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LUKS INDUSTRIAL (GROUP) LIMITED

陸氏實業(集團)有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 366)

**CIRCULAR ON
DISCLOSEABLE AND CONNECTED TRANSACTION
MEMORANDUM OF PROPOSED COOPERATION IN VIETNAM**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



**昱豐融資有限公司
CERES CAPITAL LIMITED**

CERES

A letter from the Board is set out on pages 6 to 14 of this circular and a letter from the Independent Board Committee is set out on page 15 of this circular. A letter from Ceres Capital, the independent financial adviser, containing its advice in respect of the Memorandum to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 30 of this circular.

12 June 2007

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:–

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Cement Project”	investment and operation in cement projects including but not limited to the procuring of the transfer from Luks Cement of the following: <ul style="list-style-type: none">(i) a cement-grinding factory in Long An Province, Vietnam upon its successful obtaining of a licence from the relevant authorities in Vietnam to expand its production capacity from the existing 1,500,000 tonnes per annum to 3,000,000 tonnes per annum(ii) a clinker factory upon its successful obtaining of investment licence for an additional brand new clinker production line with an annual capacity of 1,250,000 tonnes of clinker in Thua Thien Hue Province and(iii) the land use and exploitation rights of the 50 hectares of a new limestone mine in Thua Thien Hue Province upon all necessary approvals from relevant authorities in Vietnam having been obtained
“Ceres Capital”	Ceres Capital Limited, a corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activity and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Memorandum
“Company”	Luks Industrial (Group) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“connected person(s)”	the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Contribution”	US\$4,500,000 (approximately HK\$35,100,000), the amount to be contributed by Luks Industrial for the establishment of the proposed JSC (Cement) for the Cement Project, the said sum represents 45% of the share capital of the proposed JSC (Cement) and US\$3,000,000 (approximately HK\$23,400,000), the amount to be contributed by Luks Industrial for the establishment of the proposed JSC (Property) for the Property Development Project, the said sum represents 30% of the share capital of the proposed JSC (Property)
“CNS”	Saigon Industry Corporation, a state-owned enterprise, which belongs to the Industry Department of Ho Chi Minh City and is duly constituted and validity existing under the laws of Vietnam under Decision No.1325/QD-UBND of the People’s Committee of Ho Chi Minh City with its registered office at 11/121 Le Duc Tho Street, Ward 17, Go Vap District, Ho Chi Minh City, Vietnam
“Directors”	the directors of the Company
“HKSAR”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent committee of the Board of the Company comprising of Mr. Liang Fang, Mr. Liu Li Yuan and Mr. Tam Kan Wing
“Independent Shareholder(s)”	Shareholder(s) other than those who have interest in the Memorandum and are required to abstain from voting in the SGM, if convened
“JSC”	the JSC (Cement) and JSC (Property) to be formed by Luks Industrial and CNS in Vietnam for the purpose of the Cement Project and Property Development Project respectively subject to the approvals from relevant authorities in Vietnam having been obtained
“JSC (Cement)”	a joint stock company to be formed by Luks Industrial or its affiliates and CNS or its affiliates for the investment in Cement Project

DEFINITIONS

“JSC (Property)”	a joint stock company to be formed by Luks Industrial or its affiliates and CNS or its affiliates for the investment in Property Development Project
“Land Areas”	<p>a total of 3 sites which are legally and beneficially owned by CNS, namely:</p> <ul style="list-style-type: none">(i) land area of approximately 10,000 square metres located at 11/121 Le Duc Tho Street, Ward No. 17, Go Vap District, Ho Chi Minh City, Vietnam(ii) land area of approximately 2,300 square metres located at 242 Tran Phu Street, District No. 5, Ho Chi Minh City, Vietnam; and(iii) land area of approximately 6,000 square metres located at 52, Thanh Thai, District 10, Ho Chi Minh City, Vietnam
“Latest Practicable Date”	11 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Luks Cement”	Luks Cement (Vietnam) Limited formerly known as Luks Thua Thien Hue Company Limited, a limited company incorporated and operated in accordance with the laws of Vietnam and a subsidiary of the Company
“Luks Industrial”	Luks Industrial Company Limited, a limited company incorporated in Hong Kong and a wholly owned subsidiary of the Company, with its registered office at 5th Floor, Cheong Wah Factory Building, 39-41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong
“Memorandum”	Memorandum of Cooperation which has been entered into between Luks Industrial and CNS on 18th May 2007 for the proposed cooperation in investment in Vietnam including but not limited to proposed establishment of JSC and proposed Projects in Vietnam subject to the terms and conditions therein
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers

DEFINITIONS

“Mr. Luk”	Mr. Luk King Tin, a Director, the husband of Madam Cheng having a personal and corporate interest of 252,237,357 Shares, representing approximately 44.01% in the issued share capital of the Company as at the Latest Practicable Date
“Madam Cheng”	Madam Cheng Cheung, a Director, the wife of Mr. Luk having a personal and corporate interest of 54,940,827 Shares, representing approximately 9.59% in the issued share capital of the Company as at the Latest Practicable Date
“Projects”	Cement Project, Property Development Project and other projects more particularly set out in the Memorandum
“Property Development Project”	the development of real estate projects including but not limited to develop the Land Areas which are legally and beneficially owned by CNS or its affiliates into residential and commercial areas for the purpose of sale and leasing subject to the approvals from relevant authorities in Vietnam having been obtained
“Saigon Electronic”	Saigon Electronic Company Limited, a company duly incorporated in Vietnam, holding 30% shareholding of Singer Vietnam
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	special general meeting of the Company, if convened, for the purpose of approving the Memorandum
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Singer Vietnam”	Singer Vietnam Company Limited, a company duly incorporated in Vietnam with its registered office at 780A Nguyen Kiem Street, Ho Chi Minh City, Vietnam
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Written Approval”	the written approval on the Memorandum obtained from Mr. Luk and Madam Cheng, who are the Directors and a married couple and are considered by the Company to have satisfied the factors as set out under Rule 14.45 of the Listing Rules to be a closely allied group of Shareholders collectively holding an aggregate of 307,178,184 Shares, representing approximately 59.86% in nominal value of the Shares in issue as at the date of the announcement of the Company dated 21 May 2007 in connection with the Memorandum giving them the right to attend and vote at the SGM (if the Company were to convene one)
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Vietnam”	The Socialist Republic of Vietnam
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

In this circular, except as otherwise indicated, US\$ has been translated into HK\$ at the rate of US\$1.00=HK\$7.8 for reference purpose.

LETTER FROM THE BOARD



LUKS INDUSTRIAL (GROUP) LIMITED

陸氏實業(集團)有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 366)

Executive Directors:

Luk King Tin (*Chairman*)
Cheng Cheung
Luk Yan
Fan Chiu Tat, Martin
Luk Fung

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Non-Executive Directors:

Liang Fang
Liu Li Yuan
Tam Kan Wing

Principal place of business:

5/F., Cheong Wah Factory Building
39-41 Sheung Heung Road
Tokwawan, Kowloon
Hong Kong

Company Secretary:

Fan Chiu Tat, Martin

12 June 2007

To: the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION MEMORANDUM OF PROPOSED COOPERATION IN VIETNAM

INTRODUCTION

On 21 May 2007, the Company announced that on 18 May 2007, Luks Industrial, a wholly owned subsidiary of the Company entered into a conditional Memorandum with CNS which belongs to the Industry Department of Ho Chi Minh City, Vietnam in connection with the proposed cooperation in various fields of investments in Vietnam including but not limited to a proposal to set up two joint stock companies in Vietnam namely JSC (Cement) and JSC (Property) for the respective investment of Cement Project and Property Development Project and a number of other investment projects in Vietnam namely; (i) investment in a thermal power plant; (ii) construction of industrial zones and (iii) investment in an ecological resort. Formal agreements in respect of each project will be signed upon all necessary approvals for each project having been obtained from the relevant authorities in Vietnam. Upon formation of the JSC, they will become the associates of the Company. Both parties intend to jointly operate and manage the JSC and aim at listing the JSC in the local Vietnamese stock exchange in 3 years, subject to the then regulations and approvals of relevant authorities.

