2005

Interim Report 2005

LUK FOOK HOLDINGS (INTERNATIONAL) LIMITED

六福集團(國際)有限公司

(Incorporated in Bermuda with Limited Liability)

INTERIM RESULTS

The Board of Directors (the "Board") of Luk Fook Holdings (International) Limited (the "Company" or "Luk Fook") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH SEPTEMBER 2005

	Note	**Unaudited 30th September 2005 HK$'000**	Audited 31st March 2005 HK$'000 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*5*	**87,378**	85,972
Prepaid premium for land leases		**14,151**	14,309
Intangible asset		**1,080**	–
Available-for-sale financial asset	*6*	**1,067**	–
Other investments		**–**	2,147
Rental deposits paid		**19,947**	15,690
Deferred tax assets		**6,604**	6,380
		130,227	124,498
Current assets			
Inventories		**578,050**	544,828
Trade receivables	*7*	**13,639**	15,206
Deposits, prepayments and other receivables		**30,296**	16,146
Bank balances and cash		**90,705**	131,406
		712,690	707,586
Total assets		**842,917**	832,084

	Note	Unaudited 30th September 2005 HK$'000	Audited 31st March 2005 HK$'000 (restated)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*9*	**48,794**	48,544
Reserves		**193,050**	192,633
Retained earnings			
– Proposed dividends	*13*	**14,638**	38,836
– Others		**398,850**	384,047
		655,332	664,060
Minority interests		**9,467**	9,249
Total equity		**664,799**	673,309
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**552**	1,945
Current liabilities			
Trade and other payables	*8*	**142,393**	121,493
Taxation payable		**15,173**	13,917
Short-term bank loan, unsecured		**20,000**	21,420
		177,566	156,830
Total equity and liabilities		**842,917**	832,084
Net current assets		**535,124**	550,756
Total assets less current liabilities		**665,351**	675,254

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

		Unaudited Six months ended 30th September	
	Note	**2005 HK$'000**	2004 HK$'000 (restated)
Turnover	*4*	**816,355**	869,058
Cost of sales		**(630,757)**	(687,946)
Gross profit		**185,598**	181,112
Other revenues	*4*	**11,460**	12,534
Selling and distribution costs		**(149,144)**	(120,291)
Administrative expenses		**(15,440)**	(12,726)
Other operating expenses		**(1,677)**	(1,851)
Gain on disposal of land and building		**–**	16,537
Operating profit	*10*	**30,797**	75,315
Finance costs		**(30)**	(132)
Profit before taxation		**30,767**	75,183
Taxation	*11*	**(1,108)**	(9,498)
Profit for the period		**29,659**	65,685
Profit attributable to:			
Equity holders of the Company		**29,441**	64,844
Minority interests		**218**	841
		29,659	65,685
Earnings per share for profit attributable to the equity holders of the Company during the period	*12*		
– Basic		**6.06 cents**	13.48 cents
– Diluted		**6.02 cents**	13.24 cents
Dividends	*13*	**14,638**	19,418

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

	Unaudited							
	Attributable to equity holders of the Company						Minority interests	
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Revaluation reserve HK$'000	Exchange difference HK$'000	Retained earnings HK$'000	HK$'000	Total HK$'000
At 1st April 2005, as previously reported as equity	**48,544**	**57,189**	**135,713**	**8,752**	**(269)**	**424,099**	**–**	**674,028**
As 1st April 2005, as previously reported as minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**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 *(Note 2a(i))*	**–**	**–**	**–**	**(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**
As 1st April 2004, as previously reported as equity	48,097	56,116	135,713	1,796	(143)	341,578	–	583,157
As 1st April 2004, as previously reported as minority interests	–	–	–	–	–	–	7,836	7,836
	48,097	56,116	135,713	1,796	(143)	341,578	7,836	590,993
Reversal of revaluation reserve for leasehold land *(Note 2a(i))*	–	–	–	(1,796)	–	–	–	(1,796)
Opening adjustment for the adoption of HKAS 17	–	–	–	–	–	(1,023)	–	(1,023)
At 1st April 2004, as restated	48,097	56,116	135,713	–	(143)	340,555	7,836	588,174
2003/2004 final dividend paid	–	–	–	–	–	(24,049)	–	(24,049)
Profit for the period	–	–	–	–	–	64,844	841	65,685
Loan from a minority shareholder	–	–	–	–	–	–	490	490
Exchange differences	–	–	–	–	82	–	–	82
At 30th September 2004	48,097	56,116	135,713	–	(61)	381,350	9,167	630,382

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

	Unaudited Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
Net cash generated from operating activities	**6,421**	25,303
Net cash used in investing activities	**(7,716)**	(15,938)
Net cash (used in)/generated from financing activities	**(39,406)**	20,381
(Decrease)/increase in bank balances and cash	**(40,701)**	29,746
Bank balances and cash at 1st April	**131,406**	73,126
Effect of foreign exchange rate changes	**–**	7
Bank balances and cash at 30th September	**90,705**	102,879
Analysis of balances of bank balances and cash		
Cash at bank and in hand	**90,705**	102,879

