



# LUK FOOK HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in Bermuda with limited liability)  
 Website: www.lukfook.com.hk www.infocast.com.hk/listco/lukfook  
 (Stock Code: 590)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006

The Board of Directors (the "Board") of Luk Fook Holdings (International) Limited (the "Company" or "Luk Fook") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2006 together with comparative figures for the corresponding period in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006

|   |      | Unaudited<br>Six months ended<br>30th September |                  |
|---|------|---|------------------|
|   | Note | 2006<br>HK\$'000                                | 2005<br>HK\$'000 |
| Turnover  | 3    | 1,403,982                                       | 816,355          |
| Cost of sales   |      | (1,139,600)                                     | (630,757)        |
| Gross profit  |      | 264,382   | 185,598          |
| Other income  | 3    | 21,762  | 11,460           |
| Selling and distribution costs  |      | (163,444)                                       | (149,144)        |
| Administrative expenses   |      | (16,532)  | (15,440)         |
| Other operating expenses  |      | (1,569)   | (1,677)          |
| Operating profit  | 4    | 104,599   | 30,797           |
| Finance costs   |      | (110)   | (30)             |
| Profit before income tax  |      | 104,489   | 30,767           |
| Income tax expense  | 5    | (18,969)  | (1,108)          |
| Profit for the period   |      | 85,520  | 29,659           |
| Profit attributable to:   |      |   |                  |
| Equity holders of the Company   |      | 84,776  | 29,441           |
| Minority interest   |      | 744   | 218              |
|   |      | 85,520  | 29,659           |
| Earnings per share for profit attributable to the equity holders of the Company, expressed in Hong Kong cents per share | 6    |   |                  |
| - Basic   |      | 17.29 cents                                     | 6.06 cents       |
| - Diluted   |      | 17.29 cents                                     | 6.02 cents       |
| Dividends   |      | 34,476  | 14,638           |

### CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30TH SEPTEMBER 2006

|   |      | Unaudited<br>30th September<br>2006<br>HK\$'000 | Audited<br>31st March<br>2006<br>HK\$'000 |
|---|------|---|---|
|   | Note |   |   |
| <b>ASSETS</b>   |      |   |   |
| Non-current assets  |      |   |   |
| Property, plant and equipment                                     |      | 114,312   | 105,107                                   |
| Leasehold land and land use rights                                |      | 7,657   | 12,835                                    |
| Trading licence   |      | 1,080   | 1,080                                     |
| Rental deposits   |      | 18,465  | 19,575                                    |
| Deferred income tax assets  |      | 7,153   | 6,257                                     |
|   |      | 148,667   | 144,854                                   |
| Current assets  |      |   |   |
| Inventories   |      | 678,568   | 611,986                                   |
| Trade receivables   | 7    | 18,148  | 12,144                                    |
| Deposits, prepayments and other receivables                       |      | 36,256  | 20,369                                    |
| Property held for sale  |      | 7,390   | 850                                       |
| Bank balances and cash  |      | 153,428   | 108,738                                   |
|   |      | 893,790   | 754,087                                   |
| Total assets  |      | 1,042,457                                       | 898,941                                   |
| <b>EQUITY</b>   |      |   |   |
| Capital and reserves attributable to the Company's equity holders |      |   |   |
| Share capital   | 9    | 49,251  | 48,794                                    |
| Share premium   |      | 58,884  | 57,789                                    |
| Reserves  |      | 144,724   | 143,477                                   |
| Retained earnings   |      |   |   |
| - Proposed dividends  |      | 34,476  | 34,156                                    |
| - Others  |      | 480,928   | 430,948                                   |
|   |      | 768,263   | 715,164                                   |
| Minority interests  |      | 11,322  | 13,028                                    |
| Total equity  |      | 779,585   | 728,192                                   |
| <b>LIABILITIES</b>  |      |   |   |
| Non-current liabilities   |      |   |   |
| Deferred income tax liabilities                                   |      | 558   | 623                                       |
| Current liabilities   |      |   |   |
| Trade and other payables  | 8    | 193,988   | 161,641                                   |
| Taxation payable  |      | 28,326  | 8,485                                     |
| Short-term bank loans, unsecured                                  |      | 40,000  | -   |
|   |      | 262,314   | 170,126                                   |
| Total equity and liabilities                                      |      | 1,042,457                                       | 898,941                                   |
| Net current assets  |      | 631,476   | 583,961                                   |
| Total assets less current liabilities                             |      | 780,143   | 728,815                                   |

