



# LUK FOOK HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 590)

website: [www.lukfook.com.hk](http://www.lukfook.com.hk)

[www.infocast.com.hk/listco/lukfook](http://www.infocast.com.hk/listco/lukfook)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2006

The Board of Directors (the “Board”) of Luk Fook Holdings (International) Limited (the “Company” or “Luk Fook”) is pleased to announce the audited annual results of the Company and its subsidiaries (the “Group”) for the year ended 31st March 2006 together with comparative figures for the corresponding period in 2005 as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated) (Note 2)
Turnover	3	2,126,297	1,961,720
Cost of sales		(1,663,447)	(1,545,748)
Gross profit		462,850	415,972
Other income		26,201	23,080
Selling and distribution costs		(332,311)	(274,067)
Administrative expenses		(39,243)	(33,927)
Other operating expenses		(3,768)	(3,977)
Gain on disposal of properties		–	25,449
Operating profit	4	113,729	152,530
Finance costs		(1,309)	(425)
Profit before taxation		112,420	152,105
Taxation	5	(15,891)	(25,146)
Profit for the year		96,529	126,959
Profit attributable to:			
Equity holders of the Company		95,695	125,795
Minority interests		834	1,164
		96,529	126,959
Earnings per share for profit attributable to the equity holders of the Company	6		
Basic		HK19.7 cents	HK26.1 cents
Diluted		HK19.5 cents	HK25.8 cents
Dividends		48,794	58,254

**CONSOLIDATED BALANCE SHEET**  
*AS AT 31ST MARCH 2006*

	<i>Note</i>	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 (Restated) (Note 2)
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		<b>105,107</b>	85,972
Leasehold land and land use rights		<b>12,835</b>	14,309
Other investments		–	2,147
Available-for-sale financial asset		–	–
Trading license		<b>1,080</b>	–
Prepaid rental deposits		<b>19,575</b>	15,690
Deferred tax assets		<b>6,257</b>	6,380
		<u><b>144,854</b></u>	<u>124,498</u>
Current assets			
Inventories		<b>611,986</b>	544,828
Trade receivables	7	<b>12,144</b>	15,206
Deposits, prepayments and other receivables		<b>20,369</b>	16,146
Non-current asset held for sale		<b>850</b>	–
Bank balances and cash		<b>108,738</b>	131,406
		<u><b>754,087</b></u>	<u>707,586</u>
Total assets		<u><b>898,941</b></u>	<u>832,084</u>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital		<b>48,794</b>	48,544
Reserves		<b>201,266</b>	192,633
Retained earnings			
– Proposed dividends		<b>34,156</b>	38,836
– Others		<b>430,948</b>	384,047
		<u><b>715,164</b></u>	<u>664,060</u>
Minority interests		<b>13,028</b>	9,249
Total equity		<u><b>728,192</b></u>	<u>673,309</u>
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred tax liabilities		<b>623</b>	1,945
Current liabilities			
Trade and other payables	8	<b>161,641</b>	121,493
Taxation payable		<b>8,485</b>	13,917
Short-term bank loan, unsecured		–	21,420
		<u><b>170,126</b></u>	<u>156,830</u>
Total equity and liabilities		<u><b>898,941</b></u>	<u>832,084</u>
Net current assets		<u><b>583,961</b></u>	<u>550,756</u>
Total assets less current liabilities		<u><b>728,815</b></u>	<u>675,254</u>

## NOTES:

### 1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), including Hong Kong Accounting Standards (“HKAS”) and Interpretations. These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss (if any), which are stated at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

### 2 Changes in accounting policies

#### (a) *Effect of adopting new/revised HKFRSs*

In 2005/06, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004/05 comparatives have been restated, where necessary, 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 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
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: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 36, 37, 38, HKAS-Int 15, HKFRS 3 and HKFRS 5 did not result in substantial changes to the Group’s accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 36, 37, 38, HKAS-Int 15, HKFRS 3 and HKFRS 5 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 in the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

#### Adoption of HKAS 17

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 when there is impairment, the impairment is immediately expensed in the income statement. In prior years, the leasehold land and land use rights were accounted for at valuation/cost less accumulated depreciation and accumulated impairment.