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated 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 condensed consolidated financial information should be read in conjunction with the 2004/2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the 2004/2005 annual financial statements except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs (collectively referred to as the "new HKFRSs") which have become effective for accounting periods commencing on or after 1st January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this interim financial information. The HKFRS standards and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRSs

In 2005/2006, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004/2005 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36, HKAS-Int 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36, HKAS-Int 15 and HKFRS 3 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated amortisation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January 2005, the Group charged the cost of share options, if any, to the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities for the 2004/2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st April 2005;

- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st January 2005;

- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

- HKFRS 3 – prospectively after the adoption date.

While adoption of HKFRS 2 has no impact on the Group's profit and loss and opening reserves, effect of adopting HKAS 17, HKAS 32 and HKAS 39 are as follows:

(i) The adoption of HKAS 17 resulted in a decrease in opening reserves at 1st April 2004 by HK$1,796,000.

	As at 30th September 2005 HK$'000	As at 31st March 2005 HK$'000
Decrease in property, plant and equipment	**(14,151)**	(14,309)
Increase in prepaid premium for land leases	**14,151**	14,309
Decrease in revaluation reserve	**–**	(6,956)

	For the year ended 31st March 2005 HK$'000	For the six months ended 30th September 2005 HK$'000	For the six months ended 30th September 2004 HK$'000
Decrease in selling and distribution costs	108	**159**	54
Increase in basic earnings per share	HK 0.02 cents	**HK 0.03 cents**	HK 0.01 cents
Increase in diluted earnings per share	HK 0.02 cents	**HK 0.03 cents**	HK 0.01 cents

(ii) The adoption of HKAS 32 and HKAS 39 has no effect in opening reserves at 1st April 2005 and the details of the adjustments to the balance sheet at 30th September 2005 are as follows:

	As at 30th September 2005 HK$'000	As at 31st March 2005 HK$'000
Increase in available-for-sale financial asset	**1,067**	–
Decrease in other investment	**(1,067)**	–

No early adoption of the following new standards or interpretations that have been issued but are not yet effective. The adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30th September 2005 are the same as those set out in note 2 to the 2004/2005 annual financial statements except for the following:

2.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.2 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.3 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.4 Investments

From 1st April 2004 to 31st March 2005:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and trading securities.

(a) Non-trading securities

Investments which were held for non-trading purpose were stated at cost less any provision for impairment losses at the balance sheet date and classified as other investments. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security was dealt with in the income statement.

(b) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arised.

From 1st April 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. During the period, the Group did not hold any investments in this category.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.5 *Inventories*

Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials, if any.

2.6 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.7 *Share capital*

Ordinary shares are classified as equity. Mandatory redeemable preference shares, if any, are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.8 *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.9 *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.10 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(c) Comparatives

As explained above, due to the adoption of the new HKFRSs during the current period, the accounting treatment and presentation of certain items in the interim financial information have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current period presentation.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, cash flow and fair value interest rate risk. The Group's overall risk management policy focuses on minimising all potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge these risk exposures.

(a) Foreign exchange risk

The Group primarily operates in Hong Kong with most of the transactions settled in Hong Kong dollar.

The Group's assets and liabilities, and transactions arising from international trade that are subject to foreign exchange risk are primarily in respect of the Canadian dollar and Renminbi.

The Group has not used any forward contracts to hedge such exposure.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. The Group has stringent policies in place to manage its credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets/liabilities, other than its bank deposits and bank borrowings, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

4 REVENUE, TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the retailing and wholesaling of gold jewellery and gold ornaments, gem-set jewellery and gemstones, and other accessory items. The Group also provides technical support and consultancy services including quality control of jewellery products to licensees.

Revenues recognised during the period were as follows:

	Six months ended 30th September	
	2005 HK$'000	2004 HK$'000
Turnover		
Sales of goods	**816,355**	869,058
Other revenues		
Quality control service income	**6,799**	6,465
Consultancy service income	**3,335**	2,795
Interest income	**167**	41
Web hosting service income	**48**	589
Others	**1,111**	2,644
	11,460	12,534
Total revenues	**827,815**	881,592

Primary reporting format – business segments

An analysis of the Group's revenue and results for the period by business segment is as follows:

	Six months ended 30th September									
	Retailing		Wholesaling		Other operations		Eliminations		Group	
	2005 HK$'000	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)
Sales to external customers	**761,560**	794,848	**54,455**	71,915	**340**	2,295	**–**	–	**816,355**	869,058
Inter-segment sales	**14,172**	7,088	**205,806**	188,861	**–**	–	**(219,978)**	(195,949)	**–**	–
Other revenues from external customers	**83**	85	**10,296**	9,894	**914**	2,514	**–**	–	**11,293**	12,493
Inter-segment other revenues	**–**	–	**–**	–	**459**	629	**(459)**	(629)	**–**	–
Total	**775,815**	802,021	**270,557**	270,670	**1,713**	5,438	**(220,437)**	(196,578)	**827,648**	881,551
Segment results	**31,334**	47,986	**16,007**	23,836	**(592)**	169	**(823)**	(660)	**45,926**	71,331
Interest income									**167**	41
Unallocated costs									**(15,296)**	(12,594)
Gain on disposal of land and building	**–**	16,537	**–**	–	**–**	–	**–**	–	**–**	16,537
Operating profit									**30,797**	75,315
Finance costs									**(30)**	(132)
Profit before taxation									**30,767**	75,183
Taxation									**(1,108)**	(9,498)
Profit for the period									**29,659**	65,685

Other segment items included in the consolidated income statements are as follows:

	Six months ended 30th September									
	Retailing		Wholesaling		Other operations		Eliminations		Group	
	2005 HK$'000	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)
Depreciation										
– allocated	**3,743**	3,839	**1,724**	822	**332**	279	**–**	–	**5,799**	4,940
– unallocated									**2,414**	500
									8,213	5,440
Amortisation										
– allocated	**11**	11	**68**	68	**63**	63	**–**	–	**142**	142
– unallocated									**16**	16
									158	158

The segment assets and liabilities at 30th September 2005 and 31st March 2005 and capital expenditure of each of the six months ended 30th September 2005 and 2004 are as follows:

	Retailing		Wholesaling		Other operations		Eliminations		Group	
	At 30th September 2005 HK$'000	At 31st March 2005 HK$'000 (restated)	**At 30th September 2005 HK$'000**	At 31st March 2005 HK$'000 (restated)	**At 30th September 2005 HK$'000**	At 31st March 2005 HK$'000 (restated)	**At 30th September 2005 HK$'000**	At 31st March 2005 HK$'000 (restated)	**At 30th September 2005 HK$'000**	At 31st March 2005 HK$'000 (restated)
Segment assets	**511,985**	485,041	**683,529**	489,404	**14,168**	59,441	**(420,768)**	(255,227)	**788,914**	778,659
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**54,003**	53,425
Total assets	**511,985**	485,041	**683,529**	489,404	**14,168**	59,441	**(420,768)**	(255,227)	**842,917**	832,084
Segment liabilities	**(503,170)**	(329,757)	**(59,230)**	(40,190)	**(2,628)**	(24,485)	**420,768**	255,227	**(144,260)**	(139,205)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(33,858)**	(19,570)
Total liabilities	**(503,170)**	(329,757)	**(59,230)**	(40,190)	**(2,628)**	(24,485)	**420,768**	255,227	**(178,118)**	(158,775)

	Six months ended 30th September									
	Retailing		Wholesaling		Other operations		Eliminations		Group	
	2005 HK$'000	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)	**2005 HK$'000**	2004 HK$'000 (restated)
Capital expenditure										
– allocated	**4,938**	4,152	**3,984**	20,103	**367**	38,130	**–**	–	**9,289**	62,385
– unallocated									**696**	892
									9,985	63,277

Secondary reporting format – geographical segments

No geographical analysis is presented for revenue as over 90% of the Group's revenue is derived from activities in Hong Kong during the six months ended 30th September 2004 and 2005.

Total assets and capital expenditures are allocated base on where the assets are located.

Total assets	As at 30th September 2005 HK$'000	As at 31st March 2005 HK$'000 (restated)
Hong Kong	**625,164**	631,105
The PRC	**161,873**	158,563
Other countries	**55,880**	42,416
	842,917	832,084

Capital expenditure	For the six months ended 30th September 2005 HK$'000	For the six months ended 30th September 2004 HK$'000 (restated)
Hong Kong	**4,525**	43,060
The PRC	**3,983**	20,103
Other countries	**1,477**	114
	9,985	63,277

5 CAPITAL EXPENDITURE

	Property, plant and equipment HK$'000 (restated)
At 1st April 2004	81,830
Exchange adjustment	75
Additions	63,277
Disposals	(64,435)
Depreciation for the period	(5,440)
At 30th September 2004	75,307
Exchange adjustment	108
Additions	18,323
Disposals	(1,020)
Depreciation for the period	(6,746)
At 31st March 2005	**85,972**
Exchange adjustment	**59**
Additions	**9,985**
Disposals	**(425)**
Depreciation for the period	**(8,213)**
At 30th September 2005	**87,378**

6 AVAILABLE-FOR-SALE FINANCIAL ASSET

	HK$'000
At 1st April 2005 and 30th September 2005	1,067

7 TRADE RECEIVABLES

The majority of the Group's sales are on cash basis. Credit sales are mainly for the Group's wholesale customers with terms of 30 to 90 days.