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2006

|   | Unaudited                                     |                           |                             |                                 |                                 |                               |                               |                   |
|---|---|---------------------------|-----------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------|-------------------|
|   | Attributable to equity holders of the Company |                           |                             |                                 |                                 |                               |                               |                   |
|   | Share capital<br>HK\$'000                     | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Revaluation reserve<br>HK\$'000 | Exchange difference<br>HK\$'000 | Retained earnings<br>HK\$'000 | Minority interest<br>HK\$'000 | Total<br>HK\$'000 |
| At 1st April 2006   | 48,794  | 57,789                    | 135,713                     | 6,158                           | 1,606                           | 465,104                       | 13,028                        | 728,192           |
| 2005/2006 final dividend paid   | -   | -                         | -                           | -                               | -                               | (34,476)                      | -                             | (34,476)          |
| Profit for the period   | -   | -                         | -                           | -                               | -                               | 84,776                        | 744                           | 85,520            |
| Repayment of advance from minority interest                                 | -   | -                         | -                           | -                               | -                               | -                             | (980)                         | (980)             |
| Advance to minority interest in proportion to their interests in subsidiary | -   | -                         | -                           | -                               | -                               | -                             | (1,470)                       | (1,470)           |
| Exchange differences  | -   | -                         | -                           | -                               | 1,247                           | -                             | -                             | 1,247             |
| Issue of shares   | 457   | 1,095                     | -                           | -                               | -                               | -                             | -                             | 1,552             |
| At 30th September 2006  | 49,251  | 58,884                    | 135,713                     | 6,158                           | 2,853                           | 515,404                       | 11,322                        | 779,585           |
| At 1st April 2005, as previously reported as equity                         | 48,544  | 57,189                    | 135,713                     | 8,752                           | (269)                           | 424,099                       | -                             | 674,028           |
| At 1st April 2005, as previously reported as minority interest              | -   | -                         | -                           | -                               | -                               | -                             | 9,249                         | 9,249             |
|   | 48,544  | 57,189                    | 135,713                     | 8,752                           | (269)                           | 424,099                       | 9,249                         | 683,277           |
| Reversal of revaluation reserve for leasehold land and land use rights      | -   | -                         | -                           | (8,752)                         | -                               | -                             | -                             | (8,752)           |
| Opening adjustment for the adoption of HKAS 17                              | -   | -                         | -                           | -                               | -                               | (1,216)                       | -                             | (1,216)           |
| At 1st April 2005, as restated  | 48,544  | 57,189                    | 135,713                     | -                               | (269)                           | 422,883                       | 9,249                         | 673,309           |
| 2004/2005 final dividend paid   | -   | -                         | -                           | -                               | -                               | (38,836)                      | -                             | (38,836)          |
| Profit for the period   | -   | -                         | -                           | -                               | -                               | 29,441                        | 218                           | 29,659            |
| Exchange differences  | -   | -                         | -                           | -                               | (183)                           | -                             | -                             | (183)             |
| Issue of shares   | 250   | 600                       | -                           | -                               | -                               | -                             | -                             | 850               |
| At 30th September 2005  | 48,794  | 57,789                    | 135,713                     | -                               | (452)                           | 413,488                       | 9,467                         | 664,799           |

#### NOTES:

- Basis of preparation**  
 This Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. This Interim Financial Information should be read in conjunction with the 2005/2006 annual financial statements for the year ended 31st March 2006.
- Accounting policies**  
 The accounting policies and methods of computation used in the preparation of this Interim Financial Information are consistent with those of the annual financial statements for the year ended 31st March 2006, as described in the annual financial statements for the year ended 31st March 2006.  
 The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31st March 2007.
  - Amendment to HKAS 19 "Actuarial gains and losses, group plans and disclosures" is effective for annual periods beginning on or after 1st January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;
  - Amendment to HKAS 39 "The fair value option" is effective for annual periods beginning on or after 1st January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit and loss prior to 1st January 2006;
  - Amendment to HKAS 21 "Net investment in a foreign operation" is effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant to the Group;
  - Amendment to HKAS 39 "Cash flow hedge accounting of forecast intragroup transactions" is effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant to the Group;
  - Amendment to HKAS 39 and HKFRS 4 "Financial guarantee contracts" is effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant to the Group;
  - HKFRS 6 "Exploration for and evaluation of mineral resources" is effective for annual periods beginning on or after 1st January 2006. This standard is not relevant to the Group;
  - HK(IFRIC)-Int 4 "Determining whether an arrangement contains a lease" is effective for annual periods beginning on or after 1st January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17 "Leases". The adoption of this interpretation has no financial impact to the Group's financial statements;
  - HK(IFRIC)-Int 5 "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds" is effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant to the Group;
  - HK(IFRIC)-Int 6 "Liabilities arising from participating in a specific market - waste electrical and electronic equipment" is effective for annual periods beginning on or after 1st December 2005. This interpretation is not relevant to the Group; and
  - HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKFRS 29" is effective for annual periods beginning on or after 1st March 2006. This interpretation is not relevant to the Group.
 The following new standards, amendments to standards and interpretations have been issued but are not yet effective for 2006/2007 and have not been early adopted:
  - HK(IFRIC)-Int 8 "Scope of HKFRS 2" is effective for annual periods beginning on or after 1st May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations;
  - HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" is effective for annual periods beginning on or after 1st June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group has already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and
  - HKFRS 7 "Financial instruments: Disclosures" is effective for annual periods beginning on or after 1st January 2007. HKAS 1 "Amendments to capital disclosures" is effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning on or after 1st January 2007.



