1,195,278	1,182,366
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		59,199	62,794
Rental deposits		22,626	19,048
Provisions		4,209	4,210
Other long term liabilities		–	4,680
Deferred tax liabilities		46,483	45,521
Total non-current liabilities		132,517	136,253
Net assets		1,062,761	1,046,113
EQUITY			
Issued capital	11	4,912	4,907
Reserves		1,042,974	1,016,671
Proposed dividend		14,875	24,535
Total equity		1,062,761	1,046,113

Interim Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Employee share-based reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2006	4,907	198,801	704,249	-	(70,374)	183,995	24,535	1,046,113
2005 final dividend paid	-	-	-	-	-	-	(24,535)	(24,535)
Exchange realignment	-	-	-	-	(1,120)	-	-	(1,120)
Profit for the period	-	-	-	-	-	38,462	-	38,462
Exercise of share options (note 11)	5	602	-	(62)	-	-	-	545
Employee share option	-	-	-	3,296	-	-	-	3,296
Interim dividend (note 8)	-	-	-	-	-	(14,875)	14,875	-
At 30 June 2006	4,912	199,403*	704,249*	3,234*	(71,494)*	207,582*	14,875	1,062,761

* These reserve accounts comprise the consolidated reserves of approximately HK\$1,042,974,000 in the consolidated balance sheet as at 30 June 2006.

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Investment property Capital reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed 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:										
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 8)	-	-	-	-	-	(14,721)	-	-	-	(14,721)
At 30 June 2005	4,907	198,801*	743,505*	-*	-*	(68,368)*	203,023*	-	24,375	1,106,243

* These reserve accounts comprise the consolidated reserve of approximately HK\$1,076,961,000 in the consolidated balance sheet as at 30 June 2005.

Interim Financial Statements

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2006*

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	59,776	3,172
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(48,008)	(57,963)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(25,593)	(9,131)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,825)	(63,922)
Cash and cash equivalents at beginning of period	90,143	131,908
Effect of foreign exchange rate changes, net	-	(34)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	76,318	67,952
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	76,318	60,490
Non-pledged time deposits with original maturity of less than three months when acquired	-	7,462
	76,318	67,952

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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 2005, 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 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

2. 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 2006 and 2005.

	Traditional Chinese												Consolidated	
	Cement products		medicine products		Property investment		Investment		Corporate		Others		2006	2005
	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000	(Unaudited) 2006 HK\$’000	(Unaudited) 2005 HK\$’000
Revenue:														
External sales	134,228	114,539	1,849	2,211	41,112	33,981	-	-	-	-	1,429	1,296	178,618	152,027
Other income and gains	722	235	16	8	1,811	6,683	1,183	641	-	-	-	-	3,732	7,567
	134,950	114,774	1,865	2,219	42,923	40,664	1,183	641	-	-	1,429	1,296	182,350	159,594
Segment results	37,184	30,375	(4,345)	(7,777)	24,722	23,005	874	(1,145)	(9,518)	(4,437)	(1,348)	283	47,569	40,304
Interest income													2,476	1,313
Finance costs													(5,938)	(2,970)
Share of profits and losses of a jointly-controlled entity													(1,244)	(2,891)
Profit before tax													42,863	35,756
Tax													(4,401)	(20)
Profit for the period													38,462	35,736

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	2,476	1,313
Excess of the Group's interest in the net fair value of the investees' identifiable assets, liabilities and contingent liabilities over cost recognised as income	-	639
Write back of trade payables	-	6,637
Write back of other payables	2,927	-
Others	805	291
	6,208	8,880

4. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	5,938	2,937
Finance leases	-	33
	5,938	2,970

5. PROFIT BEFORE TAX

Profit before tax was determined after charging the following:

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of inventories sold	83,050	71,766
Depreciation	10,266	11,066
Amortisation of technical know-how	-	250

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

6. TAX

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current-The People's Republic of China (the "PRC")	–	20
Current-Overseas	3,439	–
Deferred	962	–
Total tax charge for the period	4,401	20

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 (2005: Nil).

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.

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.

In accordance with the relevant tax rules and regulations in Vietnam, certain of the Group's subsidiaries in Vietnam enjoy income tax reductions. At present, the standard tax rate applicable to these subsidiaries is 15%.

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 (2005: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share amounts for the period is based on the unaudited profit for the period attributable to ordinary equity holders of the parent of approximately HK\$38,462,000 (six months ended 30 June 2005: HK\$31,393,000), and the weighted average number of 490,713,918 (six months ended 30 June 2005: 490,705,418) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts for the period is based on the unaudited profit for the period attributable to ordinary equity holders of the parent of HK\$38,462,000. The weighted average number of 490,713,918 ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 398,300 ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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.

8. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK 3 cents (2005: HK 3 cents) per ordinary share in issue in respect of the six months ended 30 June 2006 payable on or before 13 October 2006 to shareholders whose names are on the Registers of Members on 5 October 2006.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

9. 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 credit period of 45 days to 90 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 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0 – 30 days	13,957	10,653
31 – 60 days	4,427	4,901
61 – 90 days	1,253	883
91 – 120 days	373	730
Over 120 days	11,663	2,924
	31,673	20,091

10. 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 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0 – 30 days	10,030	7,958
31 – 60 days	416	1,522
61 – 90 days	72	30
91 – 120 days	5,886	7,474
Over 120 days	8,573	7,891
	24,977	24,875

11. SHARE CAPITAL

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised:		
760,000,000 ordinary shares of HK\$0.01 each	7,600	7,600
Issued and fully paid:		
491,155,418 (2005: 490,705,418) ordinary shares of HK\$0.01 each	4,912	4,907

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

11. SHARE CAPITAL (CONTINUED)

A summary of the transactions in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2005 and 1 January 2006	490,705,418	4,907	198,801	203,708
Share options exercised	450,000	5	602	607
At 30 June 2006	491,155,418	4,912	199,403	204,315

12. 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, and other employees of the Group. The Scheme became effective on 18 May 2006 and, unless otherwise cancelled or amended, will remain in force for 5 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 issued at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of 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 after a certain vesting period and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

12. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***			
	At 1 January 2006	Granted during the period	Exercised during the period	At 30 June 2006				At grant date of options	Immediately before the exercise date	At exercise date of options	
Executive directors											
Luk King Tin	-	3,500,000	-	3,500,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	-	-	
Cheng Cheung	-	3,000,000	-	3,000,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	-	-	
Luk Yan	-	3,000,000	-	3,000,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	-	-	
Luk Fung	-	2,000,000	-	2,000,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	-	-	
Fan Chiu Tat, Martin	-	3,000,000	-	3,000,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	-	-	
	-	14,500,000	-	14,500,000							
Other employees											
In aggregate	-	10,000,000	(450,000)	9,550,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	1.31	1.30	
	-	24,500,000	(450,000)	24,050,000							

Notes to the reconciliation of share options outstanding during the period:

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** 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. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the period was HK\$3,296,000.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant, using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the period ended 30 June 2006:

Dividend yield (%)	6.98 per annum
Expected volatility (%)	33.72 per annum
Historical volatility (%)	33.72 per annum
Risk-free interest rate (%)	4.64 per annum
Expected life of option (year)	2
Weighted average share price (HK\$)	1.31

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

13. 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 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	62,219	60,773
In the second to fifth years, inclusive	45,288	35,548
	107,507	96,321

(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 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	657	942
In the second to fifth years, inclusive	1,952	2,107
After five years	24,325	24,702
	26,934	27,751

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

14. COMMITMENTS

In addition to the operating lease arrangement detailed in note 13(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised and contracted for property, plant and equipment	7,990	51,312

15. RELATED PARTY TRANSACTIONS

(I) Outstanding balances with related parties:

As disclosed in the balance sheet, the outstanding balances owed by the Group to its directors and related company amounted to HK\$1,360,000 (2005: HK\$287,000) and nil (2005: HK\$7,930,000), respectively.

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayments. The carrying amounts of these amounts due to related parties approximate to their fair values.

(II) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short-term employee benefits	3,107	3,288
Post-employment benefits	18	24
Total compensation paid to key management personnel	3,125	3,312

16. CONTINGENT LIABILITIES

At the balance sheet date, the Group had no significant contingent liabilities.

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 19 September 2006.

Other Information

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 3 October 2006 to Thursday, 5 October 2006, 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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 29 September 2006. Cheques for interim dividends will be dispatched on or before 13 October 2006.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, 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:

Name of director	Notes	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Luk King Tin	(a)	190,479,286	–	57,226,071	247,705,357	50.43
Cheng Cheung	(b)	16,012,800	–	36,912,027	52,924,827	10.78
Luk Yan	(c)	3,370,800	54,000	–	3,424,800	0.70
Luk Fung		6,529,600	–	–	6,529,600	1.33
Fan Chiu Tat, Martin		500,000	–	–	500,000	0.10
		<u>216,892,486</u>	<u>54,000</u>	<u>94,138,098</u>	<u>311,084,584</u>	<u>63.34</u>

Long positions in shares of an associated corporation:

Name of director	Notes	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Luk King Tin and Luk Fung	(d)	Vigconic International (Holdings) Limited ("VI")	Company's subsidiary	1,974,921	Through controlled corporation	25

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.
- (d) Mr. Luk King Tin and Mr. Luk Fung had a beneficial interest in Vigconic Biotechnology Company Limited, which held 1,974,921 shares of US\$1 each of VI at the balance sheet date.

Other Information

The interests of the directors in the share options of the Company are separately disclosed in note 12 to the condensed consolidated interim financial statements.

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 2006, 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

Save as disclosed in note 12 to the condensed consolidated interim financial statements, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

At 30 June 2006, 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	11.65
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.52

Save as disclosed above, as at 30 June 2006, 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.

Other Information

CODE ON CORPORATE GOVERNANCE PRACTICES

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

- (i) 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. Currently, the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. Luk King Tin. Mr. Luk being the founder of the Company, has been the Chairman and the Chief Executive Officer of the Company and in charge of the overall management of the Company since the beginning. The Company considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.
- (ii) According to the Company's Bye-laws, the Chairman or Managing Director of the Company is not subject to retirement by rotation. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 2006 now reported have been reviewed by the Company's audit committee.

ON BEHALF OF THE BOARD

Luk King Tin

Chairman

Hong Kong

19 September 2006