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INTERIM
REPORT
2010

陸氏集團(越南控股)有限公司
LUKS GROUP (VIETNAM HOLDINGS) CO. LTD.

Stock Code : 0366

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

During the first half of 2010, the global economy has seen recovering and so as Vietnam's economy. The GDP growth rate of Vietnam for the first six months was a bit over 6%. The growth however mainly came from the booming consumers' market and assets price inflation, especially from land and property. As the government adopted measures to tighten credit control so as to regulate the inflation rate, infrastructure development of the country was slower than expected. Moreover, continuous depreciation of the Vietnamese Dong ("VND") also brought impact to the confidence of foreign investors. The Group's principal investments in Vietnam, namely cement business and office leasing business were barely benefited from the economic growth during the period. Although the Vietnam's economic growth is expected to accelerate in the second half of 2010, there are also challenges coming from the possibility of a further depreciation of VND, the inflationary pressure and a shortage of demand in respect to the Group's businesses in Vietnam.

For the six-month ended 30 June 2010, the Group recorded a turnover of HK\$412,560,000, representing an increase of 33% as compared to HK\$311,215,000 for the corresponding period of last year. Main sources of the Group's turnover came from its cement business and property investment business. The cement business recorded a turnover of HK\$354,962,000, representing an increase of 49% as compared to that of last year. While the property investment business recorded a turnover of HK\$53,238,000, representing a decrease of 24% as compared to that of last year.

The unaudited consolidated profit for the period attributable to owners of the parent was HK\$19,857,000, representing a decrease of 78% as compared to HK\$88,579,000 for the same period in 2009.

Cement Business

For the first half of 2010, the Group's cement plant recorded total sales of 1,076,000 tonnes of cement, representing an increase of 47% as compared to the same period of last year. The increased sales were mainly attributable to the commencement of the new production line. However the new production line and the grinding station in Ninh Thuan were still not yet running in full capacity during the period.

Although sales increased, the cement's profit dropped substantially. The main reasons were the depreciation of VND, an increase in coal price and the instability power supply of the cement plant. The Group's cement plant recorded a profit before share of losses of associated companies, interest income and income tax expense of HK\$13,301,000 during the period, representing a decrease of 81% as compared to HK\$69,570,000 of the corresponding period in last year.

As compared to the end of last year, VND depreciated approximately 2.6%, resulted in a foreign exchange loss of HK\$14,688,000 being recorded by the cement plant, not mentioning the effect of depreciation on the selling price which was mainly denominated in VND. On the other hand, the coal price increased for about 45% on a year-on-year basis, and thus the profit margin was squeezed further. Apart from that, Vietnam had a serious shortage of electricity supply throughout the nation, especially during May and June of the year, which thus caused temporarily electricity shut down for the cement plant during the period. It was estimated that about 100,000 tonnes of cement was in short of production during the period because of the shortage.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreseeing the second half of the year, VND is expected to have a possibility of further depreciation of 2-5%. As there is an interest rate deviation between USD and VND for as high as 8-10%, it is therefore not cost efficient for the Group to transfer all USD borrowings into VND borrowings or adopt relevant hedging instruments to hedge for the depreciation. Although the electricity supply has been stabilized since July 2010, the cement market is still being affected by the slower than expected infrastructure development in central Vietnam and therefore the price and the quantity demand of cement are still expected to be under pressure for the second half of 2010.

Saigon Trade Centre and Other investment properties

In the first half of 2010, Vietnam recorded an increase in foreign investments but not as frenzy as China or other SE Asian countries. Demand for office spaces in general only grew modestly. On the other hand, new office buildings were being completed bringing new supply to the market. Thus, both the rental rate and the occupancy rate of the Group's Saigon Trade Centre were being pressed. As at 30 June 2010, the occupancy rate of the Saigon Trade Centre was 75% (31 December 2009: 76%), whereas the average rental rate dropped 16% as compared to the end of last year. It is expected that the performance of the Saigon Trade Centre in the second half of 2010 will be flat.