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

	<b>As at 31st March 2006 HK\$'000</b>	As at 31st March 2005 HK\$'000
Decrease in property, plant and equipment	(12,835)	(14,309)
Increase in leasehold land and land use rights	12,835	14,309
Decrease in revaluation reserve	—	(6,956)
	<b>For the year ended 31st March 2006 HK\$'000</b>	For the year ended 31st March 2005 HK\$'000
Decrease/(increase) in selling and distribution costs	<b>333</b>	(193)
Increase/(decrease) in basic earnings per share	<b>HK0.07 cents</b>	HK(0.04) cents
Increase/(decrease) in diluted earnings per share	<b>HK0.07 cents</b>	HK(0.04) cents

#### Adoption of HKAS 32 and HKAS 39

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and 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 HKAS 32 and HKAS 39 has no effect on opening reserves at 1st April 2005 and the details of the adjustments to the balance sheet at 31st March 2006 are as follows:

	<b>As at 31st March 2006 HK\$'000</b>	As at 31st March 2005 HK\$'000
Increase in available-for-sale financial asset	<b>1,042</b>	—
Decrease in other investment	<b>(1,042)</b>	—

#### Adoption of HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payment. Until 31st December 2004, the provision of share options to employees did not result in a charge to the income statement. Effective 1st January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November 2002 which had not yet vested on 1st January 2005, if any, was expensed retrospectively in the income statement of the respective periods. The adoption of HKFRS 2 has no impact on the Group's profit and loss and opening reserves.

All relevant 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 – recognises all derivatives at fair value in the balance sheet on 1st April 2005 and adjusts the balance to retained earnings as at that date;
- HKAS-Int 15 – does not require the recognition of incentives for leases commencing before 1st January 2005;

– HKFRS 3 – prospectively after the adoption date.

There has been no early adoption by the Group 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 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS Interpretation 4	Determining whether an Arrangement contains a Lease
HKFRS Interpretation 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKFRS Interpretation 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
HKFRS Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HKFRS Interpretation 8	Scope of HKFRS 2
HKFRS Interpretation 9	Reassessment of Embedded Derivatives

Amendments as a consequence of the effective of Hong Kong Companies (Amendment) Ordinance 2005:

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements
HKFRS 3 (Amendment)	Business Combinations

(b) *Comparatives*

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

### 3 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, and quality control of jewellery products to certain licensees. Revenues recognised during the year are as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Sale of goods ( <i>note</i> )	<u><b>2,126,297</b></u>	<u>1,961,720</u>

*Note:*

Included in sales of goods are HK\$491,338,000 (2005: HK\$377,982,000) which were settled in pure gold bars. These pure gold bars were in turn used for settlement of trade payables.

Primary reporting format – business segments

	Retailing		Manufacturing and wholesaling		Other operations		Eliminations		Group	
	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)
Sales to external customers	1,427,434	1,449,276	696,843	510,326	2,020	2,118	-	-	2,126,297	1,961,720
Inter-segment sales	40,292	44,167	435,700	454,993	23	-	(476,015)	(499,160)	-	-
Other incomes from external customers	915	404	22,570	20,001	1,881	2,167	-	-	25,366	22,572
Inter-segment other incomes	-	-	-	-	797	1,104	(797)	(1,104)	-	-
<b>Total</b>	<b>1,468,641</b>	<b>1,493,847</b>	<b>1,155,113</b>	<b>985,320</b>	<b>4,721</b>	<b>5,389</b>	<b>(476,812)</b>	<b>(500,264)</b>	<b>2,151,663</b>	<b>1,984,292</b>
<b>Segment results</b>	<b>118,490</b>	<b>117,326</b>	<b>35,068</b>	<b>45,623</b>	<b>11</b>	<b>(2,706)</b>	<b>(2,811)</b>	<b>(3,271)</b>	<b>150,758</b>	<b>156,972</b>
Interest income									835	95
Unallocated costs									(37,864)	(29,986)
Gain on disposal of properties	-	16,537	-	-	-	8,912	-	-	-	25,449
Operating profit									113,729	152,530
Finance costs									(1,309)	(425)
Profit before taxation									112,420	152,105
Taxation									(15,891)	(25,146)
Profit after taxation									96,529	126,959
Segment assets	550,222	485,041	579,997	551,356	15,370	59,441	(313,009)	(317,179)	832,580	778,659
Unallocated assets									66,361	53,425
<b>Total assets</b>									<b>898,941</b>	<b>832,084</b>
Segment liabilities	(396,872)	(391,709)	(64,790)	(40,190)	(2,575)	(24,485)	313,009	317,179	(151,228)	(139,205)
Unallocated liabilities									(19,521)	(19,570)
<b>Total liabilities</b>									<b>(170,749)</b>	<b>(158,775)</b>
Depreciation – allocated	8,545	5,815	6,256	2,676	308	717	-	-	15,109	9,208
– unallocated									3,747	2,978
									18,856	12,186
Amortisation – allocated	1	23	122	135	15	126	-	-	138	284
– unallocated									44	31
									182	315
Capital expenditure – allocated	12,750	8,219	18,336	27,462	911	38,188	-	-	31,997	73,869
– unallocated									1,806	7,731
									33,803	81,600