LETTER FROM THE BOARD

The Memorandum is a legally binding agreement. The setting up of the proposed JSC is conditional upon, inter alias, the licence for the formation of the JSC and for the Cement Project by the relevant authorities of Vietnam having been granted and all necessary written approvals for developing the Land Areas into the Property Development Project. Details of the JSC have to be worked out between CNS and Luks Industrial and various formal JSC agreements will be signed upon all necessary approvals of the formation of the JSC having been obtained from the relevant authorities in Vietnam and other conditions having been fulfilled, the Company will make further announcement upon signing of various formal agreements.

The main purpose of this circular is to provide you with details of the Memorandum.

THE MEMORANDUM

- Date:** 18th May 2007
- Parties:**
- (1) Luks Industrial, a wholly-owned subsidiary of the Company; and
 - (2) CNS
- Subject matter:** the proposed cooperation in making investments in Vietnam including but not limited to establishment of JSC (Cement) and JSC(Property) in Vietnam for the Cement Project and Property Development Project respectively and other projects
- Total share capital for the JSC:**
- (i) The proposed total share capital for the proposed JSC (Cement) is US\$10,000,000 (approximately HK\$78,000,000), CNS shall contribute US\$5,500,000 (approximately HK\$42,900,000) representing 55% of the share capital of the proposed JSC (Cement) and Luks Industrial shall contribute US\$4,500,000 (approximately HK\$35,100,000) representing 45% of the share capital of the proposed JSC (Cement).
 - (ii) The proposed total share capital for JSC (Property) shall be US\$10,000,000 (approximately HK\$78,000,000), CNS shall contribute US\$7,000,000 (approximately HK\$54,600,000) representing 70% of the share capital of the proposed JSC (Property) and Luks Industrial shall contribute US\$3,000,000 (approximately HK\$23,400,000) representing 30% of the share capital of the proposed JSC (Property).

Formal agreements will be signed upon all necessary approvals of the Projects having been obtained from relevant authorities in Vietnam and other conditions having been fulfilled.

LETTER FROM THE BOARD

The proposed Contribution will be made in either cash or assets by the shareholders of JSC (Cement) and JSC (Property) in stages upon all necessary approvals for the setting up of the respective JSC from the relevant government authorities in Vietnam having been obtained and subject to further agreements to be made between Luks Industrial and CNS.

The proposed Contribution will be paid from bank borrowings, which the Directors believe will not have adverse impact on the Group's financial position.

The proposed Contribution was arrived after arm's length negotiation between the Company and CNS. The management has conducted due diligence on arriving at the estimated initial investment amounts for each of the JSC to be US\$10 million as the respective share capital by making reference to the market price of similar investments on Cement Project and Property Development Project in Vietnam respectively. The Directors including all the independent non-executive Directors consider that the proposed Contribution inclusive of the estimated initial investment amounts made by the Company for the proposed JSC and the terms and conditions of the Memorandum are fair and reasonable and are in the interests of the Shareholders and the Company as a whole.

Conditions precedent to the Memorandum

The Memorandum is conditional, inter alia, upon:

- (i) All requirements of the Stock Exchange having been met and approvals (relating to the Projects including but not limited to the setting up of JSC (Cement) and JSC (Property)) from Luks Cement, CNS and any government and regulatory bodies in Vietnam, if necessary, having been obtained;
- (ii) Formal documents issued by relevant government authorities in Vietnam for approving the establishment of the JSC (Cement) and JSC (Property) having been obtained;
- (iii) Written documents showing that the respective land use right certificates of the Land Areas having been obtained;
- (iv) all necessary written approvals for the development of the Land Areas for the Property Development Projects by the local government authorities (including but not limited to the People's Committee of Ho Chi Minh City and other relevant authorities) in Vietnam having been obtained and written evidence for the payment of the premium and expenses relating to the Land Areas having been made; and

LETTER FROM THE BOARD

- (v) the Independent Shareholders having passed a resolution at the SGM, if convened, to approve the Projects including but not limited to the setting up of JSC (Cement) and JSC (Property)

In the event that any of the conditions of the Memorandum is not fulfilled within 180 days from the date of the Memorandum or such other date as agreed between Luks Industrial and CNS, the Memorandum will lapse and the parties shall be released from all obligations under the Memorandum save for any liability arising out of any antecedent breach.

INFORMATION ON CNS

CNS is a state-owned enterprise which belongs to the Industry Department of Ho Chi Minh City and is duly constituted and validity existing under the laws of Vietnam under Decision No.1325/QD-UBND of the People's Committee of Ho Chi Minh City and is principally engaged in industries, mechanics, electronics, food processing, investment and operations of infrastructure projects in Vietnam.

INFORMATION ON LUKS INDUSTRIAL

Luks Industrial is a limited company incorporated in Hong Kong and principally engaged in investment holdings.

INFORMATION ON JSC (CEMENT)

The proposed total share capital for JSC (Cement) shall be US\$10,000,000 (approximately HK\$78,000,000), CNS shall contribute US\$5,500,000 (approximately HK\$42,900,000) representing 55% of the share capital of the proposed JSC (Cement) and Luks Industrial shall contribute US\$4,500,000 (approximately HK\$35,100,000) representing 45% of the share capital of the proposed JSC (Cement). The contribution by the respective parties will be made in stages upon all necessary approvals for the setting up of the JSC (Cement) from the relevant government authorities in Vietnam having been obtained and subject to further agreements to be made between Luks Industrial and CNS.

The principal activities of the proposed JSC (Cement) are for the implementation of the Cement Project.

INFORMATION ON THE CEMENT PROJECT

The Cement Project includes investment in cement projects in Vietnam including a cement grinding factory of 3,000,000 tonnes per annum and a new clinker production line of 1,250,000 tonnes of clinker per annum with details as follows:

- (i) Luks Cement has existing licences from relevant government authorities to build a cement-grinding factory with an annual capacity of 1,500,000 tonnes in an industrial site of 140,000 square metres in Tan Tap Ward, Can Giuoc District, Long An Province. Both parties agree to set up the JSC (Cement) and Luks

LETTER FROM THE BOARD

Cement will transfer the cement grinding factory to the JSC (Cement), upon Luks Cement having successfully obtained from the relevant Vietnamese government authorities for the expansion of the cement grinding factory to an annual capacity to 3,000,000 tonnes and that the construction of the cement grinding factory has been completed. The transfer shall be subject to relevant governmental approvals and in accordance with the laws of Vietnam, based on the actual investment cost of Luks Cement. The cement grinding factory is targeted to be completed by June 2008;

- (ii) a clinker factory upon a new investment licence being granted by the relevant authorities in Vietnam for a brand new clinker production line with an annual capacity of 1,250,000 tonnes of clinker in Thua Thien Hue Province; and
- (iii) the land use and exploitation rights of a new limestone mine with an area of 50 hectares in Thua Thien Hue Province upon all necessary approvals being granted by the relevant government authorities in Vietnam.

Luks Cement shall make the application to the relevant authorities within 30 days from the setting up of JSC (Cement). The said transfer shall be subject to relevant governmental approvals and in accordance with the Laws of Vietnam, based on the actual investment cost of Luks Cement. It is anticipated that the clinker factory will be completed by the second quarter of 2009.