Due to the end of the tax concession period of the Saigon Trade Centre as at 31 December 2009, the applicable profit tax rate has been increased to 25% from 12.5% of the previous years. It therefore also has an adverse effect to the net profit after tax attributable to the Group from the Saigon Trade Centre since this year.

The rental income for the Group's other investment properties situated in Hong Kong and the PRC was stable during the period.

Vietnam's Property Development

Due to the recovering of the economy and the depreciation of VND, assets price of land and property in Vietnam surged during the period. However, property development market in Vietnam was still slow, mainly as a result of the restrictions and the complicated procedures in obtaining of all relevant licenses for a project.

The lengthy process on the application of construction license for the Group's property development project in Binh Thanh District of Hochiminh City has been far out of expectation. The construction is now expected to commence before the end of 2010. The first stage of construction comprises of 2 blocks 15-storey residential apartment building, with a total of 240 units approximately 25,000 square meters. The pre-sale is expected to be launched by the second quarter of 2011.

Traditional Chinese Medicine (TCM) Business

During the period, the TCM business recorded an operating loss before minority interest of HK\$1,546,000, representing a decrease of 11% as compared to the operating loss of HK\$1,738,000 for the same period of last year.

Dividend

The board of directors resolved to declare an interim dividend of HK 4 cents per share to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's cash, bank balances and time deposits as at 30 June 2010 amounted to HK\$189,821,000 (as at 31 December 2009: HK\$295,072,000). The Group's total borrowings amounted to HK\$440,509,000 (as at 31 December 2009: HK\$475,166,000), of which HK\$243,083,000 was repayable within 1 year and HK\$197,426,000 repayable over 1 year. The percentage of the Group's borrowings denominated in HK\$, US\$ and Vietnamese Dong ("VND") were 13.5%, 33.4% and 53.1% respectively.

The gearing ratio, which is net debt divided by the capital plus net debt, was 20% as at 30 June 2010 (as at 31 December 2009:18%).

Employees and Remuneration Policy

As at 30 June 2010, the Group had approximately 1,700 employees. Most of them were working in Vietnam. The total staff cost (including directors' remuneration) was approximately HK\$27,777,000 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 2009.

Details of charges

As at 30 June 2010, the Group has pledged certain fixed assets at a net book value of HK\$604,355,000 and certain investment properties at a carrying value of HK\$141,000,000 to secure banking facilities. In addition, bank deposits of HK\$25,030,000 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 foreign exchange fluctuation, and especially that from the risk of devaluation of VND. As VND is a restricted currency, hedging instruments are limited in the market or the hedging is not cost efficient to do so. The high interest deviation between VND and USD is also a barrier for setting up an effective hedging for the VND devaluation. The exchange rate of VND to USD recorded a devaluation of 2.6% as at 30 June 2010 when compared to the rate as at 31 December 2009. The Group suffered an exchange loss of HK\$15,296,000 during the period. The Swap contracts held by the Company of an aggregate value of US\$8,000,000 was expired on May 2010 and the Company has no outstanding swap contracts or other similar financial instruments as at 30 June 2010. 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 2009.

Details of contingent liabilities

As at 30 June 2010, the Group had no significant contingent liabilities (31 December 2009: Nil).

INTERIM FINANCIAL STATEMENTS

INTERIM RESULTS

The board of directors (the “Board”) of Luks Group (Vietnam Holdings) Company 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 2010, together with the comparative figures for the corresponding period in 2009. 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 2010

		For the six months ended 30 June	
	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
REVENUE	3	412,560	311,215
Cost of sales		(249,012)	(146,387)
Gross profit		163,548	164,828
Other income and gains	3	8,799	13,400
Selling and distribution costs		(40,731)	(18,229)
Administrative expenses		(57,075)	(47,598)
Other expenses		(17,833)	(983)
Finance costs	4	(17,517)	(7,637)
Share of profits and losses of a jointly-controlled entity		140	50
Share of profits and losses of associates		(1,557)	(1,944)
PROFIT BEFORE TAX	5	37,774	101,887
Income tax expense	6	(19,091)	(14,232)
PROFIT FOR THE PERIOD		18,683	87,655
ATTRIBUTABLE TO:			
Owners of the parent		19,857	88,579
Non-controlling interests		(1,174)	(924)
		18,683	87,655
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		HK3.9 cents	HK17.3 cents
Diluted		HK3.9 cents	HK17.3 cents

Details of the dividends payable and proposed for the period are disclosed in note 8 to the condensed consolidated interim financial statements.