*Secondary reporting format – geographical segments*

The geographical analysis is divided into three regions:

- Hong Kong
- PRC
- Others

	<b>Total assets</b>		<b>Capital expenditure</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
		(Restated)		
Hong Kong	<b>653,202</b>	631,105	<b>13,432</b>	52,628
PRC	<b>195,084</b>	158,563	<b>18,644</b>	27,462
Others	<b>50,655</b>	42,416	<b>1,727</b>	1,510
	<b><u>898,941</u></b>	<u>832,084</u>	<b><u>33,803</u></b>	<u>81,600</u>

No geographical analysis on segment revenue and result is presented as less than 10% of the Group's turnover and less than 10% of the Group's consolidated results were attributable to markets outside Hong Kong.

#### 4 Operating profit

Operating profit is stated after crediting and charging the following:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
		(Restated)
<b>Crediting</b>		
Net exchange gain	<b>920</b>	1,181
Write back of provision for slow-moving inventories	<b>3,168</b>	385
	<b><u>3,168</u></b>	<u>385</u>
<b>Charging</b>		
Auditors' remuneration	<b>2,666</b>	2,433
Amortisation of leasehold land and land use rights	<b>182</b>	315
Cost of inventories sold	<b>1,666,615</b>	1,546,133
Deficit on revaluation of buildings	<b>22</b>	–
Depreciation of property, plant and equipment	<b>18,856</b>	12,186
Loss on disposal of other fixed assets	<b>1,572</b>	1,562
Operating lease rentals in respect of land and buildings	<b>91,156</b>	67,135
Provision for impairment of available-for-sale financial asset	<b>1,042</b>	–
Provision for impairment of other investments	<b>–</b>	1,073
Retirement benefit costs included in staff costs	<b>5,480</b>	5,410
Staff costs (including directors' emoluments)	<b>155,076</b>	142,344
Write-down of non-current asset held for sale to fair value	<b>662</b>	–
	<b><u>662</u></b>	<u>–</u>

## 5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated income statement represents:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong profits tax		
– current	<b>17,448</b>	21,226
– over-provision in prior years	<b>(3,728)</b>	(1,305)
Overseas taxation	<b>3,370</b>	2,633
Deferred taxation	<b>(1,199)</b>	2,592
	<hr/> <b>15,891</b> <hr/>	<hr/> 25,146 <hr/>

## 6 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\$95,695,000 (2005 (Restated): HK\$125,795,000) and the weighted average number of 486,738,371 (2005: 482,591,036) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$95,695,000 (2005 (Restated): HK\$125,795,000) and the weighted average number of 490,458,067 (2005: 488,342,001) ordinary shares in issue during the year 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.

## 7 Trade receivables

The majority of the Group's sales are on a cash basis. Credit sales are mainly for the Group's wholesale customers with terms of 0 to 90 days.

The ageing analysis of trade receivables is as follows:

	<b>31st March</b>	
	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 – 30 days	<b>11,885</b>	13,090
31 – 60 days	–	1,072
61 – 90 days	–	70
91 – 120 days	<b>6</b>	122
Over 120 days	<b>253</b>	852
	<hr/> <b>12,144</b> <hr/>	<hr/> 15,206 <hr/>

The carrying amounts of trade receivables approximate their fair value.