The ageing analysis of trade receivables is as follows:

	30th September 2005 HK$'000	31st March 2005 HK$'000
0 – 30 days	**13,327**	13,090
31 – 60 days	**168**	1,072
61 – 90 days	**–**	70
91 – 120 days	**–**	122
Over 120 days	**144**	852
	13,639	15,206

The carrying amounts of trade receivables approximate their fair value.

8 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables and their ageing analysis is as follows:

	30th September 2005 HK$'000	31st March 2005 HK$'000
0 – 30 days	**62,600**	44,530
31 – 60 days	**22,529**	19,220
61 – 90 days	**3,947**	8,873
91 – 120 days	**179**	2,070
Over 120 days	**306**	217
	89,561	74,910

9 SHARE CAPITAL

	30th September 2005 HK$'000	31st March 2005 HK$'000
Authorised:		
800,000,000 ordinary shares of HK$0.1 each	**80,000**	80,000
Issued and fully paid:		
487,943,850 (31st March 2005: 485,443,850) ordinary shares of HK$0.1 each	**48,794**	48,544

Options to subscribe for 2,500,000 (year ended 31st March 2005: 4,469,000) ordinary shares in the Company were exercised at a price of HK$0.34 (year ended 31st March 2005: HK$0.34) per share during the period. The premium on the issue of the shares of HK$600,000 (year ended 31st March 2005: $1,073,000) was credited to the share premium account.

There were no options granted or lapsed during the period.

At 30th September 2005, there were 4,564,000 (31st March 2005: 7,064,000) share options outstanding which are exercisable at HK$0.34 per share at anytime prior to 13th June 2010.

10 OPERATING PROFIT

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
		(restated)
Operating profit is stated after crediting and charging the following:		
Crediting		
Write-back of provision for slow-moving inventories	**3,941**	–
Charging		
Cost of inventories sold	**634,698**	687,127
Provision for slow-moving inventories	**–**	819
Depreciation of property, plant and equipment	**8,213**	5,440
Amortisation of prepaid premium for land leases	**158**	158
Operating lease rentals in respect of land leases and buildings	**42,776**	29,294

11 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
Hong Kong profits tax		
– current	**6,450**	9,881
– over-provision in prior year	**(3,725)**	–
Deferred taxation	**(1,617)**	(383)
	1,108	9,498

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$ 29,441,000 (2004: HK$64,844,000) and the weighted average number of 485,539,478 (2004: 480,974,850) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK$ 29,441,000 (2004: HK$64,844,000) and the weighted average number of 489,438,082 (2004: 489,798,890) ordinary shares in issue during the period after adjusting for the effects of all potential dilutive ordinary shares deemed to be issued at no consideration if all outstanding share options granted under the share option scheme of the Company had been exercised.

13 DIVIDENDS

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
2004/2005 final, paid, of HK$ 0.06 (2003/2004 final, paid, of HK$0.05) per ordinary share *(note (i))*	**38,836**	24,049
2005/2006 interim, proposed, of HK$0.03 (2004/2005 interim, paid: HK$0.04) per ordinary share *(note (ii))*	**14,638**	19,418

Note (i): At a meeting held on 22nd July 2005, the directors declared a final dividend of HK$ 0.06 per ordinary share for the year ended 31st March 2005, which was paid during the period and has been reflected as an appropriation of retained earnings for the six months ended 30th September 2005.

Note (ii): At a meeting held on 16th December 2005, the directors proposed an interim dividend of HK$0.03 per ordinary share for the year ending 31st March 2006. This proposed dividend is not reflected as a dividend payable in these interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31st March 2006.

14 COMMITMENTS

(a) Capital commitments

	30th September	31st March
	2005	2005
	HK$'000	HK$'000
Contracted but not provided for property, plant and equipment	**11,021**	11,234

(b) Commitments under operating leases

At 30th September 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th September	31st March
	2005	2005
	HK$'000	HK$'000
Within one year	**90,193**	88,950
In the second to fifth year	**104,159**	126,006
	194,352	214,956

15 RELATED PARTY TRANSACTIONS

The Group is controlled by Luk Fook (Control) Limited, the ultimate parent of the Group, incorporated in the British Virgin Islands, which owns 47.52% of the Company's shares. The remaining shares are widely held.

Set out below are the significant related party transactions during the period.

(a) A subsidiary of the Company entered into a tenancy agreement with Mr Wong Kwai Sang, Mr Wong Wai Sheung's father, for the lease of a retail shop of the Group for a period of one year expiring on 31st December 2005 (2004: one year expired on 31st December 2004). During the period, rental payable to Mr Wong Kwai Sang amounted to HK$900,000 (2004: HK$720,000).