Pursuant to the Memorandum, before the new clinker factory comes into operation, in order to facilitate the production operations of JSC (Cement) after its commencement of commercial operation, Luks Industrial has undertaken that it will use its reasonable endeavour to procure Luks Cement to sell a total quantity of 600,000 tonnes of clinker (up to a maximum of 800,000 tonnes) per annum with reference to the market price and a discount of 10% at the time of the transactions which provide the Group with an opportunity to expand its existing clinker sale business, detailed terms of the transactions are subject to further negotiation and agreement between the relevant parties. The Directors consider that the selling price is fair and reasonable. The undertaking under the Memorandum will not prejudice the interests of the Company or its Shareholders as there is no penalty clause for the failure by Luks Industrial to honour its undertaking. The Company will make further announcement if the relevant transactions triggers any requirements under Chapter 14A of the Listing Rules.

It is estimated that the proposed investment cost is US\$76 million (approximately HK\$592,800,000) which is inclusive of the share capital of JSC (Cement). The investment cost is estimated based on the latest cement projects of the Group and preliminary quotations from cement equipments suppliers. There is no specific timetable for the payment which shall be discussed in formal agreement between Luks Industrial and CNS.

The Company will make further announcement upon signing of the formal agreement upon all necessary approvals of the Projects including but not limited to the setting up of the JSC having been obtained from relevant authorities in Vietnam and other conditions having been fulfilled. Luks Industrial undertakes to procure Luks Cement to transfer the cement grinding factory to JSC (Cement) at its actual investment costs upon the completion

LETTER FROM THE BOARD

of construction and commencement of operation of the cement grinding factory subject to relevant approvals having been obtained from the relevant government authorities in Vietnam.

INFORMATION ON JSC (PROPERTY)

The proposed total share capital for JSC (Property) shall be US\$10,000,000 (approximately HK\$78,000,000), CNS shall contribute US\$7,000,000 (approximately HK\$54,600,000) representing 70% of the share capital of the proposed JSC (Property) and Luks Industrial shall contribute US\$3,000,000 (approximately HK\$23,400,000) representing 30% of the share capital of the proposed JSC (Property).

The contribution by the respective parties will be made in stages upon all necessary approvals for the setting up of the JSC (Property) from the relevant government authorities in Vietnam having been obtained and subject to further agreements to be made between Luks Industrial and CNS.

The principal activities of the proposed JSC (Property) are for implementation of the Property Development Project in accordance with the laws of Vietnam including development of residential and commercial areas for sale and rental purpose, and management and operation of residential and commercial areas.

INFORMATION ON THE LAND AREAS AND THE PROPERTY DEVELOPMENT PROJECT

CNS is the legal and beneficial owner of the Land Areas which are all located at Ho Chi Minh City, Vietnam. Luks Industrial and CNS proposed to set up JSC (Property) for the development of the Land Areas into residential and commercial areas for sale, rental, management and operation purpose.

The information of the Land Areas is as follows:

- (i) land area of approximately 10,000 square metres located at 11/121 Le Duc Tho Street, Ward No. 17, Go Vap District, Ho Chi Minh City, Vietnam;
- (ii) land area of approximately 2,300 square metres located at 242 Tran Phu Street, District No. 5, Ho Chi Minh City, Vietnam; and
- (iii) land area of approximately 6,000 square metres located at 52, Thanh Thai, District 10, Ho Chi Minh City, Vietnam.

CNS has agreed to contribute the land use right of the Land Areas for the Property Development Project of JSC (Property) based on the land price issued by Ho Chi Minh City authorities from time to time and as regulated by the relevant authorities in Vietnam which is more favourable, that is, lower than the market prices. Such official land prices are usually lower than the market prices as the latter are determined by supply and demand and have been driven up by the boom in Vietnam's economy in recent years or at such price to be agreed by the parties. As the plot ratio, height restrictions, coverage ratio, etc. of the Land Areas are still subject to approval by the relevant government authorities in Vietnam and there is no transaction for similar land area, therefore it is impossible to find any reference to ascertain the market price of each of the Land Areas as at the Latest Practicable Date.

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Pursuant to the Memorandum, CNS agreed to give the JSC (Property) the priority right to develop other land areas which are under the use right or management of CNS and or its affiliates.

The total investment cost of the Property Development Project has not been determined yet since it depends on the future plot ratio, height restrictions, coverage ratio and other factors for each of the projects to be approved by the relevant government authorities in Vietnam. The investment cost for the Property Development Project needs to be in aggregation with the present transaction when necessary. The Company will make further announcement if there is a need for the said aggregation or the investment cost triggers any requirements under Chapter 14 or Chapter 14A of the Listing Rules. The JSC (Property) shall apply to the government for the most favourable terms.

Within 90 days upon signing of the Memorandum, a formal agreement will be signed and application will be made to the relevant authorities for the setting up of JSC(Property) for the Property Development Project.

Both Luks Industrial and CNS agreed to have a long term investment plan for JSC (Property) to develop each year at least a total land areas of 20,000 square meters for sale or rental purpose for the next 10 years from the date of completion of the Property Development Project.

It is the aim of Luks Industrial and CNS that JSC (Cement) and JSC(Property) be listed on the Stock Exchange of Vietnam within 3 years' time from their respective date of establishment subject to the regulations and approvals of the relevant authorities in Vietnam.

INFORMATION ON THE OTHER PROJECTS

Based on a long-term strategic relationship and pursuant to the Memorandum, it is further agreed between the parties that they shall enter into cooperation for the following projects:

- (i) investment in a thermal power plant in Thua Thien Hue Province with estimated capacity of 100MW;
- (ii) investment in construction of industrial zones in Ho Chi Minh City, Long An Province and Ba Ria-Vung Tau; and
- (iii) investment in an ecological resort in Ben Luc District, Long An Province, details of which will be worked out between CNS and Luks Industrial.

The negotiation on the aforesaid projects is still at a very preliminary stage, therefore there is no proposed investment cost yet. The investment cost for the other project needs to be in aggregation with the present transaction when necessary. The Company will make further announcement if there is a need for the said aggregation or the investment cost triggers any requirements under Chapter 14 or Chapter 14A of the Listing Rules. Formal

LETTER FROM THE BOARD

agreements will be signed upon all necessary approvals having been obtained from the relevant authorities in Vietnam. The Company will make further announcement upon signing of various formal agreements.

REASONS FOR ENTERING INTO THE MEMORANDUM

The Group is principally engaged in the (i) manufacture and sale of cement products in Vietnam; and (ii) property investment and development.

With the admission of Vietnam into the World Trade Organization (“WTO”) on 11th January 2007, the Group believes that the economy of Vietnam shall be growing in an accelerating pace. Therefore, the Group takes the opportunity to expand its cement and property business in Vietnam upon the strong foothold it has already established. The Group also believes that to have a strategic partner like CNS will enhance the Group’s position in its expansion plans on the cement and property business, and thus the earnings growth of the Group.

On one hand, the Group will continue to develop the cement business and property development business under its own control and management. Whereas, on the other hand, the Group will rely on the joining force with strategic partners, like CNS to speed up its expansion plans in cement business, as well as to have a wider exposure to property projects in Vietnam. CNS is a conglomerate holding various industrial companies with their sites situated in various prime locations in Ho Chi Minh City. With the government encouraging industrial companies to move out of the urban areas, CNS and the Group believe that there should be huge potentials for the re-development of those sites into residential and commercial properties. Apart from the 3 projects mentioned in the Memorandum, CNS has also undertaken to give the first priority right to the JSC (Property) to develop land areas under its use right and management and agreed to develop each year at least 20,000 square metres of land area as a long term plan for the JSC (Property).

Besides, CNS and the Group also aim to have the two joint stock companies to be listed in the local stock exchange in appropriate timing (subject to the Laws of Vietnam and relevant regulations), in which the Group believes it will provide a good chance for the Group to participate in investments in local companies having good prospect and fast growing potentials.