## 8 Trade and other payables

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

	31st March	
	2006 HK\$'000	2005 HK\$'000
0 – 30 days	50,000	44,530
31 – 60 days	29,486	19,220
61 – 90 days	8,066	8,873
91 – 120 days	4,186	2,070
Over 120 days	722	217
	<hr/>	<hr/>
	92,460	74,910
	<hr/>	<hr/>

The carrying amounts of trade and other payables approximate their fair value.

## FINANCIAL POSITION

### Profit for the year

For the year ended 31st March 2006, turnover was HK\$2,126,297,000, representing a 8.4% increase compared with HK\$1,961,720,000 in the previous year. Profit attributable to shareholders decreased 23.9% to approximately HK\$95,695,000 (2005 (restated): HK\$125,795,000). Earnings per share was HK 19.7 cents (2005(restated): HK 26.1 cents).

### Dividend

The Directors recommended the payment of a final dividend of HK 7 cents per share (2005: HK 6 cents per share) for the year ended 31st March 2006. This, together with the interim dividend of HK 3 cents per share already paid, gives a total of HK 10 cents per share for the year ended 31st March 2006 (2005: HK 12 cents per share including HK2 cents of special dividend). The proposed dividend will be payable on 15th September 2006 to shareholders whose names appear on the Company's Register of members on 24th August 2006 following the approval at the forthcoming Annual General Meeting.

### Analysis on turnover and profit

Total turnover increased approximately 8.4% as compared with that of the previous year. In particular, turnover in the retail sector decreased approximately 1.5% mainly because of severe weather conditions that adversely affected the traffic of PRC tourists and the shopping appetite of consumers in the first half of the financial year ended 31st March 2006. During the second half of the year, retail sales improved owing to the increase in demand for jewellery products stimulated by the favorable marriage year. Besides, turnover in the wholesale sector increased approximately 36.5% owing to substantial increase in the quantity of gold jewellery items purchased by the Group from retail customers and then resold to gold merchants in bulk quantities, as a result of drastic surges in gold prices during the second half of the financial year.

The profit attributable to shareholders for the year ended 31st March 2006 in respect of normal operations decreased approximately 4.6%, as compared with the profit for the previous year excluding the exceptional gain on disposal of properties amounting to approximately HK\$25 million for that year. During the year under review, the monthly shop rentals of several tenancy agreements renewed by the Group were greatly raised attributable to the "Disney effect". Hence, total rental expenses for the year increased approximately 35.8% and accounted for approximately 4.3% of total turnover.

## **BUSINESS PERFORMANCE**

### **Hong Kong Market**

Benefiting from the prosperous growth in Hong Kong's economy during the 2005/06 financial year, turnover of the Group's business in Hong Kong rose in the second half year.

As at 30th June 2006, the Group has 31 retail outlets under the name of "Luk Fook" in Hong Kong, Macau, PRC and Canada. There are 2 under the name of Ice g. located in Hong Kong. During the year under review, Luk Fook has won a number of awards with regards to the company as a whole, as well as design, product quality and customer services. In June 2006, Luk Fook stood out from 100 enterprises and attained "The Best Brand Enterprise Award 2005-2006". In November 2005, Luk Fook was also selected as Asia and the Pacific's "Best Under A Million" by Forbes Magazine. We are proud to be the only jewellery company on the winner's list. As a reputable jewellery brand in Hong Kong, the recognitions and awards obtained by Luk Fook have helped sustain the Group's further development and strengthened its competency.

### **PRC Market**

The Group has successfully expanded the PRC market through providing brand-licensing services. During the year under review, the number of the Group's licensee shops in the PRC has increased to over 180. The Group continues to provide technical support and consultancy services to licensed jewelers in the PRC, with an aim to further penetrate into the PRC market. In May 2006, the Group opened its retail outlet in Beijing, the capital city of the PRC, to further raise its awareness and interest among mainland Chinese and to grasp the enormous business opportunities brought by the Olympic Games in 2008.

### **Macau Market**

Since the gaming industry in Macau opened up, Macau has become a popular hot spot for tourists. Mainland visitors are no exception. Together with the satisfactory performance of the first retail outlet in the past, the Group has set up another new shop on the main street of Macau which was opened in August 2005. The Group is confident of the business in Macau and will continue to facilitate and promote its jewellery business.