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	18,683	87,655
OTHER COMPREHENSIVE LOSS:		
Exchange difference on translation of foreign operations	(38,211)	(30,901)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	(38,211)	(30,901)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(19,528)	56,754
Attributable to:		
Owners of the parent	(20,822)	57,678
Non-controlling interests	1,294	(924)
	(19,528)	56,754

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,101,380	1,136,951
Investment properties		1,265,735	1,289,191
Prepaid land lease payments		19,701	21,691
Goodwill		183	183
Interest in a jointly-controlled entity		3,116	2,976
Interests in associates		107,061	111,379
Deposits		141,027	123,495
Total non-current assets		2,638,203	2,685,866
CURRENT ASSETS			
Property for development		33,827	33,870
Inventories		116,320	95,641
Trade receivables	9	90,391	53,424
Prepayments, deposits and other receivables		40,598	36,097
Debt investments at fair value through profit or loss		1,094	1,094
Pledged deposits		25,030	25,007
Cash and cash equivalents		164,791	270,065
Total current assets		472,051	515,198
CURRENT LIABILITIES			
Trade payables	10	55,044	51,178
Other payables and accruals		164,877	183,024
Due to a director		4,393	71
Due to a related company		3,349	3,350
Interest-bearing bank and other borrowings		243,083	235,095
Derivative financial instruments		–	6,379
Tax payable		31,597	23,221
Total current liabilities		502,343	502,318
NET CURRENT (LIABILITIES)/ASSETS		(30,292)	12,880
TOTAL ASSETS LESS CURRENT LIABILITIES		2,607,911	2,698,746

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,607,911	2,698,746
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		197,426	240,071
Rental deposits		23,111	22,826
Provisions		4,779	4,819
Deferred tax liabilities		231,815	230,314
Total non-current liabilities		457,131	498,030
Net assets		2,150,780	2,200,716
EQUITY			
Equity attributable to owners of the parent			
Issued capital	11	5,114	5,114
Reserves		2,126,316	2,167,318
Proposed dividend		20,456	30,684
		2,151,886	2,203,116
Non-controlling interests		(1,106)	(2,400)
Total equity		2,150,780	2,200,716

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Note	Attributable to owners of the parent										
		Share			Share	Capital	Exchange				Non-	Total
		Issued	premium	Contributed	option	redemption	fluctuation	Retained	Proposed	Total	controlling	
		capital	account	surplus	reserve	reserve	reserve	profits	dividend		interests	equity
(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	
At 1 January 2010		5,114	749,626	511,994	9,786	636	(210,505)	1,105,781	30,684	2,203,116	(2,400)	2,200,716
2009 final dividend paid		-	-	-	-	-	-	-	(30,684)	(30,684)	-	(30,684)
Total comprehensive income/(loss) for the period		-	-	-	-	-	(40,679)	19,857	-	(20,822)	1,294	(19,528)
Equity-settled share option arrangements		-	-	-	276	-	-	-	-	276	-	276
Interim dividend	8	-	-	(20,456)	-	-	-	-	20,456	-	-	-
At 30 June 2010		5,114	749,626*	491,538*	10,062*	636*	(251,184)*	1,125,638*	20,456	2,151,886	(1,106)	2,150,780

* These reserve accounts comprise the consolidated reserves of approximately HK\$2,126,316,000 in the condensed consolidated statement of financial position as at 30 June 2010.