The Board including all the independent non-executive Directors consider that the Memorandum is on normal commercial terms and the terms and conditions of the Memorandum to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

The Memorandum constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules. As CNS is the parent company of Saigon Electronic which is a shareholder of Singer Vietnam and Singer Vietnam is a non-wholly owned subsidiary of the Company, it is therefore a connected person of the Company under the Listing Rules.

LETTER FROM THE BOARD

Thus, the Memorandum also constitutes a connected transaction for the Company under the Listing Rules and is therefore subject to Independent Shareholders' approval at a SGM. Save as disclosed, CNS and its associates do not hold any shares in the Company.

MAJOR SHAREHOLDERS' CONSENT

Since no Shareholder is required to abstain from voting if the Company were to convene the SGM because the interests of the substantial Shareholders and the Directors in the Memorandum are no different from that of the other Shareholders and a written approval on the Memorandum had been obtained from Mr. Luk and Madam Cheng, who are the Directors and a married couple and thus are considered a closely allied group of Shareholders collectively holding an aggregate of 307,178,184 Shares, representing approximately 59.86% in nominal value of the Shares in issue as at the date of announcement of the Company dated 21 May 2007 in connection with the Memorandum and are entitled to exercise the control over the voting rights of these Shares giving them the right to attend and vote at the SGM (if the Company were to convene one), an application has been made by the Company to the Stock Exchange for a waiver from strict compliance with the requirement of obtaining Shareholders' approval at the SGM (if convened) for the Memorandum pursuant to Rule 14A. 43 of the Listing Rules. Such waiver has been granted by the Stock Exchange.

RECOMMENDATIONS

Your attention is drawn to:

- (i) the letter from the Independent Board Committee set out on page 15 of this circular, which contains its recommendation concerning the Memorandum; and
- (ii) the letter from Ceres Capital, set out on pages 16 to 30 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Director) consider the terms and conditions of the Memorandum to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
LUKS INDUSTRIAL (GROUP) LIMITED
Luk King Tin
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



LUKS INDUSTRIAL (GROUP) LIMITED

陸氏實業(集團)有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 366)

12 June 2007

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
MEMORANDUM OF PROPOSED COOPERATION IN VIETNAM**

We refer to the circular dated 12 June 2007 issued by the Company to the Shareholders (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings given to them in the Circular.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the Memorandum is in the interests of the Company and its Shareholders as a whole and whether the terms of the Memorandum are fair and reasonable so far as the Independent Shareholders are concerned. Ceres Capital has been appointed as the independent financial adviser by the Board to advise the Independent Board Committee and the Independent Shareholders.

We wish to draw your attention to the “Letter from Ceres Capital” as set out on pages 16 to 30 of the Circular. We have considered the terms and conditions of the Memorandum, the advice of Ceres Capital and the other factors contained in the “Letter from the Board” as set out on pages 6 to 14 of the Circular.

Having taken into account the advice of Ceres Capital, we consider that the terms of the Memorandum are fair and reasonable so far as the Independent Shareholders are concerned and the Memorandum is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM (if convened) to approve the Memorandum.

Yours faithfully,

Independent Board Committee

Liang Fang Liu Li Yuan Tam Kan Wing

Independent Non-executive Directors

LETTER FROM CERES CAPITAL

The following is the full text of the letter from Ceres Capital Limited to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation in this circular.



昱豐融資有限公司
CERES CAPITAL LIMITED

Suite 3308, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

12 June 2007

*To the Independent Board Committee and
the Independent Shareholders of
Luks Industrial (Group) Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION MEMORANDUM OF PROPOSED COOPERATION IN VIETNAM

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Memorandum, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 12 June 2007 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the Memorandum. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 21 May 2007, the Company announced that on 18 May 2007, Luks Industrial, a wholly owned subsidiary of the Company, entered into a conditional Memorandum with CNS which belongs to the Industry Department of Ho Chi Minh City, Vietnam in connection with the proposed cooperation in various fields of investments in Vietnam including but not limited to (i) a proposal to set up two joint stock companies in Vietnam namely JSC (Cement) and JSC (Property) for the respective investment of Cement Project and Property Development Project, and (ii) a number of other investment projects in Vietnam namely; (a) investment in a thermal power plant; (b) construction of industrial zones, and (c) investment in an ecological resort. Formal agreements in respect of each of these projects will be signed upon all necessary approvals for each project having been obtained from the relevant authorities in Vietnam.

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The Memorandum constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules. As CNS is the parent company of Saigon Electronic, which is a shareholder of Singer Vietnam, and Singer Vietnam is a non-wholly owned subsidiary of the Company, CNS is therefore a connected person of the Company under the Listing Rules. Thus, the Memorandum also constitutes a connected transaction of the Company under the Listing Rules and is therefore subject to, among other things, the independent shareholders' approval requirement. The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement of obtaining Shareholders' approval of the Memorandum at a general meeting of the Company. Such waiver has been granted. The reasons for such waiver application are set out in the letter from the Board.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Messrs. Liang Fang, Liu Li Yuan and Tam Kan Wing, has been established to advise the Independent Shareholders as to whether the Memorandum is in the interests of the Company and the Shareholders as a whole and whether its terms are fair and reasonable. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Memorandum is in the interests of the Company and the Shareholders as a whole; (ii) whether or not the terms of the Memorandum are fair and reasonable; and (iii) how the Independent Shareholders should vote on the resolution in respect of the Memorandum at the SGM (if convened).

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent for the purposes of Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted

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any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group or the parties to the Memorandum or the markets in which they respectively operate.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Memorandum, we have taken into consideration the following principal factors and reasons:

1. Overview of the Group's operations

The Group is principally engaged in (i) the manufacture and sale of cement products in Vietnam; and (ii) property investment and development. Set out below is a summary of the published financial results of the Group for each of the three financial years ended 31 December 2004, 2005 and 2006 which are extracted from the Company's annual reports for 2005 and 2006.

	Cement products <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Traditional Chinese medicine products <i>HK\$'000</i>	Investment <i>HK\$'000</i>	Sale of electronic and wood products <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2004 (audited)						
Segment revenue	211,954	56,967	4,629	–	4,594	278,144
Segment profit/(loss)	58,433	25,986	(45,804)	(4,554)	10,459	44,520
Profit for the year						42,865
For the year ended 31 December 2005 (audited)						
Segment revenue	231,675	74,452	4,535	–	2,412	313,074
Segment profit/(loss)	61,480	203,851	(189,537)	3,169	7,177	65,175 <i>(Note)</i>
Profit for the year						25,636
For the year ended 31 December 2006 (audited)						
Segment revenue	274,602	91,122	4,131	–	3,889	373,744
Segment profit/(loss)	78,207	302,334	(85,790)	(4,052)	(12,457)	269,347 <i>(Note)</i>
Profit for the year						198,251

Note: After inter-segment elimination of HK\$20,965,000 and HK\$8,895,000 for the year ended 31 December 2005 and 2006, respectively.

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According to the strategy of the Group as stated in its 2006 annual report, it has been actively over the past years shifted its business emphasis from electronics manufacturing in China into cement and property investments in Vietnam, and the profitable results of the Group seem to have vindicated this strategy.

Over the years, loss-making business segments such as the traditional Chinese medicine products had been gradually written down to the point that investments in this business had been totally written off during the year ended 31 December 2006. On the other hand, the cement business remained as the Group's major business segment while the contribution from the property investments segment had increased to significant level.

The cement product segment was a steady and improving performer, with revenue increasing approximately 9.3% in the year ended 31 December 2005 to HK\$231.7 million and a further 18.5% in 2006 to HK\$274.6 million. The segment profit for the cement business also saw a corresponding rise of approximately 5.2% in 2005 to HK\$61.5 million and approximately 27.2% in 2006 to HK\$78.2 million.

