# LUK FOOK HOLDINGS (INTERNATIONAL) LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 590)**

**Website: www.lukfook.com.hk**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2007

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 2007 together with comparative figures for the corresponding period in 2006 as follows:

**CONSOLIDATED INCOME STATEMENT**
*(For the year ended 31st March 2007)*

| | Note | **2007** *HK$'000* | As restated 2006 *HK$'000* |
|---|---|---|---|
| Turnover | *2* | **2,845,147** | 2,126,297 |
| Cost of sales | *3* | **(2,257,306)** | (1,666,615) |
| Gross profit | | **587,841** | 459,682 |
| Other income | | **49,676** | 25,366 |
| Selling and distribution costs | *3* | **(375,504)** | (333,241) |
| Administrative expenses | *3* | **(45,886)** | (43,001) |
| Other gains | *4* | **18,740** | 4,923 |
| Operating profit | | **234,867** | 113,729 |
| Finance costs | | **(179)** | (1,309) |
| Profit before taxation | | **234,688** | 112,420 |
| Taxation | *5* | **(35,728)** | (15,891) |
| Profit for the year | | **198,960** | 96,529 |
| Profit attributable to: | | | |
| Equity holders of the Company | | **198,059** | 95,695 |
| Minority interests | | **901** | 834 |
| | | **198,960** | 96,529 |
| Earnings per share for profit attributable to the equity holders of the Company | *6* | | |
| Basic | | **HK40.3 cents** | HK19.7 cents |
| Diluted | | **HK40.3 cents** | HK19.5 cents |
| Dividends | | **88,652** | 48,794 |

**CONSOLIDATED BALANCE SHEET**
*(As at 31st March 2007)*

| | Note | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | | **103,130** | 105,107 |
| Leasehold land and land use rights | | **8,169** | 12,835 |
| Trading licence | | **1,080** | 1,080 |
| Rental deposits | | **21,915** | 19,575 |
| Deferred tax assets | | **7,468** | 6,257 |
| | | **141,762** | 144,854 |
| Current assets | | | |
| Inventories | | **751,854** | 611,986 |
| Trade receivables | 7 | **19,318** | 12,144 |
| Deposits, prepayments and other receivables | | **32,561** | 20,369 |
| Non-current asset held for sale | | – | 850 |
| Bank balances and cash | | **174,534** | 108,738 |
| | | **978,267** | 754,087 |
| Total assets | | **1,120,029** | 898,941 |
| **EQUITY** | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | | **49,250** | 48,794 |
| Share premium | | **58,884** | 57,789 |
| Reserves | | **687,786** | 574,425 |
| Proposed dividends | | **54,176** | 34,156 |
| | | **850,096** | 715,164 |
| Minority interests | | **12,789** | 13,028 |
| Total equity | | **862,885** | 728,192 |

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **129** | 623 |
| Current liabilities | | | |
| Trade and other payables | 8 | **227,304** | 161,641 |
| Taxation payable | | **29,711** | 8,485 |
| | | **257,015** | 170,126 |
| Total liabilities | | **257,144** | 170,749 |
| Total equity and liabilities | | **1,120,029** | 898,941 |
| Net current assets | | **721,252** | 583,961 |
| Total assets less current liabilities | | **863,014** | 728,815 |

## NOTES:

### 1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), including Hong Kong Accounting Standards ("HKAS") and Interpretations. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or 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 Group's accounting policies.

The following new standards, amendments to standards and interpretations are mandatory for financial year ended 31st March 2007.

| | |
|---|---|
| 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 & HKFRS 4 (Amendments) | Financial Guarantee Contracts |
| HKFRS 1 & HKFRS 6 (Amendments) | First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |
| HK(IFRIC)-Int 5 | Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC)-Int 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |

The adoption of the above new standards, amendments to standards and interpretations did not have any significant financial impacts to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted. The directors anticipate that the adoption of these standards, amendments to standards and interpretations will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |

**Comparative figures**

When necessary, prior year amounts have been reclassified to conform with the changes in presentation in the current year.

## 2 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.

Turnover represents invoiced sales of goods and includes an amount of HK$641,913,000 (2006: HK$491,338,000) which was settled by gold bullion and the gold bullion was in turn used for settlement of trade payables.