**PRC Market**

The Group's expansion in the PRC has been going on in a satisfactory progress. As at 30th September 2006, the Group has set up more than 220 Luk Fook brand shops, reaching farther areas such as Xinjiang, Inner Mongolia, etc. Apart from the sales network in the first-tier cities such as Beijing, Shanghai and Guangzhou, the Group has further enlarged its sales network into the PRC, penetrating deeper into second-tier cities with good development potential, for example, Harbin, Wuhan and Chengdu.

In view of the booming China's economy, the consumers' demand for high-quality and fashionable jewellery continues to increase. To cope with the large consumer spending on luxuries in the PRC in recent years, we have also opened 2 new shops in Beijing in an attempt to seize opportunities arisen from the Beijing Olympics.

During the period under review, the Group's jewellery manufacturing plant in Panyu, Guangdong was running in good condition. Meanwhile, the newly built diamond processing factory has also started operation during the period.

Furthermore, as different world-famous product brands are developing rapidly in the PRC, we believe it is the excellent time to catch the strong growth of the PRC economy and secure our position in the PRC market by broadening our points of sales. For that reason, our target is to increase the number of Luk Fook brand shop in the PRC by 20% per year. In the next few years to further capture larger market share and more importantly, raising Luk Fook's brand awareness in the PRC.

**Macau Market**

With the booming economic development of Macau facilitated by the flourishing gaming business and the entrance of new casinos supported by giant financial group, for instance, Wynn Casino, the Group's two shops on the main street of Macau successfully captured a great number of customers, especially tourists who took up almost 60% of the turnover in the Macau shops. According to the figures from the Hong Kong Tourism Board, in the first 9 months of 2006, visitors to Macau rose by 15.4% compared to the same period of last year. Hence, the Group will soon be expanding its network to one of the shopping arcades of those newly built casinos and keeps watching closely at the market conditions and the appropriate spots for setting up more branches in order to grasp the enormous consumption opportunities driven by visitors.

**OVERSEAS DEVELOPMENT**

The Group is at all times devoted to expediting new business developments in various regions. The Group's first U.S. shop, "Luvina Jewelers", located in San Jose of California has started business since July of this year. The opening of a new branch in the U.S. signifies the first move of the Group to step into the U.S. mainstream community.

**REWARDS AND HONORS**

Luk Fook's persistent efforts on improving and enhancing product quality and design have never stopped. During the period under review, the Group was ranked one of the top 10 retailers for "Other Retailers" category based on the performance in total sales turnover in the Third Retail Asia Pacific Top 500 in 14 economies. The award truly signifies the Group's continual efforts in increasing the sales volume.

Apart from the remarkable sales performance, the Group continues to gain various awards for its innovative and trendy designs. For example, the Group was awarded "Jewelry Design Excellence Award ("JDE Award"): Overall Beauty Award", "JDE Award: Craftmanship Award" and Merit Award under "Professional Category" for Jewelry Designs "Layers", "Dandelion" and "Born Gifts" in "2006 International Jewelry Design Innovation Competition" respectively.

**PROSPECTS**

Looking forward, The Group aims at increasing its penetration not only in Hong Kong, Macau and the PRC markets, but also the overseas markets. With the new shop "Luvina Jewelers" set up in the U.S. mainstream community in August this year as a trial point of sales in the market, the Group is working hard to set up more shops in other locations, for example, South-East Asia.

Starting from 1st January 2007, the further relaxation of 5 more cities for the "Individual Visit Scheme" will allow a total number of 250 million populations from 49 cities traveling to Hong Kong. Hence, the support from the PRC consumers will be significant. We believe, together with the new tourist attractions and projects of the Hong Kong Government, the sales brought by the tourists will continue to contribute to the Group's good sales performance in the foreseeable future.

