

**BUSINESS REVIEW AND PROSPECTS**

Benefited from the rapid development of the Vietnam's economy during the year, both of the Group's major business in Vietnam, including cement manufacturing and sales, and property investment recorded significant growth.

The Group's turnover for the year was HK\$373,744,000, representing an increase of 19.4% when compared to HK\$313,074,000 of last year. Over 95% of the turnover came from Vietnam. By business segment, cement manufacturing and property investment were the main contributors. Turnover from cement business was HK\$274,602,000 representing a year-on-year increase of 18.5%, whereas turnover from property investment was 91,122,000, representing an increase of 22.4% as compared to last year.

The consolidated net profit attributable to shareholders was HK\$200,343,000 for the year, representing an increase of approximately 794% when compared to HK\$22,413,000 of last year.

**Cement business**

The Group's sales of cement and clinker achieved 880,000 tonnes in 2006, representing an increase of approximately 12% as compared to last year. The increase was partly attributed to the commencement of operation of a new cement production line at the end of the year and partly due to an increase in efficiency of the cement plant. The gross profit margin of the Group's cement plant was about 40% during the year. The new cement production line, with an annual capacity of 700,000 tonnes was running smooth during the trial production period. With the new line having joined into operation, the total production quantity of the cement plant is expected to reach 1.4 million tonnes for the year 2007.

In addition, as reported in the Group's interim report that it had applied to the Vietnamese Central Government to increase a new cement production line for an annual capacity of 1 million tonnes. However, seeing that the Vietnam's cement market is still in shortage of supply and also anticipating that demand of cement will increase substantially after Vietnam joining the WTO, the Group has increased the new line's capacity to 1.3 million tonnes, of which the government's approval has been obtained. The infrastructure works of the new line has been commenced and the purchase of the equipment has been confirmed. The new line is expected to commence operation on the second quarter of 2008. The cement grinding station of the new line will be located in a 14-hectare industrial site along the Saigon River in Hochiminh City. A portion of the clinkers produced by the cement plant will be shipped to the cement grinding station for grinding into cement and sold to markets in Hochiminh City and the southern part of Vietnam. When the new line commences operation, the total capacity of the Group's cement plant will then be increased to 2.8 to 3 million tonnes per annum.

The demand of cement in Vietnam for the year 2006 was 32.5 million tonnes, representing a year-on-year growth of 17%. Since Vietnam's joining of the WTO in January 2007, many large scale infrastructure projects, such as highways, tunnels, containers ports, flyovers and etc, have been kicked start. As a result, demand for cement is especially strong. In addition, since the government has a stricter control over new investments in cement industry, the management is optimistic to the future development of the Group's cement business in Vietnam.

Apart from that, the Group has also been granted a license by the government to build a ready-mixed concrete station in Hochiminh City. The first phase of the project is to build a station with an annual capacity of 1,000,000 cubic meters of ready-mixed concrete, along with the cement grinding station on the 14-hectare industrial land in Hochiminh City. It is expected that construction will be started at the end of 2008 and be completed by 2009.

## Chairman's Statement (Cont'd)

### Property Investment

As a result of the booming economy of Vietnam, both the leasing rate and rental rate of the Group's Saigon Trade Centre recorded significant growth during the year. The leasing rate of Saigon Trade Centre as at 31 December 2006 reached a new height of 95% (31 December 2005: 86%). Whereas, average monthly rental rate was around US\$24 per square meter, representing an increase of approximately 13% as compared to that of 31 December 2005.

Following the joining of Vietnam to the WTO, more foreign enterprises are going to set up companies and representative offices in Vietnam. Hochiminh City, being the economic and the commercial center of Vietnam, will be the prioritized choice for those foreign enterprises. The Group's Saigon Trade Center is located in the CBD of Hochiminh City and is currently the tallest and largest (in term of areas) commercial building in the City. Reputable tenants include Prudential, Standard Chartered Bank, INTEL, CISCO, Colgate-Palmolive and many other prestigious international enterprises. As high quality offices are still in lack of supply, the rental income of Saigon trade Centre is expected to have further growth in the coming years.