**Primary reporting format – business segments**

The Group is organised mainly in Hong Kong into two major business segments:

- Retailing of jewellery

- Manufacturing and wholesaling of jewellery, including the provision of technical support and consultancy services, and quality control of jewellery products to certain licensees.

Other operations of the Group mainly represent investments and services relating to internet and software development.

| | Retailing | | Manufacturing and wholesaling | | Other operations | | Eliminations | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover from external customers | **1,847,555** | 1,427,434 | **995,049** | 696,843 | **2,543** | 2,020 | **–** | – | **2,845,147** | 2,126,297 |
| Inter-segment sales | **55,805** | 40,292 | **588,128** | 435,700 | **–** | 23 | **(643,933)** | (476,015) | **–** | – |
| Other income from external customers | **1,713** | 915 | **43,243** | 22,570 | **4,720** | 1,881 | **–** | – | **49,676** | 25,366 |
| Inter-segment other income | **–** | – | **–** | – | **578** | 797 | **(578)** | (797) | **–** | – |
| Total | **1,905,073** | 1,468,641 | **1,626,420** | 1,155,113 | **7,841** | 4,721 | **(644,511)** | (476,812) | **2,894,823** | 2,151,663 |
| Segment results | **163,105** | 118,490 | **100,140** | 35,068 | **3,460** | 11 | **(8,590)** | (2,811) | **258,115** | 150,758 |
| Gain on disposal of a property | **–** | – | **–** | – | **10,610** | – | **–** | – | **10,610** | – |
| Interest income | | | | | | | | | **2,438** | 835 |
| Unallocated costs | | | | | | | | | **(36,296)** | (37,864) |
| Operating profit | | | | | | | | | **234,867** | 113,729 |
| Finance costs | | | | | | | | | **(179)** | (1,309) |
| Profit before taxation | | | | | | | | | **234,688** | 112,420 |
| Taxation | | | | | | | | | **(35,728)** | (15,891) |
| Profit for the year | | | | | | | | | **198,960** | 96,529 |
| Segment assets | **722,486** | 550,222 | **830,096** | 579,997 | **12,621** | 15,370 | **(518,920)** | (313,009) | **1,046,283** | 832,580 |
| Unallocated assets | | | | | | | | | **73,746** | 66,361 |
| Total assets | | | | | | | | | **1,120,029** | 898,941 |
| Segment liabilities | **(640,282)** | (396,872) | **(99,811)** | (64,790) | **(1,651)** | (2,575) | **518,922** | 313,009 | **(222,822)** | (151,228) |
| Unallocated liabilities | | | | | | | | | **(34,322)** | (19,521) |
| Total liabilities | | | | | | | | | **(257,144)** | (170,749) |
| Depreciation | | | | | | | | | | |
| – allocated | **13,186** | 8,545 | **8,070** | 6,256 | **18** | 308 | **–** | – | **21,274** | 15,109 |
| – unallocated | | | | | | | | | **4,219** | 3,747 |
| | | | | | | | | | **25,493** | 18,856 |
| Amortisation | | | | | | | | | | |
| – allocated | **16** | 1 | **133** | 122 | **7** | 15 | **–** | – | **156** | 138 |
| – unallocated | | | | | | | | | **13** | 44 |
| | | | | | | | | | **169** | 182 |
| Capital expenditure | | | | | | | | | | |
| – allocated | **19,112** | 12,750 | **7,745** | 18,336 | **–** | 911 | **–** | – | **26,857** | 31,997 |
| – unallocated | | | | | | | | | **1,406** | 1,806 |
| | | | | | | | | | **28,263** | 33,803 |

**Secondary reporting format – geographical segments**

The geographical analysis is divided into three regions:

- Hong Kong
- PRC
- Others

| | Turnover | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **2,690,128** | 2,019,515 | **809,032** | 653,202 | **16,587** | 13,432 |
| PRC | **38,938** | 22,323 | **252,396** | 195,084 | **9,033** | 18,644 |
| Others | **116,081** | 84,459 | **58,601** | 50,655 | **2,643** | 1,727 |
| | **2,845,147** | 2,126,297 | **1,120,029** | 898,941 | **28,263** | 33,803 |

