



# LUK FOOK HOLDINGS (INTERNATIONAL) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 590)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

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 2004 together with comparative figures for the corresponding period in 2003 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

	Note	Unaudited Six months ended 30th September	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	<b>869,058</b>	622,482
Cost of sales		<b>(687,946)</b>	(489,024)
Gross profit		<b>181,112</b>	133,458
Other revenues		<b>12,534</b>	9,143
Selling and distribution costs		<b>(120,345)</b>	(109,822)
Administrative expenses		<b>(12,726)</b>	(11,353)
Other operating expenses		<b>(1,851)</b>	(1,420)
Gain on disposal of land and building		<b>16,537</b>	-
Operating profit	3	<b>75,261</b>	20,006
Finance costs		<b>(132)</b>	-
Profit before taxation		<b>75,129</b>	20,006
Taxation	4	<b>(9,498)</b>	(3,495)
Profit after taxation		<b>65,631</b>	16,511
Minority interests		<b>(841)</b>	(599)
Profit attributable to shareholders		<b>64,790</b>	15,912
Dividends		<b>19,418</b>	9,618
Earnings per share	5		
Basic		<b>13.47 cents</b>	3.34 cents
Diluted		<b>13.23 cents</b>	3.29 cents

#### NOTES:

##### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These interim accounts should be read in conjunction with the 2003/2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2004.

## 2. Revenue, turnover and segment information

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	794,848	580,666	71,915	41,437	2,295	379	–	–	869,058	622,482
Inter-segment sales	7,088	6,605	188,861	125,257	–	–	(195,949)	(131,862)	–	–
Other revenues from external customers	85	289	9,894	5,794	2,514	2,947	–	–	12,493	9,030
Inter-segment other revenues	–	–	–	–	629	900	(629)	(900)	–	–
<b>Total</b>	<b>802,021</b>	<b>587,560</b>	<b>270,670</b>	<b>172,488</b>	<b>5,438</b>	<b>4,226</b>	<b>(196,578)</b>	<b>(132,762)</b>	<b>881,551</b>	<b>631,512</b>
Segment results	47,986	21,651	23,836	14,581	169	(1,732)	(660)	(4,162)	71,331	30,338
Interest income									41	113
Unallocated costs									(12,648)	(10,445)
Gain on disposal of land and building	16,537								16,537	–
Operating profit									75,261	20,006
Finance costs									(132)	–
Profit before taxation									75,129	20,006
Taxation									(9,498)	(3,495)
Profit after taxation									65,631	16,511
Minority interests									(841)	(599)
Profit attributable to shareholders									64,790	15,912

No geographical analysis is presented as over 90% of the Group's revenues and results are derived from activities in Hong Kong during the periods ended 30th September 2003 and 2004.

## 3. Operating profit

	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Operating profit is stated after charging the following:		
Cost of inventories sold	687,127	489,216
Depreciation of fixed assets	5,651	5,787
Operating lease rentals in respect of land and buildings	29,294	25,174

## 4. Taxation

Hong Kong profit tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
– Hong Kong profits tax	9,881	4,278
Deferred taxation	(383)	(783)
	9,498	3,495

## 5. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$64,790,000 (2003: HK\$15,912,000) and the weighted average number of 480,974,850 (2003: 475,891,151) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$64,790,000 (2003: HK\$15,912,000) and the weighted average number of 489,798,890 (2003: 483,332,508) 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.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 4.0 HK cents (2003: 2.0 HK cents) per share for the financial year ending 31st March 2005. The interim dividend will be payable on 13th January 2005 to shareholders whose names appear on the Register of Members of the Company on 6th January 2005.

## OPERATION REVIEW

For the six months ended 30th September 2004, the Group recorded a turnover of approximately HK\$869,058,000, representing an increase of 39.6% from HK\$622,482,000 last year. Profit attributable to shareholders reached approximately HK\$64,790,000 (2003: HK\$15,912,000). Basic earnings per share were 13.47 HK cents (2003: 3.34 HK cents).