As a result to the significant growth of Vietnam's economy, the asset value of Saigon Trade Center has been rising rapidly as well. According to the valuation of CB Richard Ellis (Vietnam), the value of Saigon Trade Centre as at 31 December 2006 was approximately US\$82 million, representing an increase of 30% as compared to last year. It is anticipated that its asset value will further go up after Vietnam having joined the WTO in 2007.

Besides, the rental income of the Group's other investment properties in Hong Kong, Shenzhen and Shanghai in China also recorded an average growth of 15% during the year and the asset value of those properties has also increased during the year.

### Property Development

With the economy improves, the standard of living of the local people is also on a rising trend, which results in an increasing demand for residential housing. Currently, Hochiminh City mainly consists of very old and packed 3-storey houses and is in lack of good quality housing. As such, the Group has actively participated in the housing projects in Hochiminh City. Up to now, the Group has concluded two separate memorandum of cooperation aiming to set up joint venture companies in order to develop a total of approximately 1,500 to 2,000 apartments. The construction of the projects is expected to commence by the end of 2007 and the pre-sale is scheduled on 2008.

Urbanization is seen to accelerate with the growth of the economy, with rural population moving towards big cities resulting in rising demand for apartments. This situation is particularly notable in Hochiminh City and the trend is expected to accelerate for coming future. Therefore, the Groups' strategy in property development is to aim at building 100,000 to 150,000 square meters of residential gross floor areas in Hochiminh City per annum. For 2007, the Group aims to achieve accumulating for around 400,000 square meters of residential gross floor areas of land reserve.

## Chairman's Statement (Cont'd)

**Traditional Chinese Medicine ("TCM")**

The Group's TCM business is focusing in developing its anti-ageing product. Clinical studies are being conducted in the Hong Kong University, the Hong Kong University of Science & Technology and the Beijing University.

The Group's investment in the TCM business has been fully written off during the year. The Group's strategy in the TCM business is to minimize its operating expenses and will look for cooperation with other sizeable pharmaceutical companies whenever it is appropriate. For 2006, the operating loss of the TCM business was HK\$8,369,000 (2005: HK\$21,565,000) and the loss is expected getting lesser for the coming years.

**20th Anniversary of Listing and Change of Name**

In January 2007, Vietnam was formally admitted to the WTO, which also coincided with the Group's 20th anniversary of listing in the Hong Kong Stock Exchange. Over the past years, the Group has successfully transformed its business from electronics manufacturing in China into cement and property investments in Vietnam. Seeing the fierce competition in electronics manufacturing business in China today, notably by its slim margin, and to compare with the Group's stable income from its cement and property business in Vietnam, with a more foreseeable future, it proves the Group has been in proper strategy.

Nowadays, the Group has established a strong foothold in its cement and property business in Vietnam. Anticipating that the economy of Vietnam will grow rapidly for the coming 5 years after joining the WTO, the Group also takes the opportunity to expand its cement and property business in Vietnam.

As the Group has transformed into a cement and property investments enterprise in Vietnam, together with its future development being focus in Vietnam principally engaged in cement and property business, it was therefore proposed to change the name of the Company to "LUKS GROUP (VIETNAM HOLDINGS) COMPANY LIMITED", so as to give shareholders and investors a better perception of the Groups' strategy and future development.

**Dividend**

During the year, the Group recorded a remarkable growth in its overall business. Yet it also requires retaining cash for its expansion plans in cement and property business. As such, the board of directors recommended to distribute a final dividend of HK 5 cents per share to the shareholders and together with the interim dividend of HK 3 cents per share already distributed, the total dividend for the full year of 2006 will be HK 8 cents, being the same as last year.