**EMPLOYEES**

As at 30th September 2006, the Group had approximately 1,757 employees (including staff and workers) (31st March 2006: 1,726). Remuneration policies are reviewed and approved by management on a regular basis. Remuneration packages are structured taking into account factors of comparable markets. Bonus and others merit payments are linked to performance of the Group and individual employees.

**LIQUIDITY AND FINANCIAL RESOURCES**

The Group's core business is gold and jewellery retailing and wholesaling. As at 30th September 2006, the Group's cash and bank balances reached approximately HK\$153,000,000 (31st March 2006: HK\$109,000,000). The Group's debt-to-equity ratio at the period-end, being the proportion of total debts of approximately HK\$263,000,000 (31st March 2006: HK\$171,000,000) against total equity of approximately HK\$768,000,000 (31st March 2006: HK\$715,000,000), was 34.2% (31st March 2006: 23.9%). During the period, the capital investment of the Group was approximately HK\$23,000,000 (2005: HK\$10,000,000).

As at 30th September 2006, the Group had banking facilities amounted to approximately HK\$94,540,000 (31st March 2006: HK\$125,740,000) out of which HK\$40,000,000 (31st March 2006: Nil) was utilised. The Group's income and expenditure streams are mainly denominated in Hong Kong dollars.

**CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities at 30th September 2006 and 31st March 2006.

**CLOSURE OF REGISTER OF MEMBERS**

The Register of members of the Company will be closed from 4th January 2007 to 5th January 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 3rd January 2007.

**AUDIT COMMITTEE**

In compliance with the Code of Best Practice applicable before 1st January 2005, the Board has established an audit committee, comprising all independent non-executive directors, to monitor the accounting and financial reporting practices and internal control systems of the Company. Since 1st April 2006, the audit committee has held several meetings to consider matters including the 2006 annual report of the Company, internal controls and the implications of the new accounting standards to the Group's financial reporting, the unaudited condensed consolidated interim financial information for the six months ended 30th September 2006, and the Group's IT control environment.

The interim results have been reviewed by external auditors and the audit committee of the Group.

**COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

Throughout the six months ended 30th September 2006, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, except for the following deviations from certain code provisions:

**1. Code Provision A.4.2**

Code: All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Deviation: In accordance with the Company's Bye-laws, all directors appointed to fill a casual vacancy is subject to election by shareholders at the next annual general meeting after their appointment. Moreover, one-third of the directors shall retire from office by rotation save any director holding office as Chairman or Managing Director.

Remedy: A special resolution was passed at the Company's annual general meeting held on 24th August 2006 to amend the Company's Bye-laws in order that one-third of all the directors shall retire from office by rotation, and that all directors appointed to fill a casual vacancy is subject to election by shareholders at the next general meeting after their appointment.

**2. Code Provisions B.1.4 & C.3.4**

Code: The Remuneration Committee and the Audit Committee should make available their terms of reference, explaining their role and the authority delegated to them by the Board.

Deviation: During the period ended 30th September 2006, such terms of reference were not available to the public.

Remedy: At present, such terms of reference are displayed in the Company's official web site at [www.lukfook.com.hk](http://www.lukfook.com.hk) and are available to the public.

**REMUNERATION COMMITTEE**

In compliance with the Code, the Board on 7th April 2005 established a remuneration committee comprising three independent non-executive directors and two executive directors. The remuneration committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management; to determine the specific remuneration packages; to review and approve performance based remuneration; to review and approve the compensation payable in connection with any loss or termination of office or appointment of directors and senior management; to oversee any major changes in employee benefits structures throughout the Company or the Group; and to review the ongoing appropriateness and relevance of the remuneration policy.

**MODEL CODE ON SECURITIES TRANSACTIONS**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as a code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, it is confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions in relation to the six months ended 30th September 2006.

**PURCHASE, SALE OR REDEMPTION OF SECURITIES**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's share during the period.

*As at the date of this Announcement, the Company's executive directors are Mr. WONG Wai Sheung (Chief Executive), Mr. TSE Moon Chuen, Mr. LAW Tim Fuk, Paul and Mr. LAU Kwok Sum; the non-executive directors are Mr. WONG Koon Cheung, Mr. CHAN Wai, Mr. LEE Shu Kuan, Ms. YEUNG Po Ling, Pauline and Mr. HUI King Wai; the independent non-executive directors are Mr. HUI Chiu Chung, Mr. CHIU Wai Mo, and Mr. LO Mun Lam, Raymond (Chairman).*

By Order of the Board  
**WONG Wai Sheung**  
Chief Executive

18th December 2006