## 3 EXPENSES BY NATURE

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold | **2,257,306** | 1,666,615 |
| Staff costs (including directors' emoluments) | **176,772** | 155,076 |
| Operating lease rentals in respect of land and buildings | **103,188** | 91,156 |
| Depreciation of property, plant and equipment | **25,493** | 18,856 |
| Auditor's remuneration | **2,846** | 2,666 |
| Loss on disposal of other property, plant and equipment | **2,124** | 1,572 |
| Provision for permanent impairment of available-for-sale financial asset | **–** | 1,042 |
| Write-down of non-current asset held for sale to fair value | **–** | 662 |
| Deficit on revaluation of other properties | **269** | 22 |
| Amortisation of leasehold land and land use rights | **169** | 182 |
| Others | **110,529** | 105,008 |
| Total cost of sales, selling and distribution costs and administrative expenses | **2,678,696** | 2,042,857 |

Representing:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of sales | **2,257,306** | 1,666,615 |
| Selling and distribution costs | **375,504** | 333,241 |
| Administrative expenses | **45,886** | 43,001 |
| | **2,678,696** | 2,042,857 |

## 4 OTHER GAINS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gain on disposal of a property | **10,610** | – |
| Interest income | **2,438** | 835 |
| Net exchange gain | **3,716** | 920 |
| Write back of provision for slow-moving inventories | **1,976** | 3,168 |
| | **18,740** | 4,923 |

## 5 TAXATION

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong profits tax | | |
| – current | **37,047** | 17,448 |
| – over-provision in prior years | **(2,316)** | (3,728) |
| Overseas taxation | **2,702** | 3,370 |
| Deferred taxation | **(1,705)** | (1,199) |
| | **35,728** | 15,891 |

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

## 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$198,059,000 (2006: HK$95,695,000) and the weighted average number of 491,645,066 (2006: 486,738,371) 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$198,059,000 (2006: HK$95,695,000) and the weighted average number of 491,645,066 (2006: 490,458,067) 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 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:

| | **Group** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **17,951** | 11,885 |
| 31 – 60 days | **933** | – |
| 61 – 90 days | **55** | – |
| 91 – 120 days | **168** | 6 |
| Over 120 days | **211** | 253 |
| | **19,318** | 12,144 |

The carrying amounts of trade receivables approximate their fair values.

**8 TRADE AND OTHER PAYABLES**

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **80,352** | 50,000 |
| 31 – 60 days | **33,702** | 29,486 |
| 61 – 90 days | **5,591** | 8,066 |
| 91 – 120 days | **3,360** | 4,186 |
| Over 120 days | **397** | 722 |
| | **123,402** | 92,460 |

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

## FINANCIAL PERFORMANCE

### Results

For the year ended 31st March 2007, the Group recorded a turnover of HK$2,845,147,000, representing a 34% increase as compared to HK$2,126,297,000 in 2006. Turnover in the retail and wholesale sectors comprised 65% and 35% respectively. The increase in the retail turnover was mainly due to the strong growth in the Hong Kong economy and rising income of consumers, sales of gold products stimulated by the traditional good-for-marriage year and the satisfactory growth in sales performance during the Golden Weeks in May and October 2006. Besides, turnover in the wholesale sector increased by approximately 43% due to the 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 period. Profit attributable to shareholders climbed by 107% to approximately HK$198,059,000 (2006: HK$95,695,000). Basic earnings per share was HK40.3 cents (2006: HK19.7 cents).

### Dividend

The Directors proposed a final dividend of HK11 cents per share (2006: HK7 cents per share) for the year ended 31st March 2007. In addition to the interim dividend of HK7 cents per share already paid, the dividend for the full year amounted to a total of HK18 cents per share (2006: HK10 cents per share). The proposed dividend will be paid on 14th September 2007 following the approval at the Annual General Meeting.

## BUSINESS PERFORMANCE

### Hong Kong Market

As at 31st March 2007, the Group operates 24 retail outlets under the brand name of "Luk Fook" in Hong Kong. The Group has also established a stylish and trendy product line, "Ice g.", to cater to younger customers' tastes. The Group currently operates one "Ice g." shop in Sheung Shui.

During the year under review, the Group has opened two new Luk Fook shops in Mongkok and Shatin in August and December 2006 respectively.

Since September 2005, the Group has started to renovate the Luk Fook shops in Hong Kong. Up till the end of 2006, we have already refurbished most of the shops. The new shop image has been well received by customers and the renovation project is expected to be completed by March 2008.