To fully capitalize on the enormous business opportunities arising from the gradual recovery of Hong Kong's economy and the high flow of mainland travelers in town, the Group has actively expanded its retail outlets in the PRC and Hong Kong for the period under review. Currently, the Group has 27 retail outlets under the brand name of Luk Fook and 5 under Ice g. in Hong Kong, Macau, the PRC and Canada.

## INDUSTRY REVIEW

First half of the financial year has been a fruitful period for the entire retail industry in Hong Kong. The gradual recovery of Hong Kong economy and dropped unemployment rate had revived the spending sentiment of the Hong

Kong people, creating a favorable operational environment as a whole. Furthermore, the individual visit scheme continued to play its role as a major driving force to the jewellery industry. Jewellery is the all-time favorite of the mainland tourists. Such demand has presented enormous opportunities, as well as a competitive operation environment to the industry. Only those companies with a strong brand name, innovative and quality products and widespread market presence can survive in such market environment.

## **BUSINESS REVIEW**

### **Hong Kong**

Continuously expanding its market share in the PRC market, the Group also eyes business opportunities in Hong Kong in light of its positive economic outlook and favorable traveling policies of the PRC. For the period under review, the Group opened a retail shop in Yuen Long and expanded its retail outlet in Causeway Bay, famous tourist site in Hong Kong, with total floor area doubled, so as to provide higher quality service and more diversify products to both local and foreign customers in town.

As per latest figure published, an expected 20 million visitors will visit Hong Kong through the airport during the year. The Group, thus, opened its retail outlet at the Hong Kong Chek Lap Kok International Airport in August. As one of the busiest airports in the world, the passenger terminal has long been regarded as the place for international brand name products. To open a retail outlet in such a location would significantly enhance the Group's profile and position in the industry.

For the period under review, the Group continues to promote its brand name of Ice g., the Group will keep on to promote this brand. The Group will place Ice g. under the roof of Luk Fook shop to achieve economy of scale.

### **PRC**

The Group has been actively developing the PRC market. In September, the Group opened its retail outlet at the Guangzhou Baiyun International Airport. It is located at new Passenger Terminal with total floor area of approximately 117.53 square meters. Being the top three busiest international airports in the PRC, the Guangzhou Baiyun International Airport has an average passenger throughput of approximately 40,000 per day with airlines connecting to 77 local cities and 22 cities overseas at present. The Group believes that this airport retail outlet would realize the Group's globalization strategy of development, facilitate the Group to further promote its brand name. In addition, for the period under review, the licensee shops of the Group increase to over 120 in 59 cities in the PRC. The Group believes this move would further enhance its brand name.

In addition, the Group's new jewellery manufacturing plant in Panyu, Guangdong has commenced operation in the fourth quarter of 2004, which will triple the existing production capacity. During the period under review, renovation work and the installation of machines and equipment were carried out.

### **Overseas Expansion**

Eyeing the booming casino and tourist attractions in Macau, the Group is identifying suitable shop location. This year, the Group has opened a new shop at Aveida Almeida Riberio, the busiest tourism district in Macau.

Apart from its core operation in Hong Kong and an expanding reach to the PRC, the Group has successfully penetrated into overseas markets. Following the satisfactory penetration into the Canadian market with two retail outlets in Toronto and one shop in Vancouver, the Group is planning to open retail outlets in New York, Las Vegas and Southeast Asia in the future, aiming to augment Luk Fook as an international brand.

### **Awards and merits**

The Group is renowned for its award-winning design. Its competitive advantage in the aspect has been further affirmed with the numerous awards and merits received in the review period.

The Group achieved outstanding results at the 5th Hong Kong Jewellery Design Competition. It has successfully won two "Best of the Best" Awards and six Merit Awards, namely "Blissful Jump" – earrings and "Rebirth" – necklace. In addition, the Group had been selected in the (DTC) "Diamond: Nature's Miracle" International Design Competition, organized by DTC. The competition has 1,300 designers from 16 countries participated. The design of Luk Fook, namely "Lava", utilizes the glittering of brown diamond to present a graceful and distinctive image.