(b) A subsidiary of the Company entered into a service contract ("Service Contract") with Miss Yeung Po Ling, Pauline and Topone Investments Limited ("Topone") for a period of one year expiring on 31st March 2006 (2004: one year expired on 31st March 2005). Pursuant to the Service Contract, Topone agreed to make available Miss Yeung's exclusive services for the promotion of the products and services of the Group during the period at a consideration of HK$197,598 (2004: HK$189,996).

Both Mr Wong Wai Sheung and Miss Yeung Po Ling, Pauline are directors of the Company.

(c) Key management compensation

	Six months ended 30th September	
	2005	2004
	HK$'000	HK$'000
Directors' fees	**468**	412
Basic salaries, commissions, housing allowances, other allowances and benefits-in-kind	**5,770**	5,806
Performance/discretionary bonuses	**32**	78
Contribution to pensions	**163**	154
Benefit from exercise of share options	**3,650**	–
	10,083	6,450

16 APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the board of directors on 16th December 2005.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 3.0 HK cents (2004: 4.0 HK cents) per share for the year ending 31st March 2006. The interim dividend will be payable on 13th January 2006 to shareholders whose names appear on the Register of Members of the Company on 6th January 2006.

OPERATION REVIEW

For the six months ended 30th September 2005, the Group recorded a turnover of approximately HK$816,355,000, representing a decrease of 6% from HK$869,058,000 last year. Profit attributable to shareholders reached approximately HK$29,441,000 (2004 (restated): HK$64,844,000). Basic earnings per share were 6.06 HK cents (2004: 13.48 HK cents).

While about 50% of the Group's turnover comes from mainland tourists, the floods in China during the first half-year and the delayed visiting schedule of mainlanders as a result of the opening of Disneyland in September 2005 attributed to the decrease in turnover. In addition, severe weather has adverse impact on consumers shopping appetite in Hong Kong. Moreover, the increase in number of tourists visiting Hong Kong because of the opening of Disneyland in September and the Golden Week in early October was not as strong as expected. In addition, the rental expenses have greatly increased by 46% during the period under review. This sharp increase in rent being the main reason leads to the decrease of net profit as compared to the same period of the previous year.

INDUSTRY REVIEW

According to figures from the Census and Statistics Department, the number of visitors to Hong Kong from January to September 2005 rose by 7.6% when compared with the same period of 2004. However, most of the visitors rushed in during the Lunar New Year holidays in February. Also some visitors postponed their trips to Hong Kong till September to catch the opening ceremony of Disneyland, or as a result of the influence of floodings in some areas in the Mainland. As for the local retail market, the retail turnover from April to September 2005 increased by 6%-8% compared with the same period of last year, whilst August had the lowest growth rate due to continuous heavy rainfalls in Hong Kong.

BUSINESS REVIEW

Hong Kong Market

To promote the brand and image of the Group, we will invest approximately HK$20 million on new image and shops renovation. We have already engaged a world-renowned designer to create a new design concept for our retail outlets. The new design is demonstrated in three of our new shops in Sheung Shui, Jordan and Tuen Mun. The new shops feature magnificent, luxury and modern design, delivering to our customers a sense of welcome-back-home amicability and hospitability. Our first new image shop was opened at Landmark North in Sheung Shui in September 2005, followed by the Tuen Mun and Jordan shops which were opened in October. The new design will be applied in other shops within the next three years. The Group aims to provide a brand new shopping experience to our customers through shops of brand new faces and design and further improve customer services.

To strengthen the Group's corporate branding, Luk Fook has sponsored various beauty competitions during the period under review, including the sponsorship for the diamond crown and jewellery pieces for the winners of the "Miss Hong Kong Pageant 2005" for the 8th consecutive year as well as being the sole jewellery sponsor of "Miss Asia Pageant 2005".

PRC Market

The Group in recent years has been dynamically exploring the PRC market. Apart from sponsoring the "City Beauties Pageant 2005" in Guangzhou, we also increased the number of our licensee shops in the PRC from 145 to over 170. By providing technical support, product design and staff training to domestic jewellery retailers, we have built up our reputation in the PRC market.

The Group's jewellery manufacturing plant in Panyu, Guangdong has commenced operation in fourth quarter 2004 and is in good operating condition. It is expected to reach its full capacity in two years time.

OVERSEAS DEVELOPMENT

The results of our first wholly-owned shop on the main street of Macau is satisfactory. To further secure huge business opportunities coming up with the recent boom of the tourism and gambling industries our second shop on the main street of Macau was opened in August this year. This has further enhanced Luk Fook's familiarity among the locals, thereby laying the foundation for the Group's further penetration into the local market.

REWARDS AND HONORS

The key to the Group's growth is our established brand-name. We are well received by consumers for our fine product design and first-class customer service. This year we stood out again and was one of the 92 companies being titled as "Superbrands". This achievement proves again that we are widely recognized in terms of market share, qualification, goodwill and customer loyalty.