During the year, the poor quality of jewellery sold by industry "black sheep" provoked complaints amongst PRC tourists. In an effort to sustain our integrity as a reputable Hong Kong jeweler, the Group participated in the "No Fakes Pledge" Scheme organized by the Intellectual Property Department with an aim to enhance purchasing confidence among consumers. With Luk Fook's expertise in Fei Cui, the Group was also identified as an approved member of "Natural Fei Cui Quality Mark" Scheme.

**PRC Market**

The Group operates its PRC retail business mainly through brand licensing services. Adopting licensing business in the PRC allows us to diversify operating risks and minimize the costs for setting up outlets in the vast mainland regions where different norms and rules might be applied on jewellery operators.

During the year under review, the Group continued to fortify its licensing penetration into the PRC market while spotting out favorable locations to establish self-operated shops. As at 31st March 2007, we have over 270 licensee shops in the PRC, spreading across as many as 29 provinces and 113 cities. Footprints of Luk Fook are found in big cities such as Shanghai, Beijing, Shenzhen, Guangzhou. We have also enlarged our parameters to more interior areas including Inner Mongolia, Lanzhou, Urumchi, Xinjiang, etc.

During the year, the Group established 3 self operated shops in Beijing in line with our strategy to expand in the PRC market.

**Macau Market**

With the thriving Macau economy, significant foreign investments flowed into Macau, boosting the gaming, tourism, property and retail markets. Many infrastructure projects such as hotels, resorts, real estates and large scale shopping arcades are under construction. Fuelled by the growing number of visitors to Macau and the increasing consumption of visitors, the retail market in Macau has been flourished. The Group currently has two shops located at the main streets of Macau, which are hot spots for tourists and residents.

**Overseas Market**

In line with our company motto of "Brand of Hong Kong Sparkling the World", extending our geographical reach in the global markets remained our focus during the year. There are currently three retail outlets in Canada under the brand name of Luk Fook, of which two shops were switched to be operated under licensing mode in 2006. Subsequent to the Group's successful move into the Canadian market, the Group further tapped into the North American market in June 2006 to launch a new brand "Luvina Jewelers" in the United States, signifying the Group's first step into a new overseas market.

## OPERATION REVIEW

### Products

During the year under review, the Group introduced a wide array of products to cater to the diversified tastes of customers as follows:

- "Jewellery Temptation Diamond" Collection Series were launched during the 5•1 Golden Week and 10•1 Golden Week
- Adorable products such as "Chu's Family" are designed to match up with the year of Pig
- "2 in Love" Collection and "Hearts in 1" 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
- Proudly South African Diamond Jewellery "Parfait" Collection
- "Victoria" Collection which is made up of precious stones
- "Shine Collection II" based on the concept of "Jiang" from 2005 Platinum Guild International Jewellery Masterpiece
- "Blessing Collection" for Christmas

### Sales Network

As at July 2007, the Group has 33 wholly owned retail outlets under the brand name of Luk Fook and one outlet under the brand name of Ice g. in Hong Kong, the PRC, Macau and Canada. "Luvina Jewelers", the retail outlet in the United States, is located in San Jose of California. In August and December of 2006, the Group set up two new Luk Fook branches in Mongkok and Shatin to cope with the growing demand in the two districts.

In line with our growth strategies to expand in the PRC market, the Group also established three self operated shops in some of the busiest shopping centres in Beijing to grasp the enormous business opportunities brought by the upcoming Beijing Olympic Games to be held in 2008. The new shops further enlarged Luk Fook's self operated retail network in the PRC. As compared to the same period of last year, we have aggressively established about 90 licensee shops in the PRC throughout the year. The total number of the Group's licensee shops in the PRC had increased to over 270 as at March 2007.

## Marketing and Promotion

Promotion is an effective tool to boost sales and achieve loyalty among customers and thereby enhancing business.

To further strengthen Luk Fook's corporate brand image and bring additional value to the brand, we actively participated in a wide spectrum of activities in an attempt to further consolidate our brand positioning in the market.

Marketing and promotion expenditures represented approximately 1.0% of the turnover. Our branding strategy is designed to increase recognition, generate consumer traffic, acquire customers, build a loyal customer base and promote repeat purchases. We believe our customers generally seek high quality product from a trusted source in a non-intimidating environment, where information, guidance, reputation, convenience and value are important characteristics.