For the year ended 31 December 2004, the Group's property investment segment recorded a total turnover of approximately HK\$57.0 million, with segment profit reaching almost HK\$26.0 million. For the year ended 31 December 2005, there was a gain of approximately HK\$141 million in property revaluation and the property investment segment recorded a segment profit of approximately HK\$203.9 million. However, this good result was eroded by the write-down of HK\$189.5 million by the traditional Chinese medicine products segment during the same year. As a result, audited profit for 2005 dropped about 40% to HK\$25.6 million from HK\$42.9 million for year 2004.

For the year ended 31 December 2006, the Group's cement business segment revenue recorded a 18.5% increase to HK\$274.6 million, while the property investment segment revenue recorded a 22.4% increase to HK\$91.1 million. Consolidated profit of the Group for 2006 was approximately HK\$198.3 million, representing an over six-fold increase as compared to the preceding year. The stellar results were primarily due to a 30% revaluation surplus on the Group's investment property, Saigon Trade Centre, which achieved a 95% occupancy rate in 2006.

As evidenced by the operating results and business developments of the Group in recent years, in particular those in relation to the cement business and property investment and development in Vietnam, as described above, the Group has been actively shifting its business focus and expanding its business portfolio towards the Vietnam market. Having considered the nature and purposes of the Memorandum, details of which are discussed in the section headed "The Memorandum" below, we are of the view that the reason for entering into the Memorandum is consistent with the Group's overall business strategy.

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2. Overview of the Vietnam economy

According to the Asian Development Bank (“ADB”), the economy of Vietnam expanded by 8% in 2006, which was above its trend rate of the past five years. The rapid growth was a result of robust exports, rising consumption spending, and strong investment.

Vietnam’s accession to the World Trade Organization (“WTO”) since January 2007 is seen to add further impetus to economic growth and structural reforms in Vietnam. According to ADB, the economic growth is projected to be 8.3% in 2007 and 8.5% in 2008. At this rate, it will rank among the highest growth rates in the world and begins to rival that of China. Within this high growth environment, it is note-worthy that the industrial and services sectors contributed more than 90% of total GDP growth in 2006, while traditional sectors such as mining and agriculture registered flat and 2.9% growth respectively.

Strong growth results in industry and services are largely driven by strong investments both in the public and private sectors. According to the socio-economic development plan for 2006-2010 approved by the National Assembly in December 2005 (“Five-year Plan”), the Vietnam government calls for planned investments of US\$140 billion, with 30% coming from the State and 70% from the private sector. Total investment as a share of GDP is projected to be about 40% in the next two years.

According to the Five-year Plan, on the public side the Vietnam government aims to increase spending on infrastructural projects to about 11% of GDP in the medium term, from the current 9%. We believe this will have direct positive impact on the Group’s cement business as rapid increase in infrastructure spending will spur the construction industry which in turn will increase overall demand for cement, a basic construction material.

According to the Vietnam Economic News, the Ministry of Construction of Vietnam estimated the demand for cement at approximately 46.8 million tonnes in 2020. Contrasting this with the 27.9 million tonnes produced in 2005, it would appear that the cement industry in Vietnam has strong growth potential. Contributing to the strong demand for cement is the current boom in the property market in Vietnam, with rapidly rising prices and building activities. The real estate boom is part and parcel of the strong overall economic growth which generates high demand for all kinds of property stock which are already in short supply: hotels, apartments, retail or office space. Demand for properties is believed to be further accelerated by rapid urbanization and the emergence of an urban middle class and strong foreign direct investments as a result of Vietnam’s accession to the WTO. However, real estate market is cyclical in nature and it would be difficult to predict the durability of the current property boom in Vietnam. The development of the industry is also potentially hampered by the immature legal and regulatory frameworks governing the real estate market.

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Strong economic growth also leads to a rising demand for electricity. According to ADB, electricity generation in Vietnam has grown by an average of 14.8% during 2001 to 2005. On the other hand, the Vietnam Economic News Online, the official publication of The Ministry of Trade of Vietnam, has estimated that electricity production in 2006 was 12,000 MW, which was some 10% short of demand.

According to the data released by Ministry of Industry in the National Assembly in November 2004, it was estimated by Electricity of Vietnam that between 2005 and 2010, around US\$20 billion of new investment in power production, transmission and distribution will be required in order to meet the country's electricity needs, which is projected to grow about 15% per year. The new spending in the sector can only be met 50% through government sources. The rest will need to come from private sector or development assistance agencies. There would appear to be good opportunities in the electricity generation sector in Vietnam in the near term for private sector participation together with official initiatives, which is in line with the Group's co-development plan with CNS in the power generation sector.

The robust economic growth has translated into a booming stock market in Vietnam in recent years. According to Asian Development Outlook 2007 published by ADB, the main stock index soared from 307.5 at the end of 2005 to 751.8 a year later, and further advanced to 1,138 at the end of February 2007. During the same period, the total number of listed companies rose from 41 to 193, with total market capitalization increasing almost 20 times to US\$14 billion, representing about 22.7% of the GDP of Vietnam.

The growth of the stock market also necessitated improvement in corporate governance and market regulation. The government has passed a law on securities and securities market which came into force in January 2007. It provides a legal base for investor protection and market transparency, including requirements for publicly held companies. According to ADB, the minimum foreign ownership in listed companies was lifted from 30% to 49%. These developments have paved the way for many more Vietnam companies, including state-owned and foreign joint venture companies, to be listed in the exchange.

Against this background, it would seem that the Group's JSC ventures will have a chance to ride on this favorable climate for public listing when they become eligible.

3. The Memorandum

On 18 May 2007, Luks Industrial, a wholly owned subsidiary of the Company entered into a conditional Memorandum with CNS in connection with the proposed cooperation in various fields of investments in Vietnam including but not limited to (i) a proposal to set up two joint stock companies in Vietnam namely JSC (Cement) and JSC (Property) for the respective investment of Cement Project and Property Development Project; (ii) a number of other investment projects in Vietnam namely; (a) investment in a thermal power plant; (b) construction of industrial zones and (c) investment in an ecological resort. Formal agreements in respect of each of these projects will be signed upon all necessary approvals for each project having been

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obtained from the relevant authorities in Vietnam. Upon formation of JSC (Cement) and JSC (Property), they will become the associates of the Company. Both parties intended to jointly operate and manage the two joint stock companies and aimed at listing the joint stock companies in the stock exchange of Vietnam within three years, subject to the then regulations and approvals of relevant authorities.

(i) *Information on CNS*

CNS belongs to the Industry Department of Ho Chi Minh City, Vietnam, and is principally engaged in industries, mechanics, electronics, food processing, investment and operations of infrastructure projects in Vietnam.

As a commercial arm of the Industry Department of the City Government of Ho Chi Minh City, CNS can be regarded as a strong business partner for the Group's ventures in Vietnam. CNS's special relationship with the Industry Department is expected to be helpful to the Group in terms of information flow in the areas of government regulations and policies, and priority access to business opportunities which might be generated from the large portfolio of industrial concerns, property holdings and infrastructure projects under the umbrella of CNS. On this basis, we consider that it is in the interests of the Company and the Shareholders to have such a desirable business partner by way of entering into the Memorandum.