In "The 3rd Tahitian Pearl Trophy", the Group's necklace "Dragon" won the Champion in the section of the PRC region; In "International Design Competition for Trendy Jadeite Jewellery", the Group was awarded 3 top prizes in the finished product division of Jadeite Jewellery; also, the Group won seven prizes in "The 6th Buyers' Favorite Jewellery Competition".

For the period under review, the Group has participated different large-scale exhibitions namely the "China International Gold, Jewelry and Gem Fair 2004 Guangzhou", "Hong Kong Jewellery & Watch Fair 2004" and "Shenzhen International Jewellery Fair 2004". In additions, the Group has conducted a joint promotion with DTC to promote the DTC Forevermark "Love Statement Collection".

The Group was pleased to be the sponsor of the Diamond Crown and Jewellery Pieces for the Winners of the Miss Hong Kong Pageant 2004, which the Group has sponsored for seven consecutive years. In the review period, the Group has sponsored the Police Dragon Boat Club Charity Ride.

### **EMPLOYEES**

As at 30th September 2004, the number of employees of the Group was approximately 921 (2003: 744). 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 other merit payments are linked to the 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.

### **PROSPECTS**

The continuous economic growth in the PRC boosts the demand for high-end consumer products like gold and jewellery. The Group has been actively developing the PRC market for years and has established more than 120 licensee shops in the country. With these licensee shops, the Group could further promote the brand name and consolidate its position as a renowned jewellery retailer in the PRC. From 1st to 4th October, the Group hosted ribbon-cutting ceremonies for 8 licensee shops in several major cities of the Guangdong province including Zhongshan, Jiangmen, Guangzhou and Foshan.

With the benefits accompanied the favorable traveling policies, the outlook for the jewellery industry in Hong Kong is expected to be rosy. Furthermore, starting from 1st January 2005, the maximum amount of RMB that PRC visitors are allowed to bring abroad will increase from RMB6,000 to RMB20,000, together with the wider use of China UnionPay Card, the Group believes that these measures will stimulate the consumption of Mainland China visitor. Under such an encouraging environment, the Group will continue its endeavors to identify suitable locations for more retail outlets. Leveraging on its brandname established among the mainland tourists, the Group will also keep on expanding its market share in the PRC by establishing more licensee shops.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's core business is gold and jewellery retailing. As at 30th September 2004, the Group's cash and bank balances reached approximately HK\$103,000,000 (31st March 2004: HK\$73,000,000). The Group's debt-to-equity ratio at the period-end, being the proportion of total debts of approximately HK\$201,000,000 (31st March 2004: HK\$120,000,000) against total shareholders' equity of approximately HK\$624,000,000 (31st March 2004: HK\$583,000,000), was 32.2% (31st March 2004: 20.6%). During the period, the capital investment of the Group was approximately HK\$20,000,000 (2003: HK\$5,000,000).

As at 30th September 2004, the Group had banking facilities amounted to approximately HK\$94,000,000 (31st March 2004: HK\$59,000,000) out of which HK\$45,000,000 (31st March 2004: Nil) was utilised. Certain facilities were secured by mortgage over the Group's land and building to the extent of HK\$25,000,000 (31st March 2004: Nil).

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 2004 (31st March 2004: Nil).

#### **CLOSURE OF REGISTER OF MEMBERS**

The Register of members of the Company will be closed from 5th January 2005 to 6th January 2005, 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 2005.

#### **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 2004, the audit committee has held several meetings to consider matters including the 2004 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 accounts for the six months ended 30th September 2004, and the Group's IT control environment.

#### **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the six months ended 30th September 2004.

#### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the period, the Company has not redeemed any of its shares and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities.

#### **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

A detailed interim results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board  
**Wong Wai Sheung**  
Chairman

Hong Kong, 16th December 2004

*As at the date of this announcement, the Company's executive directors are Mr. WONG Wai Sheung, 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, 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.*

*"Please also refer to the published version of this announcement in The Standard."*