### **Overseas Market**

Luk Fook never stops identifying any new growth driver. The next move for the Group will be exploring the global market. To realize the vision, subsequent to the penetration into the Canada market, Luk Fook will be setting up a retail outlet in San Jose of the United States in the later half of 2006 under the new brand name "Luvina Jewelers". The new shop will become the Group's first step to seize the jewellery market share in the United States and the new brand will signify the Group's objective of expanding brands under its umbrella branding strategies. Going forward, the Group also plans to open retail outlets in New York, Las Vegas and Southeast Asia, aiming to attract more customers from overseas and promote Luk Fook Jewellery brands to other parts of the world.

## **OPERATION REVIEW**

### **Products**

During the year under review, the Group delivered a great variety of new products into the market in the face of stiff competition and to cater to the different needs of customers. The new products, which successfully won hearts of the consumers, include:

- Launching a series of Italian K Gold, including famous Italian brand “Laura C”, of which styles are elegant and fancy
- “Jewellery Temptation Diamond” Collection Series were launched during the Labour Day Golden Week and the Golden Week in early October
- Adorable products such as “旺財寶寶”, “如意金狗” are designed to match up with the year of Dog
- “Close to you” Collection and “Courage” Collection are specially designed for Valentine’s Day. They are products that often create romantic feelings to lovers
- “Wedding Series” especially designed to match up with the favourable marriage year
- Cultured Pearl Jewellery “Love Mummy” Collection is especially designed for Mother’s Day
- Targeting the increasing Men’s Jewelry Market, a series of Titanium Steel Jewellery were introduced especially for men. Products are mainly using Titanium as key parts, matched with some other materials as designs, bringing out the muscularity of men
- Proudly South African Diamond Jewellery “Parfait” Collection
- “Legend” Collection which is made up of Cultured Tahiti Black Pearl

Customers are smart. They always seek for quality products at affordable prices. In this regard, Luk Fook will seek to provide customers with products that cater to their tastes.

### **Sales Network**

As at 30th June 2006, the Group has 31 retail outlets under the brand name of Luk Fook and 2 outlets under the brand name of Ice g. in Hong Kong, the PRC, Macau and Canada. The Group is also setting up a retail outlet in San Jose of the United States named “Luvina Jewelers”. The Group will continue to identify new business opportunities in the international market in response to the Group’s long-term development.

### **Marketing and Promotion**

Advertising and promotion expenditures represent approximately 1.3% of the turnover. To facilitate the development of Hong Kong’s jewellery industry, the Group also participated in various large-scale exhibitions and sponsorship of public activities during the year including:

- Sponsored the Diamond Crown and jewellery pieces for the winners of Miss Hong Kong Pageant for the 8th consecutive years
- Being the sole sponsor of the winner’s jewellery pieces in “Miss Asia Pageant 2005”
- Sponsored the jewellery pieces for the winners of the “City Beauties Pageant 2005” in Guangzhou

- Being the title sponsor of Miss Stephanie Sun's concert in January
- Participated in numerous worldwide jewellery exhibitions including: Shanghai, Shenzhen and Hong Kong
- Sponsored Miss Chinese in Vancouver and Toronto for several years
- Being a prize sponsor in various game shows at leading television channels

The Group also organized and participated in a number of promotional activities:

- Splendid of Creativity – a cocktail reception and catwalk show displayed the awarded jewellery of the Group in December
- Actively participated in DTC Forevermark promotion
- Large scale promotion activities were held in important dates including Mother's Day, Christmas, Lunar New Year and Valentine's Day
- New advertising materials launched via different media channels
- Participated in the large-scale joint promotion activities organized by World Gold Council, Platinum Guild International and Perles De Tahiti

### **Brand Management**

During the year, the Group won the sincere trademark of "Hong Kong and Macau Merchants Integrity Award" and "My Favourite Top Ten Brands Hong Kong" by the Guangzhou Daily, which symbolized the Group's popularity among Mainland customers. The Group was also awarded by Forbes Magazine as one of Asia and the Pacific's 200 best companies with annual revenues under US\$1 billion. Being the only jewellery retailer gaining such honour, it strengthened our outstanding position in the jewellery industry and marked our high quality of corporate management and sustained growth.