(ii) *Information on JSC (Cement) and the Cement Project*

It has been agreed under the Memorandum that JSC (Cement) will be established as a joint stock company for the implementation of Cement Projects, which include:

(a) A cement-grinding factory

Luks Cement has existing licenses from relevant government authorities to build a cement-grinding factory with an annual capacity of 1,500,000 tonnes in an industrial site of 140,000 square metres in Tan Tap Ward, Can Giuoc District, Long An Province. Both parties to the Memorandum have agreed to set up JSC (Cement) and Luks Cement will transfer the cement grinding factory to JSC (Cement), upon Luks Cement having successfully obtained from the relevant Vietnamese government authorities for the expansion of the cement-grinding factory to an annual capacity to 3,000,000 tonnes and that the construction of the cement grinding factory has been completed. The transfer shall be subject to relevant governmental approvals and in accordance with the laws of Vietnam, based on the actual investment cost of Luks Cement. The cement grinding factory is targeted to be completed by June 2008.

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(b) A clinker factory

Within 30 days from the setting up of JSC (Cement), Luks Cement shall apply for a new investment licence in a brand new clinker production line with an annual capacity of 1,250,000 tonnes of clinker, and in the land use and exploitation rights of a new limestone mine with an area of 50 hectares, both in Thua Thien Hue Province. Under the Memorandum, Luks Cement has agreed to transfer the land use and exploitation rights of the 50 hectares limestone mine to JSC (Cement) after the relevant licence has been obtained. Upon completion of the construction and commencement of operation of the clinker factory and subject to relevant governmental approvals and in accordance with the Laws of Vietnam, Luks Cement will also transfer the clinker factory to JSC (Cement) at a value to be evaluated by an international auditing firm based on the project investment costs. It is anticipated that the clinker factory will be completed by the second quarter of 2009.

Pursuant to the Memorandum, before the new clinker factory comes into operation, in order to facilitate the production operations of JSC (Cement) after its commencement of commercial operation, Luks Industrial has undertaken that it will procure Luks Cement to sell a total quantity of 600,000 tonnes of clinker (up to a maximum of 800,000 tonnes) per annum with reference to the market price and a discount of 10% at the time of the transactions. As stated in the Circular, the Group will enter into formal agreement with the relevant parties on the final terms and conditions of the arrangements under the Memorandum. We understand from the Directors that any such formal agreement to be entered into by the Group will cover the detailed terms and conditions for the sale of clinker by Luks Cement as provided under the Memorandum. The Directors have also indicated that in performing the obligations under the Memorandum, the Group will comply with the relevant requirements under Chapter 14A of the Listing Rules. In summary, the sale of clinker by Luks Cement to JSC (Cement) may only take place after commencement of commercial operations of JSC (Cement) which is expected to be around June 2008 and the detailed terms of any such sale transactions will be included in the formal agreement. On this basis, we consider that the undertaking by Luks Industrial to procure Luks Cement to sell 600,000 tonnes of clinker (up to a maximum of 800,000 tonnes) per annum under the Memorandum provides the Group with an opportunity to expand its existing clinker sale business, while the detailed terms of the transactions are subject to further negotiation and agreement between the relevant parties. Although the undertaking involves the sale of clinker by Luks Cement to JSC (Cement) by reference to the market price at a 10% discount, it is part and parcel of all the agreements under the Memorandum and having considered that the Memorandum as a whole is in the interests of the Company and Luks Industrial will also have 45% equity interests in JSC (Cement), we consider that such undertaking is fair and reasonable. Furthermore, the undertaking in the Memorandum will not prejudice the interests of the Company or its Shareholders as there is no penalty clause for

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failure by Luks Industrial to honour the undertaking. The detailed terms of any such sale of clinker will be discussed in the formal agreement, which shall be implemented by the Company in accordance with the relevant requirements under the Listing Rules.

(c) Share capital of JSC (Cement)

The proposed total share capital for JSC (Cement) is US\$10,000,000 (approximately HK\$78,000,000), of which US\$5,500,000 (approximately HK\$42,900,000) representing 55% will be contributed by CNS and US\$4,500,000 (approximately HK\$35,100,000) representing 45% will be contributed by Luks Industrial. As advised by the Group, the total share capital of JSC (Cement) was determined by reference to the estimated initial investment amounts of the Cement Project and the contribution by each party was determined by reference to the respective shareholding in JSC (Cement). Having considered the scale and production capacity of the Cement Project and by reference to the Group's capital investments in its existing cement operations in Vietnam, we are of the opinion that the proposed total share capital for JSC (Cement) of US\$10,000,000 is not excessive. Since the contribution to be made by the Group is in the same proportion as its shareholding interest in JSC (Cement), we consider it fair and reasonable.

As indicated in the Company's 2006 annual report, the Group anticipates that with Vietnam's accession to the WTO, there will be accelerated development of infrastructure projects such as highways, tunnels, container ports and flyovers which greatly increase the demand for cement. Accordingly, it has all along been the Group's intention and corporate strategy to expand its cement business in Vietnam in order to capture such market demand. The agreements under the Memorandum enable the Group to accelerate its expansion plan with the commitment and support of CNS as its strategic partner so as to promptly capture the market potential. As the cement business in Vietnam has accounted for over 70% of the Group's total turnover for each of the past few years and has also been a significant profit contributor, we consider that the Group's investment in the Cement Project through JSC (Cement) under the Memorandum is a logical strategic move and is in line with the Group's existing principal business.

The Group's interest in JSC (Cement) will be 45% and upon formation, JSC (Cement) will become an associate of the Company. Having considered the substantial investments cost for the Cement Project which is estimated to be US\$76 million (approximately HK\$592,800,000), we consider it prudent for the Group to diversify its interests and commitment and cooperate with a strong strategic partner, such as CNS, in its expansion plan.

(iii) Information on JSC (Property) and the Property Development Project

It has been agreed between CNS and Luks Industrial under the Memorandum that JSC (Project) will be established as a joint stock company for the implementation of Property Development Project in accordance with the laws of

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Vietnam including the development of the Land Areas into residential and commercial areas for sale and rental purpose, and management and operation of residential and commercial areas.

(a) The Land Areas

CNS is the legal and beneficial owner of the Land Areas, which comprise:

- the land area of approximately 10,000 square metres located at 11/121 Le Duc Tho Street, Ward No. 17, Go Vap District, Ho Chi Minh City, Vietnam;
- the land area of approximately 2,300 square metres located at 242 Tran Phu Street, District No. 5, Ho Chi Minh City, Vietnam; and
- the land area of approximately 6,000 square metres located at 52, Thanh Thai, District 10, Ho Chi Minh City, Vietnam.

Pursuant to the Memorandum, CNS has agreed to contribute the land use right of the Land Areas to JSC (Property) based on the land price as regulated by the relevant authorities in Vietnam which is more favourable than the market prices and agreed by the parties. Pursuant to the Memorandum, CNS has also agreed to give JSC (Property) the first priority right to develop other land areas which are under the use right or management of CNS and/or its affiliates and to other project opportunities that CNS may approach in accordance with the laws and regulations of Vietnam.

Both Luks Industrial and CNS have agreed to have a long-term investment plan for JSC (Property) to develop each year at least a total land area of 20,000 square meters for sale or rental purpose for the next 10 years from the date of completion of the Property Development Project.

(b) Share capital of JSC (Property)

The proposed total share capital for JSC (Property) is US\$10,000,000 (approximately HK\$78,000,000), of which US\$7,000,000 (approximately HK\$54,600,000) representing 70% will be contributed by CNS and US\$3,000,000 (approximately HK\$23,400,000) representing 30% will be contributed by Luks Industrial. As advised by the Group, the total share capital of JSC (Property) was determined by reference to the estimated initial investment amounts of the Property Development Project and the contribution by each party was determined by reference to the respective shareholding in JSC (Property). Having considered the size of the Land Areas and the scale of the Property Development Project, we are of the opinion that the proposed total share capital for JSC (Property) of

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US\$10,000,000 is not excessive. Since the contribution to be made by the Group is in the same proportion as its shareholding interest in JSC (Property), we consider it fair and reasonable.