Luk Fook was named as Asia and the Pacific's "Best Under a Billion" by Forbes Magazine in November. Among the 22 Hong Kong enterprises on the list, Luk Fook is the only jewellery company being selected in recognition of Luk Fook's leading position in Asia and the Pacific region and its high standard of corporate governance.

Luk Fook's products are well-known for their ingenious and intuitive designs. "Jiang" created by the Group's designer was chosen as the masterpiece by the Platinum Guild International in 2005. This is the first time for a Chinese designer to receive this award. Our talented design team represents our unparalleled design capabilities. It also proves that we have indeed reached international standard in respect of our jewellery designs.

In the Tahitian Pearl Trophy 2005 Asia, our designers also won 5 awards, including champions of the Necklace Category, Parure Category and Pearl Row category, first runner-up of the Pearl Row and the second runner-up of the Ring Category. The second runner-up of the Ring Category is designed by the designers of Ice g. collection, a testimonial to the recognition by the industry of this younger product line design. Further, our "Dandelion", "Fire", and "Meet and Part" won 4 awards in the 7th Buyers' Favorite Jewelry Design Competition 2005, in particular, the "Dandelion" was granted the Best of the Best Award, an acknowledgement for our finest product.

The Fourth Tahitian Pearl Trophy Asia

Product	Prize	Category
The Fate	Champion	Parure Category
Banquet	Champion	Pearl Row Category
Jiffy	Champion	Necklace Category
Fire Dancer	First runner-up	Pearl Row Category
Drops of Memories	Second runner-up	Ring Category

PROSPECTS

Going onward, Luk Fook will strive its best to continue to provide the best service for its customer with effective marketing strategies and promotions. With cocktail "Splendor of Creativity" launched in the end of November 2005, the Group aims at expanding its market segment and enhancing its brand image to attract consumers with higher disposable income.

From 1st November 2005, citizens in another 4 PRC provinces will be allowed to visit Hong Kong on individual basis. As jewellery is one of the most popular commodities among visitors, the Group remains optimistic of the prospects for the jewellery industry of Hong Kong. We will leverage on the opportunity to explore more business opportunities in Hong Kong, the PRC and overseas to further enhance the brand awareness of Luk Fook jewellery and to obtain a bigger market share.

We will continue to expand our licensee shops network in the PRC, and to open new wholly-owned shops in major cities. Meanwhile, we will look for suitable shop locations in South East Asia and the US as an implementation of our globalization strategy in the preparation for entering international market.

EMPLOYEES

As at 30th September 2005, the Group had approximately 1,605 employees (including staff and workers) (31st March 2005: 1,550). 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. As at 30th September 2005, the Group's cash and bank balances reached approximately HK$90,705,000 (31st March 2005: HK$131,406,000). The Group's debt-to-equity ratio at the period-end, being the proportion of total debts of approximately HK$178,118,000 (31st March 2005: HK$158,775,000) against total equity of approximately HK$664,799,000 (31st March 2005: HK$673,309,000), was 26.8% (31st March 2005: 23.6%). During the period, the capital investment of the Group was approximately HK$9,985,000 (six months ended 30th September 2004: HK$63,277,000).

As at 30th September 2005, the Group had banking facilities amounted to approximately HK$111,000,000 (31st March 2005: HK$105,000,000) out of which HK$20,000,000 (31st March 2005: 21,420,000) 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 2005 and 31st March 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of members of the Company will be closed from 5th January 2006 to 6th January 2006, 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, Central Registration Hong Kong Limited, Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 4th January 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30th September 2005, save as disclosed below, none of the director and chief executive of the Company had interests and short positions in the shares, underlying shares and debentures of the issuer or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Exchange:

I. Long positions in shares and underlying shares of the Company

Name of Director	Beneficial Owner	Child under 18 or Spouse	Controlled Corporation	Beneficiary of Trust	Share Option	TOTAL INTEREST	% of Shares
Mr. WONG Wai Sheung	2,912,878	–	245,144,176 *note (a) & (b)*	2,511,050 *note (c)*	4,564,000	255,132,104	52.29%
Mr. TSE Moon Chuen	23,344	–	245,144,176 *note (a) & (b)*	–	–	245,167,520	50.24%
Mr. WONG Koon Cheung	2,678,090	–	245,144,176 *note (a) & (b)*	–	–	247,822,266	50.79%
Mr. CHAN Wai	4,299,022	–	245,144,176 *note (a) & (b)*	–	–	249,443,198	51.12%
Mr. LEE Shu Kuan	5,634,579	735,650 *note (f)*	247,730,800 *note (a), (b), (d) & (e)*	–	–	254,101,029	52.08%

Note (a)

Mr. WONG Wai Sheung, Mr. TSE Moon Chuen, Mr. CHAN Wai, Mr. LEE Shu Kuan and Mr. WONG Koon Cheung were also directors, and together with their associates collectively controlled over one-half of the voting power, of Luk Fook (Control) Limited which held 231,858,000 shares in the Company. These directors were deemed to be interested in the same shares, relevant disclosures were therefore duplicated for the purpose of SFO.