	Note	Attributable to owners of the parent										
		Share			Share	Capital	Exchange				Non-	Total
		Issued	premium	Contributed	option	redemption	fluctuation	Retained	Proposed	Total	controlling	
		capital	account	surplus	reserve	reserve	reserve	profits	dividend		interests	equity
(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	
At 1 January 2009		5,150	757,648	565,691	8,299	598	(158,118)	998,764	30,684	2,208,716	(5,315)	2,203,401
2008 final dividend paid		-	-	-	-	-	-	-	(30,684)	(30,684)	-	(30,684)
Total comprehensive income/(loss) for the period		-	-	-	-	-	(30,901)	88,579	-	57,678	(924)	56,754
Exercise of share options		2	267	-	(27)	-	-	-	-	242	-	242
Equity-settled share option arrangements		-	-	-	967	-	-	-	-	967	-	967
Repurchase of shares		(38)	(8,289)	-	-	38	-	(38)	-	(8,327)	-	(8,327)
Interim dividend	8	-	-	(23,013)	-	-	-	-	23,013	-	-	-
At 30 June 2009		5,114	749,626	542,678	9,239	636	(189,019)	1,087,305	23,013	2,228,592	(6,239)	2,222,353

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	(12,622)	55,425
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(51,778)	(138,498)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(61,019)	(80,475)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(125,419)	(163,548)
Cash and cash equivalents at beginning of period	270,065	468,100
Effect of foreign exchange rate changes, net	20,145	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	164,791	304,552
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	141,944	296,041
Non-pledged time deposits with original maturity of less than three months when acquired	22,847	8,511
	164,791	304,552

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Listing Rules. These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2009 and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by HKICPA, except that the Group has in the current period applied, for the first time the following new and revised HKFRSs:

HKFRS 1 (Revised)	First-time Adopting of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Apart from the above, the Group has also adopted Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* Improvements to HKFRSs 2009 contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

The adopting of these new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated interim financial statements, except for the followings:

HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adopting of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures For First-time Adopters ²
HKFRS 9	Financial Instrument ⁴
HKAS 24 (Revised)	Related Party Disclosures ³
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement ³
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 February 2010.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

In addition, improvements to HKFRSs were issued in May 2010 by HKICPA which contains amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for the annual periods beginning on or after 1 July 2010, other amendments are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 9 and HKAS 24 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2. OPERATING 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 operating segments for the six months ended 30 June 2010 and 2009.

	Cement products		Property investment		Property development		Traditional Chinese medicine products		Corporate and others		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	354,962	237,804	53,238	69,636	-	-	641	667	3,719	3,108	412,560	311,215
Other income and gains	805	3,846	5,365	4,960	-	-	-	9	-	633	6,170	9,448
	355,767	241,650	58,603	74,596	-	-	641	676	3,719	3,741	418,730	320,663
Segment results	13,301	69,570	44,214	56,465	(2,106)	(1,328)	(1,546)	(1,738)	(17,301)	(23,140)	36,562	99,829
Reconciliation:												
Interest income											1,465	3,952
Fair value gains on derivative financial instruments											1,164	-
Share of profits and losses of associates	(1,363)	(1,602)	-	-	(194)	(342)	-	-	-	-	(1,557)	(1,944)
Share of profits and losses of a jointly-controlled entity	-	-	140	50	-	-	-	-	-	-	140	50
Profit before tax											37,774	101,887
Income tax expense	(8,351)	(6,113)	(10,740)	(8,119)	-	-	-	-	-	-	(19,091)	(14,232)
Profit for the period											18,683	87,655
Other segment information:												
Depreciation	30,296	17,100	641	3,828	40	39	80	88	632	673	31,689	21,728
Capital expenditure	28,131	112,612	-	3,037	6	22	-	48	64	11	28,201	115,730
Impairment of loans to an associate	1,883	-	-	-	-	-	-	-	-	-	1,883	-

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

2. OPERATING SEGMENT INFORMATION (Continued)

The following table presents segment assets and liabilities for the Group's operating segments as at 30 June 2010 and 31 December 2009:

	Cement products		Property investment		Property development		Traditional Chinese medicine products		Corporate and others		Consolidated		
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	
												HK\$'000	
Segment assets	1,348,096	1,324,400	1,457,048	1,472,891	57,492	36,927	2,778	4,583	134,663	247,908	3,000,077	3,086,709	
Reconciliation:													
Interests in associates	32,620	38,544	-	-	74,441	72,835	-	-	-	-	107,061	111,379	
Interest in a jointly-controlled entity	-	-	3,116	2,976	-	-	-	-	-	-	3,116	2,976	
Total assets											3,110,254	3,201,064	
Segment liabilities	580,939	656,923	276,645	269,115	349	356	3,566	4,443	97,975	63,132	959,474	993,969	
Unallocated liabilities											-	6,379	
Total liabilities											959,474	1,000,348	

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income received and receivable from investment properties during the period.

An analysis of the Group's revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue:		
Sale of cement	354,962	237,804
Gross rental income	53,238	69,636
Sale of electronic products	2,204	1,918
Sale of traditional Chinese medicine products	641	667
Sale of plywood and other wood products	1,515	1,190
	412,560	311,215
Other income and gains:		
Interest income	1,465	3,952
Fair value gain on derivative financial instruments	1,164	–
Gain on disposal of scrap materials	442	1,046
Others	5,728	8,402
	8,799	13,400

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

4. FINANCE COSTS

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	17,447	7,602
Finance leases	70	35
	17,517	7,637

5. PROFIT BEFORE TAX

Profit before tax was determined after charging the following:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Cost of inventories sold	245,390	145,197
Depreciation	31,689	21,728

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current – overseas	17,302	13,283
Deferred	1,789	949
Total tax charge for the period	19,091	14,232

No provision for Hong Kong profits tax has been made as the Group has tax losses brought forward to offset the assessable profit arising in Hong Kong during the period ended 30 June 2010 and 2009.

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.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings per share attributable to ordinary equity holders of the parent are based on:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	19,857	88,579

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

	Number of shares For the six months ended 30 June	
	2010 (Unaudited)	2009 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	511,393,418	512,170,136
Effect of dilution – weighted average number of ordinary shares: Share options	523,740	478,537
Weighted average number of ordinary shares used in the diluted earnings per share calculation	511,917,158	512,648,673

8. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.0 cents (2009: HK4.5 cents) per ordinary share in issue in respect of the six months ended 30 June 2010 payable on or before 30 September 2010 to shareholders whose names are on the Registers of Members on 17 September 2010.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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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 an average credit period of 60 days for its trade debtors. The Group seeks to maintain strict control over its outstanding receivables.

Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of impairment, is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 to 30 days	54,872	37,104
31 to 60 days	17,319	6,832
61 to 90 days	9,388	4,374
91 to 120 days	3,251	2,676
Over 120 days	5,561	2,438
	90,391	53,424

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
0 to 30 days	26,597	28,475
31 to 60 days	5,129	4,063
61 to 90 days	2,682	5,242
91 to 120 days	4,604	248
Over 120 days	16,032	13,150
	55,044	51,178

11. SHARE CAPITAL

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Authorised: 760,000,000 ordinary shares of HK\$0.01 each	7,600	7,600
Issued and fully paid: 511,393,418 (2009: 511,393,418) ordinary shares of HK\$0.01 (2009: HK\$0.01) each	5,114	5,114

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

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 five 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 30% 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 on a specified date 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; or (iii) the nominal value of a share of the Company.

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 2010

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					At 30 June 2010	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 2010	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period					Immediately		
										At grant date of options HK\$	before the exercise date HK\$	At exercise date of options HK\$
Employees												
In aggregate	750,000	-	-	-	-	750,000	23-5-2006 to 18-5-2011	30-5-2006 to 18-5-2011	1.21	1.19	-	-
	470,000	-	-	-	-	470,000	25-10-2006 to 18-5-2011	25-10-2006 to 18-5-2011	3.18	3.18	-	-
	2,350,000	-	-	-	-	2,350,000	1-2-2007 to 18-5-2011	1-2-2008 to 18-5-2011	5.04	5.04	-	-
	1,650,000	-	-	-	-	1,650,000	25-9-2007 to 18-5-2011	25-9-2008 to 18-5-2011	10.06	10.06	-	-
	100,000	-	-	-	-	100,000	5-8-2008 to 18-5-2011	5-8-2009 to 18-5-2011	4.34	4.16	-	-
	<u>5,320,000</u>	-	-	-	-	<u>5,320,000</u>						