As indicated in the section headed “Overview of the Group’s operations” above, the turnover contribution from the Group’s property investment segment had been increasing year after year with an average annual compound growth rate of about 26%. The Group also recorded net fair value gains on its investment properties, primarily those located in Vietnam, of over HK\$141 million and HK\$245 million for the year ended 31 December 2005 and 2006, respectively. As discussed in the section headed “Overview of the Vietnam economy” above, the strong overall economic growth in Vietnam is expected to continue to generate high demand for all kinds of property stock. Fueled by the rapid urbanization and the strong foreign direct investments as a result of Vietnam’s accession to the WTO, the demand for properties in Vietnam is believed to be further accelerated. As indicated in the Company’s 2006 annual report, the Group intends to increase its land reserve in 2007 as well as to engage in the development of residential apartments to take advantage of the increasing demand for better housing as Vietnam’s economy improves and the process of urbanization accelerates. On this basis, we consider that the Group’s further commitment to and investment in the property market in Vietnam through JSC (Property) under the Memorandum are commercially sensible and are in line with the Group’s existing business strategy.

We understand that under the Land Law of Vietnam, the provincial people’s committees are required to proclaim publicly the land prices at the beginning of each year which are used as the basis for calculating the land assignment tax and others. Such official land prices are usually lower than the market prices as the latter are determined by supply and demand and have been driven up by the boom in Vietnam’s economy in recent years. Having considered that (i) CNS has agreed to contribute the land use rights of the Land Areas to JSC (Property) based on the land price as regulated by the relevant authorities in Vietnam which is more favourable, i.e. lower, than the market price; and (ii) JSC (Property) will have the priority right to develop other land areas which are under the use right or management of CNS or its affiliates, we are of the opinion that the agreements under the Memorandum are in the interest of the Group and their terms are fair and reasonable so far as the Company is concerned. Furthermore, we consider it very desirable to have CNS, a state-owned enterprise, as the Group’s partner in the Property Development Project as, with the assistance from CNS, JSC (Property) could apply to the government for the most favourable terms on the plot ratio, height restrictions, coverage ratio, etc., in respect of the Land Areas. As a result, the Group’s interest in JSC (Property) could be further enhanced.

The Group’s interest in JSC (Property) will be 30% and upon formation, JSC (Property) will become an associate of the Company. Having considered the capital intensive nature of the Property Development Project and the substantial development cost requirement which cannot be ascertained at the moment, we consider it prudent for the Group to diversify its commitment and cooperate with a strong strategic partner, such as CNS, in its long-term property business plan.

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(iv) Information on the other projects

In addition to the formation of JSC (Cement) and JSC (Property), Luks Industrial and CNS have also agreed in principle to jointly invest and cooperate in other businesses in Vietnam based on a long-term strategic relationship. Subject to further discussion and contract, the cooperation shall include the following projects:

- (a) investment in a thermal power plant in Thua Thien, Hue Province with estimated capacity of 100MW;
- (b) investment in construction of industrial zones in Ho Chi Minh City, Long An Province and Ba Ria-Vung Tau; and
- (c) investment in an ecological resort in Ben Luc District, Long An Province.

Further details are subject to discussion and agreements between CNS and Luks Industrial.

As discussed in the section headed “Overview of the Vietnam economy” above, the economic growth in Vietnam is expected to remain strong and the accession to the WTO since January 2007 is also seen to add further impetus to economic growth and structural reforms in Vietnam. Such robust growth and reforms in a developing country are expected to pose good prospects for businesses, such as the energy sector, industry development and tourism. Although the negotiation on the aforesaid projects is still at a very preliminary stage, we consider that the agreement in principle on cooperation provides the Group the flexibility and prospect to diversify into other business sectors in Vietnam if the Group considers appropriate in the future, and is therefore in the interest of the Company and the Shareholders as a whole.

(v) Conditions precedent to the Memorandum

The Memorandum is a legally binding agreement and is subject to various conditions, details of which are set out in the Letter from the Board. In particular, the setting up of the proposed JSC is conditional upon, the licence for the formation of the JSC and for the Cement Project by the relevant authorities of Vietnam having been granted, written documents showing the land use right certificates of the Land Areas having been obtained, and all necessary written approvals for developing the respective land areas and evidence for the payment of the respective land premium and expenses having been obtained. We consider these conditions precedent to be normal commercial terms which provide fair and reasonable protection to Luks Industrial before it is required to make any financial commitment in the ventures. Details of the JSC have to be worked out between CNS and Luks Industrial and various formal agreements will be signed upon all necessary approvals of the formation of the two joint stock companies having

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been obtained from the relevant authorities in Vietnam and other conditions having been fulfilled. The Company will make further announcement upon signing of the various formal agreements.

In summary, based on the reasons and factors discussed above, we consider that the Memorandum is in the interests of the Company and its terms are fair and reasonable.

4. Financial effects of the Memorandum

Upon formation, the Group will have 45% and 30% interests in JSC (Cement) and JSC (Property) respectively. Due to such level of shareholding, JSC (Cement) and JSC (Property) will not be treated as subsidiaries of the Company and their assets, liabilities and results of the operations will not be consolidated into those of the Group. As advised by the Directors, the Company will account for its investments in JSC (Cement) and JSC (Property) as associates in accordance with the Hong Kong Accounting Standards and the Group's share of results of associates will be included in the Group's consolidated income statement, and the investments will be stated at the Group's share of the net assets less provision for impairment losses, if any.

As mentioned above, the cement-grinding factory and the clinker factory will be transferred to JSC (Cement) at value based on their actual investment costs while CNS will contribute the land use rights in respect of the Land Areas to JSC (Property) based on the land price as regulated by the relevant authorities in Vietnam which is more favourable than the market price, it is not expected that the implementation of the Cement Project and the Property Development Project through the two joint stock companies under the Memorandum will have immediate adverse impact on the financial position of the Group.

Under the Memorandum, the proposed contribution to the share capital of JSC (Cement) and JSC (Property) will be made in either cash or assets by the respective shareholders. As stated in the Letter from the Board, the proposed Contribution, amounting to US\$7,500,000 (approximately HK\$58,500,000), will be paid from bank borrowings of the Group. The Directors believe that such payment arrangement will not have adverse impact on the Group's financial position.

As stated in the Company's 2006 annual report, the Group had cash and bank balances of approximately HK\$126.6 million, of which approximately HK\$90.2 million was unencumbered cash and cash equivalents. On this basis, the Group would have sufficient own funds to satisfy its contribution requirement under the Memorandum, though it intends to utilize the bank borrowings.

On 29 May 2007, the Company announced, among other things, that it had entered into a conditional agreement with KT (Holdings) Limited, the controlling shareholder of the Company, for a top-up subscription of 60,000,000 new Shares at HK\$12.8 per Share. Subject to completion of the subscription which is expected to be on or before 12 June 2007, net proceeds of approximately HK\$743 million will be

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raised by the Company. As stated in the Company's announcement, the Board presently intends to apply approximately HK\$273 million to JSC (Cement) for the Cement Project and HK\$235 million for its joint stock companies in property development.

On the basis of the Group's unencumbered cash and cash equivalents of approximately HK\$90.2 million as at 31 December 2006 and taking into account the additional equity of approximately HK\$743 million raised under the aforesaid subscription and that the capital requirement of the Group under the Memorandum will span over the long-term development plans of the relevant projects, we consider that the Group would have sufficient resources to meet its financial obligations and there would not be material adverse impact on the financial position of the Group as a result of its Contribution obligations of approximately HK\$58.5 million under the Memorandum.