Note (b)

Mr. WONG Wai Sheung, Mr. TSE Moon Chuen, Mr. CHAN Wai, Mr. LEE Shu Kuan and Mr. WONG Koon Cheung were also directors, and together with their associates collectively controlled over one-third of the voting power, of Dragon King Investment Ltd. which held 13,286,176 shares in the Company. These directors were deemed to be interested in the same shares, relevant disclosures were therefore duplicated for the purpose of SFO.

Note (c)

Mr. WONG Wai Sheung and his family were discretionary beneficiaries of the WONG's family trust (the "Trust"). The Trust was the beneficial owner of the entire issued share capital of Kwai Kee Cheung Jewellery & Goldsmith Company Limited which was the beneficial owner of 2,511,050 shares of the Company.

Note (d)

Mr. LEE Shu Kuan held 33.3% of the entire issued share capital of Wah Hang Kimon Investments Limited which in turn held 630,624 shares of the Company.

Note (e)

Mr. LEE Shu Kuan held 51% of the entire issued share capital of Wah Hang Kimon Holdings Limited which in turn held 1,956,000 shares of the Company.

Note (f)

Mr. LEE Shu Kuan's spouse, Ms FONG Chi Ling, held 735,650 shares of the Company.

II. Long positions in shares and underlying shares of Luk Fook (Control) Limited, the ultimate holding company

Name of Director	Beneficial Owner	Child under 18 or Spouse	Controlled Corporation	Beneficiary of Trust	TOTAL INTEREST	% of Shares
Mr. WONG Wai Sheung	478,111	–	–	35,015,316 *note (a)*	35,493,427	35.49%
Mr. TSE Moon Chuen	–	82,853 *note (b)*	1,916,100 *note (c)*	–	1,998,953	2.00%
Mr. POON Kam Chi	162,435	–	–	–	162,435	0.16%
Mr. LAU Kwok Sum	1,600	–	–	–	1,600	0.002%
Mr. WONG Koon Cheung	–	–	4,553,433 *note (d)*	–	4,553,433	4.55%
Mr. CHAN Wai	6,427,843	–	–	–	6,427,843	6.43%
Mr. LEE Shu Kuan	6,613,544	645,307 *note (e)*	1,093,575 *note (f)*	–	8,352,426	8.35%
Miss YEUNG Po Ling, Pauline	60,000	–	–	–	60,000	0.06%

Note (a)
Mr. WONG Wai Sheung and his family were discretionary beneficiaries of the Trust. The Trust was the beneficial owner of the entire issued share capital of Kwai Kee Cheung Jewellery & Goldsmith Company Limited which was the beneficial owner of 35,015,316 shares of Luk Fook (Control) Limited.

Note (b)
Mr. TSE Moon Chuen's spouse, Ms. FONG Anissa King, held 82,853 shares of Luk Fook (Control) Limited.

Note (c)
Mr. TSE Moon Chuen held 100% of the entire issued share capital of Moon Chuen Investment Limited which in turn held 1,916,000 shares of Luk Fook (Control) Limited.

Note (d)
Mr. WONG Koon Cheung together his spouse, Ms. So Lai Sheung, controlled the entire issued share capital of WKC Investments Limited which in turn held 4,553,433 shares of Luk Fook (Control) Limited.

Note (e)
Mr. LEE Shu Kuan's spouse, Ms. Fong Chi Ling, held 645,307 shares of Luk Fook (Control) Limited.

Note (f)
Mr. LEE Shu Kuan held 33.3% of the entire issued share capital of Wah Hang Kimon Investments Limited which in turn held 1,093,575 shares of Luk Fook (Control) Limited.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the directors' benefits from rights to acquire shares or debentures are set out in the following section regarding the Company's Share Option Scheme.

Apart from the above, at no time during the period was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2005, save as disclosed below, so far as is known to any director or chief executive of the Company, no person, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of Shareholder	**Beneficial Owner**	**Controlled Corporation**	**TOTAL INTEREST**	**% of Shares**
Luk Fook (Control) Limited	231,858,000	–	231,858,000	47.52%
Value Partners Limited	28,286,000 *Note (a)*	–	28,286,000	5.80%
Mr. CHEAH Ching Hye	–	28,286,000 *Note (a)*	28,286,000	5.80%
First State Investments (Hong Kong) Limited	32,820,000 *Note (b)*	–	32,820,000	6.73%
First State Investment Management (UK) Limited	4,526,000 *Note (b)*	–	4,526,000	0.93%
Commonwealth Bank of Australia	–	34,820,000 *Note (b)*	34,820,000	7.14%

Note (a)
Mr. CHEAH was a 31.82% controlling shareholder of Value Partners Limited which in turn held 28,286,000 shares of the Company in the capacity as investment manager. By virtue of the SFO, he was deemed to be interested in those shares of the Company and relevant disclosures were therefore duplicated.