Luk Fook also expands its market segments with product line diversification. Apart from "Luk Fook" brand, the Group has established a younger product line under the brand "Ice g.". The brand is now widely recognized by customers for its trendy design and craftsmanship. Furthermore, the new brand "Luvina Jewelers" which is to be established later this year is a new multi-branding strategy of the Group to mainly target mature and premium customers overseas.

### **Production**

In order to attain cost effectiveness and production efficiency, the Group continued its production of a portion of the gold ornaments and gem-set jewellery by its production facilities in Hong Kong and the PRC. The production facility in Pangyu, Guangdong, the PRC has also enhanced the Group's production capacity, bringing to the Group a higher efficiency in manufacturing jewellery. The Pangyu manufacturing plant has a total floor area of over 300,000 square feet. The plant commenced operation in the fourth quarter of 2004.

## Portal Operation

The Group's jewellery portal "www.jewellworld.com" or "www.jw28.com" was established to be an electronic gateway for the global jewellery industry. It not only serves as a business-to-business trading platform among jewellery manufacturers, wholesalers and retailers worldwide, but also an additional promotion and distribution channel for the Group. The Group thus believes that viewing samples and purchasing jewellery by electronic means has become popular and will enhance huge business potential.

## ACHIEVEMENTS

### Design

To adhere to the market and jewellery trend, the Group never stops pushing the limits of jewellery design. Our vivid appetite and passion on creative designs received a wide range of awards and recognitions from different design competitions including:

- Platinum Guild International Jewellery Masterpiece: Jiang
- Chuk Kam Jewellery Design Competition 2006  
Buyer's Choice Group: Buyer's Choice Winner – "The Rhapsody"
- The 4th Tahitian Pearl Trophy Asia  
Necklace Category: Champion – "Jiffy"  
Parure Category: Champion – "The Fate"  
Pearl Row Category: Champion – "Banquet"  
Pearl Row Category: First Prize – "Fire Dancer"  
Ring: Second Prize – "Drops of Memories"
- The 7th Buyers' Favourite Jewellery Design Competition  
Bangle and Bracelet Section: "Meet" and "Part"  
Earrings Category: Bronze Award – "Fire"  
Earrings Category: "Best of the Best Award" and Gold Price – "Dandelion"
- The 7th Hong Kong Jewellery Design Competition  
Bracelet/Necklace group: "Craftsmanship and Technology Award": "Victoria Harbour"  
Bracelet/Necklace group: Merit Award – "Sparkle night"  
Bracelet/Necklace" group: Merit Award – "Rain Forest"  
Others's group: Merit Award – "Mirror Flakes"  
Ring's group: Merit Award – "Lolita"

The Group will continue to launch new products in the market to offer customers more innovative designed jewellery.

### **Quality Assurance**

The Group's wholly owned subsidiary gems laboratory "China Gems Laboratory Limited" was set up in 1996. It was established to ensure the quality of each product maintains good standard. Its scope of services includes authentication, grading of diamonds, and authentication of jades and coloured gemstones and quality assessment of jewellery. The Laboratory has employed a number of certified gemologists who have professional qualifications and rich experiences. Every year, it tests for over 100,000 pieces of jewellery and gemstones on average. With the ISO 17025 qualification accredited by the Hong Kong Accreditation Service last year, the Laboratory continues to be the accredited laboratory of gemstones (Jadeite) testings and meet the principles of ISO 9001:2000 Quality Management Systems – Requirements this year. At present, the Group is the only jewellery retailer in Hong Kong receiving this qualification.

### **Customer Service**

The Group has been the only jewellery brand being shortlisted in the "Emerging Service Award" of the "Hong Kong Top Services Brand Award" from The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council. The Group has also obtained the "2005 Hong Kong Awards for industries": Customer Service Certificate of Merit from the Hong Kong Retailing Management Association.

### **PROSPECTS**

As there are more sight-seeing spots in Hong Kong such as the new attractions in Ocean Park, Ngong Ping 360, the Hong Kong Wetland Park and the Disneyland, they helped boost up domestic consumption as well the number of visitors. They have also attracted tourists coming to Hong Kong from the PRC and Southeast Asia. Thus, more business opportunities are expected to bring to the retail industry and favour the demand for jewellery.