Notes to the 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 and subject to the exercise conditions of completion of services ranging from one to three years.
- ** 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

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 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	108,865	74,540
In the second to fifth years, inclusive	112,008	37,418
After five years	3,012	–
	223,885	111,958

(b) As lessee

The Group leases certain of its land and office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between two to fifty years.

At 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	788	785
In the second to fifth years, inclusive	3,899	3,798
After five years	23,026	23,743
	27,713	28,326

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

14. COMMITMENTS

In addition to the operating lease arrangements detailed in note 13(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Contracted, but not provided for		
Land	225,061	231,083
Property, plant and equipment	16,050	88,611
Capital commitments for the charter capital of associates registered in Vietnam	956	–
	242,067	319,694

The Group had the following share of commitment on capital contribution to proposed joint ventures at the end of the reporting period:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Authorised, but not contracted for	–	1,900

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2010

15. RELATED PARTY TRANSACTIONS

- (a) Outstanding balances with related parties:

As disclosed in the condensed consolidated statement of financial position, the outstanding balances owed by the Group to its director and a related company amounted to HK\$4,393,000 (31 December 2009: HK\$71,000) and HK\$3,349,000 (31 December 2009: HK\$3,350,000), 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.

- (b) Material transactions with related parties:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Associates:		
Purchases of raw materials	18,218	8,185
Distribution charges	8,398	10,555

These related party transactions were conducted in accordance with terms and conditions mutually agreed by the parties.

- (c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Short-term employee benefits	5,566	3,924
Post-employment benefits	18	18
Total compensation paid to key management personnel	5,584	3,942

16. CONTINGENT LIABILITIES

At the end of the reporting period, 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 27 August 2010.

OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$4.0 cents (2009: HK\$4.5 cents) per ordinary share in issue in respect of the six months ended 30 June 2010 payable on or before 30 September 2010 to shareholders whose names are on the Registers of Members on 17 September 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 15 September 2010 to Friday, 17 September 2010, 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 Tuesday, 14 September 2010. Cheques for interim dividends will be dispatched on or before 30 September 2010.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, 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)	189,552,399	–	62,684,958	252,237,357	49.32
Cheng Cheung	(b)	20,784,800	–	36,912,027	57,696,827	11.28
Luk Yan	(c)	3,070,800	174,000	–	3,244,800	0.64
Luk Fung		3,129,600	–	–	3,129,600	0.61
Fan Chiu Tat, Martin		1,500,000	–	–	1,500,000	0.29
		218,037,599	174,000	99,596,985	317,808,584	62.14

OTHER INFORMATION

Long positions in shares of an associated corporation

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the corporation's issued share capital
Luk King Tin and Luk Fung	(d)	Vigconic International (Holdings) Limited ("VI")	Company's subsidiary	2,462,402	Through controlled corporation	25

Notes:

- (a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 62,684,958 shares of the Company at the end of the reporting period.
- (b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 shares of the Company at the end of the reporting period.
- (c) Mr. Luk Yan had a family interest, which held 174,000 shares of the Company at the end of the reporting period.
- (d) Mr. Luk King Tin and Mr. Luk Fung had a beneficial interest in Vigconic Biotechnology Company Limited, which held 2,462,402 shares of US\$1 each of VI at the balances 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 2010, 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.

OTHER INFORMATION

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 2010, 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	62,684,958	12.26
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.22

Save as disclosed above, as at 30 June 2010, 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.

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.

OTHER INFORMATION

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 2010 now reported have been reviewed by the Company's audit committee.

By Order of the Board

Luks Group (Vietnam Holdings) Co., Ltd.

Luk King Tin

Chairman

Hong Kong

27 August 2010