Note (b)
Commonwealth Bank of Australia was a 100% indirect controlling shareholder of First State Investments (Hong Kong) Limited ("FSHK") and First State Investment Management (UK) Limited ("FSUK"). In turn FSHK held 32,820,000 shares and FSUK held 4,526,000 shares of the Company, while FSHK and FSUK were deemed to jointly hold 2,526,000 out of those shares in the capacity as investment managers. By virtue of the SFO, Commonwealth Bank of Australia was deemed to be interested in those shares of the Company and relevant disclosures were therefore duplicated.

SHARE OPTION SCHEME

On 17th April 1997, a share option scheme ("the Scheme") was approved at a Special General Meeting of the Company under which the directors may, at their discretion, grant employees, including any executive directors, of the Company and any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the Scheme is as follows:

(1) Purpose

The purpose of the Scheme is to provide an employee incentive compensation plan that is based on corporate performance and is tied to the Company's share value with the goal of increasing shareholders' wealth.

(2) Eligible persons

Any employees, including any executive directors, of the Company and any of its subsidiaries.

(3) Number of shares available for issue

At 30th September 2005, the maximum number of shares available for issue is 13,657,000, representing approximately 2.80% of the issued share capital of the Company as at 30th September 2005.

(4) Maximum entitlement of each eligible person

No option shall be granted to an eligible person which would cause, at the date of grant, the aggregate number of shares over which that options is granted, together with the aggregate number of shares the subject of any other options granted to that eligible person under the scheme (whether such options have or have not been exercised at the date of grant) to exceed 25% of the aggregate number of shares already issued and issuable under the scheme.

(5) Time of exercise of option

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing on the date of grant of an option and expiring at 5:01 p.m. on the business day preceding the 10th anniversary of the date of grant.

(6) Exercise price

The option price per share payable on the exercise of an option:

(a) granted before 1st September 2001 was determined by the directors as being in no event less than the higher of:

(i) the nominal value of the shares; and

(ii) 80% of the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer of an option.

(b) granted on or after 1st September 2001 is determined by the directors, in compliance with the requirements of Chapter 17 of the Listing Rules, as being at least the higher of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and

(ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant.

(7) Remaining life of the Scheme

The Scheme will remain in force until 16th April 2007.

The following table discloses movements in the Company's share options during the period:

Eligible persons	Options held at 1st April 2005	Options exercised during the period	Options held at 30th September 2005	Exercise date
Executive Director				
WONG Wai Sheung	7,064,000	2,500,000	4,564,000	23rd September 2005
Employees under continuous	–	–	–	–

All the options above were granted on 14th June 2000 and are exercisable at any time during the period from 14th June 2000 to 13th June 2010 at an exercise price of HK$0.34 per share.

The weighted average closing price of the shares immediately before the date on which options were exercised were HK$1.80 in relation to the options exercised by the executive director.

During the period, no options were granted, cancelled or lapsed. The share options granted are not recognised in the accounts until they are exercised.

Apart from the share option scheme mentioned above, none of the directors or chief executives (including their spouse and children under 18 years of age) had been granted, or exercised, any rights to subscribe for shares in the Company or any other body corporate.

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 2005, the audit committee has held several meetings to consider matters including the 2005 annual report of the Company, internal controls and the implications of the new accounting standards to the Group's financial reporting, the unaudited interim condensed consolidated financial information for the six months ended 30th September 2005, 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

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September 2005, in compliance with Appendix 14 of the Listing Rules which contain the Code on Corporate Governance Practices (the "Code") except for the following deviations from certain Code Provisions:

1. **Code Provision A.4.1**

   Code: Non-executive directors should be appointed for a specific term, subject to re-election.

   Deviation: Non-executive directors are not appointed for a specific term but subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

   Remedy: Appropriate actions will be taken to ensure the appointments of all non-executive directors are for a specific term.

2. **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, 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 will be proposed at the next annual general meeting to amend the Company's Bye-laws in order to comply with this Code Provision.

3. **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: At present, such terms of reference are not available to the public.

   Remedy: Appropriate actions will be taken to make them available on request and include the information on the Company's website.

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 2005.

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.

By Order of the Board
Wong Wai Sheung
Chief Executive

16th December 2005

As at the date of this report, the Company's executive directors are Mr. WONG Wai Sheung (Chief Executive), Mr. TSE Moon Chuen, Mr. LAW Tim Fuk, Paul, Mr. POON Kam Chi and Mr. LAU Kwok Sum; the non-executive directors are Mr. WONG Koon Cheung, Mr. CHAN Wai, Mr. LEE Shu Kuan, Miss 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).