Meanwhile, from May 2006 onwards, the Individual Visit Scheme will be further applied to more parts of China such as those in Hunan, Hainan, Yunnan, etc. More PRC tourists will be able to visit Hong Kong. Thus, the spending from the PRC visitors is believed to bring Hong Kong's economy to another high.

Following the new shop that will soon be established in the United States, it means our market segment has been newly lengthened to the United States which will be a prominent milestone for Luk Fook's expansion into the United States market.

With wide support and recognition from the industry as well as customers, the group will continue to strengthen its brand and corporate image so as to build up customers' confidence towards the Group. In the coming years, the Group will participate in more international competitions, industry fairs, and exhibitions in a hope to excel in various aspects.

Meanwhile, the Group will proceed to promote the Ice g. brand and launch a set of products targeting younger consumers and endeavor to make the brand into a recognizable brand by offering delicate jewellery products at reasonable prices and of high qualities.



Looking ahead, Hong Kong will continue to enjoy favourable business conditions brought by the PRC. With China's successful entry into the World Trade Organization (WTO) and the progressive implementation of the Closer Economic Partnership Arrangement (CEPA), numerous business opportunities have been brought to Hong Kong. As China gradually opens up its vast market to allow more individual travelers coming to Hong Kong, coupled with the rising income of its people as well as the demand for luxury, despite a moderate improvement of turnover in the past fiscal year, the Group holds an optimistic attitude towards our retail business in the coming year. Meanwhile, Luk Fook will remain committed to expanding its business and continue to grasp every chance to generate returns for our shareholders.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

The Group's core business is gold and jewellery retailing. As at 31st March 2006, the Group's bank balances and cash reached approximately HK\$109 million (2005: HK\$131 million). The Group's debt-to-equity ratio at the year-end, being the proportion of total debts of approximately HK\$171 million (2005: HK\$159million) against total shareholders' equity of approximately HK\$715 million (2005 (restated): HK\$664 million), was 23.9% (2005: 23.9%).

The Group's income and expenditure streams are mainly denominated in Hong Kong dollars.

### **Capital Expenditure**

During the year under review, the Group incurred capital expenditures of approximately HK\$34 million (2005: HK\$82 million), including the costs of leasehold improvements, furniture, fixture and equipment.

### **Contingent Liabilities**

The Group did not have any significant contingent liabilities at 31st March 2006 (2005: Nil).

### **Employment, Training, Development and Remuneration Policy**

As at 31st March 2006, the number of employees of the Group was approximately 1,726 (2005: 1,550). Remuneration policies are reviewed and approved by management on a regular basis. Remuneration packages are structured to take into account the comparable level of the market. Bonus and others merit payments are linked to success of the Group and performance of individual employee. The policy is to encourage employees to optimize business performance by providing them with financial incentives.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of members of the Company will be closed from 21st August 2006 to 24th August 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final 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 18th August 2006.

## AUDIT COMMITTEE

In compliance with paragraph 14 of the Code of Best Practice, 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 conducted several meetings to consider matters including the 2005 annual report of the Company, internal controls and the unaudited interim condensed consolidated accounts for the six months ended 30th September 2005, the 2006 annual report of the Company and the Group's IT control environment.

## 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 year ended 31st March 2006, 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: All Non-executive directors were re-appointed for a terms of two years with effect from 1st April 2006 and subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

### 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 forthcoming 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: Such terms of reference were not available to the public.

Remedy: At present such terms of reference are displayed in the Company's official website 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. In December 2005, the Remuneration Committee held a meeting to review the policies for determining annual salary increments for the calendar year 2006, to approve the payment of the discretionary year-end bonus for 2005, to consider the feasibility of setting up an incentive bonus scheme for all non-sales employees working at the Head Office, to review the enhanced scheme for granting employees' annual leave, and to approve the outsourcing of a group medical plan for all employees up to the supervisory level.

## 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 year ended 31st March 2006.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude and appreciation to all of my staff, shareholders and business partners for their hard work and dedication. I also wish to thank our customers for their continuous support all these years. The Group will endeavor to strive for the best in the future to develop Luk Fook into an international brand.

*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*

24th July 2006

“Please also refer to the published version of this announcement in The Standard”