Furthermore, as stated in the Memorandum, it is the aim of both Luks Industrial and CNS that JSC (Cement) and JSC (Property) be listed on the Stock Exchange of Vietnam within three years' time from their respective date of establishment subject to the regulations and approvals of the relevant authorities in Vietnam. If JSC (Cement) or JSC (Property) becomes eligible to be listed on the stock exchange of Vietnam and has access to the capital market, the Group will have the flexibility to ease its financial commitment to these ventures by raising capital through them in the stock market in Vietnam.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular, the following:-

- (i) The strong economic growth in Vietnam is expected to continue given its robust growth in recent years and following Vietnam's accession to the WTO.
- (ii) The demand for cement in Vietnam is expected to remain strong due to the boom in the property market and the rising construction activities as well as accelerated development of infrastructure projects such as highways, tunnels, container ports and flyovers, all of which require cement as a major construction material.
- (iii) As Vietnam's economy improves, the demand for better housing increases. Fueled by the rapid urbanization and the strong foreign direct investments as a result of Vietnam's accession to the WTO, the demand for properties in Vietnam is believed to be further accelerated.
- (iv) The reasons for entering into the Memorandum are in line with the Group's existing business strategy to further expand its business portfolio in the Vietnam market.
- (v) The overall terms of the agreements under the Memorandum are fair and reasonable as discussed in the section headed "The Memorandum" above.

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- (vi) CNS, a state-owned enterprise, is a desirable strategic partner for the Cement Project and the Property Development Project.

- (vii) The financial commitment in respect of the Contribution under the Memorandum is not expected to have any immediate adverse impact on the Group's financial position.

Based on the above consideration, we are of the opinion that the Memorandum is in the interests of the Company and the Shareholders as a whole, and its terms are fair and reasonable. Therefore, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolution to approve the Memorandum at the SGM (if convened).

Yours faithfully,
For and on behalf of
Ceres Capital Limited
Frank Moy
Managing Director

GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, and belief there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS BY THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and their respective associates have the following interests and short positions in the Shares, debentures or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position in which he was taken or deemed to have under such provisions of the SFO) and the Model Code.

(i) Long positions in the Shares:

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	44.01%
Cheng Cheung	(b)	18,028,800	–	36,912,027	54,940,827	9.59%
Luk Yan	(c)	3,070,800	174,000	–	3,244,800	0.57%
Luk Fung		3,129,600	–	–	3,129,600	0.55%
Fan Chiu Tat, Martin		1,500,000	–	–	1,500,000	0.26%
		<u>215,281,599</u>	<u>174,000</u>	<u>99,596,985</u>	<u>315,052,584</u>	<u>54.97%</u>

GENERAL INFORMATION

(ii) Interests in shares of an associated corporation

Long positions in shares of an associated corporation:

Name of Director	<i>Note</i>	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 ("Vigconic")	Company's subsidiary	2,299,908	Through controlled corporation	25%

Notes:

- (a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 62,684,958 Shares as at the Latest Practicable Date.
- (b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 Shares as at the Latest Practicable Date.
- (c) In addition to the above personal interest, Mr. Luk Yan had a family interest, which held 174,000 Shares as at the Latest Practicable Date.
- (d) Mr. Luk King Tin and Mr. Luk Fung had a beneficial interest in Vigconic Biotechnology Company Limited, which held 2,299,908 shares of US\$1 each of Vigconic as at the Latest Practicable 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 the Latest Practicable Date, none of the Directors, chief executive nor their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as recorded in the register kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position in which he was taken or deemed to have under such provisions of the SFO) and the Model Code.

GENERAL INFORMATION

3. SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders' and other persons' interests and short positions in Shares and underlying Shares

As at the Latest Practicable Date, in accordance with the register of substantial Shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interested (including short positions) in the Shares or underlying Shares of the Company:

Long positions:

Name	Capacity and nature of interest	Number of Shares held	Percentage of issued share capital
KT (Holdings) Limited	Directly beneficially owned	62,684,958	10.94%
CC (Holdings) Limited	Directly beneficially owned	36,912,027	6.44%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company knew of any person (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which would not expire or would not be determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates has any interests in any company or business which compete or may compete with the businesses of the Group.

GENERAL INFORMATION

6. DEMAND BY POLL

Pursuant to Bye-Law 66 of the existing Bye-Laws, at any general meeting, a poll may be demanded in respect of a resolution put to the vote at the meeting by:–

- (a) the chairman of such meeting; or
- (b) at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares in which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

7. EXPERT

The following is the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Ceres Capital Limited	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO

At as the Latest Practicable Date, Ceres Capital Limited was not interested beneficially in the securities of any member of the Company and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Company.

As at the Latest Practicable Date, Ceres Capital Limited did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006, being the date up to which the latest published audited consolidated financial statements of the Group were made up.

8. CONSENT

Ceres Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the texts of its letter and references to its name, in the form and context in which they respectively appear.

GENERAL INFORMATION

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries since the date of 24 months immediately preceding the date of this circular and which are or may be material:

- (a) The agreement dated 7th July 2005 entered into between Luks Vietnam Company Limited, a wholly owned subsidiary of the Company, and Vietnam Frontier Fund (In Liquidation) involving proposed acquisitions of its 12.5% interest in Luks Cement Company Limited at a consideration of US\$2.5 million (approximately HK\$19.5 million).
- (b) The agreement for proposed establishment of a joint venture company in Vietnam dated 19th October 2006 entered into between Luks Land Investments Limited, a wholly-owned subsidiary of the Company and CONG TY NHUA NONG SAN THANH PHAT in connection with a proposal to establish a joint venture company in Vietnam for the development of land area in Vietnam more particularly set out therein with a proposed total shares capital of US\$20 million (approximately HK\$156,000,000).
- (c) The conditional memorandum dated 5th January 2007 entered into between Luks Land Development Limited, a wholly-owned subsidiary of the Company and Hong Phuc Investment and Trading Joint Stock Company in connection with a proposal to establish a joint venture company in Vietnam for the development of land area in Vietnam more particularly set out therein with a proposed total share capital of US\$9.5 million (approximately HK\$74,100,000).
- (d) Two conditional agreements both dated 5th February 2007 entered into between Best Deluxe Assets Limited, a wholly owned subsidiary of the Company and China National Aero-Technology Import and Export Corporation Beijing Company (中國航空技術進出口北京公司) in connection with the purchase of cement production equipment namely, (a) the facilities of a 3,000 tonnes per day clinkers' production line and (b) the facilities of a 1.5 million tonnes per year cement grinding mill respectively both to be installed in Vietnam at an aggregate consideration of US\$25,556,000 (approximately HK\$199,336,800).
- (e) The Memorandum.

10. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date of the latest published audited consolidated financial statements of the Group were made up.

GENERAL INFORMATION

11. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

12. GENERAL

- (a) The company secretary and the qualified accountant of the Company is Mr. Fan Chiu Tat, Martin, *B.Soc.Sc., FCCA, CPA*.
- (b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The registrar and transfer office of the Company are Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The principal place of business of the Company is located at 5th Floor, Cheong Wah Factory Building, 39-41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company in Hong Kong at 5th Floor, Cheong Wah Factory Building, 39-41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 26 June 2007:

- (a) memorandum and Bye-laws of the Company;
- (b) the audited consolidated financial statement of the Company for each of the two years ended 31 December 2005 and 2006 respectively;
- (c) the material contracts referred to in paragraph 9 above;
- (d) the circular of the Company dated 4 August 2005 in relation to the acquisition of interests from Vietnam Frontier Fund (In Liquidation);
- (e) the circular of the Company dated 10 November 2006 in relation to the proposed establishment of a joint venture Company in Vietnam;
- (f) the circular of the Company dated 19 January 2007 in relation to the proposed establishment of a joint venture Company in Vietnam;
- (g) the circular of the Company dated 26 February 2007 in relation to the purchase of cement production equipment in Vietnam.