Our marketing and advertising is on a massive scale, include ATL and BTL initiatives, which primarily consist of TV, prints, outdoors and targeted website advertising, affiliate programs, direct online marketing, and public relations and events featuring celebrities include:

- Sponsored the Diamond Crown and jewellery pieces for the winners of "Miss Hong Kong Pageant" for the 9th consecutive years

- Being the sole sponsor for the winner's jewellery pieces in "Miss Asia Pageant 2006"

- Sponsored the jewellery pieces for the winners in "City Beauties Pageant 2006" in Guangzhou

- Sponsored the Miss Chinese in Vancouver and Toronto for several years

- Participated in numerous national wide jewellery exhibitions in Chengdu, Guangzhou, Shenzhen and Hong Kong, including "HK Brands and Products Expo, Chengdu", "Guangzhou International Jewellery Fair", "7th Shenzhen International Jewellery Fair", "HK Jewellery, Clock and Watch Fair" and "The 41th HK Brands and Products Expo"

- Being major advertising spender and prize sponsor in renowned television channels in Hong Kong and China

- The enormous success of our DTC Forevermark, World Gold Council and Perles De Tahiti campaign, and we made great progress striking the delicate balance between Luk Fook and fine jewellery as a place of romance and a place for self purchase

- Notable success included platinum and diamond "Shine" collection cooperated with the Platinum Guild International and the extension of the Diamond wedding ring collection

- We introduced a wide range of new designs and collections at major festivals including Mother's Day, St. Valentines Day, Christmas, Chinese National Day and Lunar New Year, creating excitement and broadening the appeal of our merchandise assortment

**Brand Management**

A reputable brand helps bolster customers' purchasing confidence. Thus, we view brand building exercise as one of our main strategic focuses to improve the Group's sales performance.

During the year, the Group obtained a number of awards as regards the Group's branding, for example, "The Best Brand Enterprises Award 2007 (Greater China)" organized by the Hong Kong Productivity Council, the "Superbrands 2006/07" Award organized by an independent arbiter of branding that operates in over 50 countries and regions worldwide, "My Favourite Top Ten Brands Hong Kong" in "The 4th Hong Kong and Macau Merchants of Integrity Award" organized by Guangzhou Daily and co-organized by Ming Pao, etc. The Group was awarded the "Caring Company 2006/07" logo from The Hong Kong Council of Social Service as well, in recognition of its keen participation and commitment in facilitating corporate citizenship and supporting community events.

On top of the above, the Group also ranked one of the top 10 Retailers (Other Retailers) in the 3rd Retail Asia Pacific Top 500 Awards (2006) among 14 economies.

We see every award as a vital recognition to the Group's endeavor to enhance its brand. All the awards illustrated Luk Fook's committed efforts in the pursuit of brand excellence and verified Luk Fook's achievement in establishing an outstanding and unique brand image with a well-developed brand management system.

**Production**

In order to attain cost effectiveness and production efficiency, the Group produce gold ornaments and gem-set jewellery in the PRC as well as Hong Kong. Other than the sizable processing house in Hong Kong, the Group has invested approximately HK$100,000,000 to establish a large manufacturing plant in Panyu, PRC, with a total floor area of over 350,000 square feet. The production capacity can be increased to 3 times with the full operation of the plant.

**Portal Operation**

The Group's jewellery portal "www.jewellworld.com" or "www.jw28.com" is 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 believes that online shopping possesses huge business potentials and will become more popular.

## ACHIEVEMENTS

### Design

The Group is well known for its stylish designs of jewellery products. Every year, the Group's designers are sponsored to travel to different countries to attend exhibitions in an aim to get inspirations worldwide and nurture creative designs. During the year, the Group gained awards from jewellery design competitions including 2006 International Jewelry Design Innovation Competition, the 8th Hong Kong Jewellery Design Competition, the 6th International South Sea Pearl Jewellery Design Competition.

### Quality Assurance

The Group is committed to maintaining the highest levels of product quality. To ensure the best quality of products, the Group set up its wholly owned subsidiary gems laboratory "China Gems Laboratory Limited" in 1996. Its scope of services includes authentication, grading of diamonds, and authentication of jades and colored gemstones and quality assessment of jewellery. The Laboratory was operated by dozens of certified gemologists who specialize in the authentication of gemstones and jade. Every year, the laboratory tests for over 100,000 pieces of jewellery and gemstones on average. With the ISO 17025 qualification accredited by the Hong Kong Accreditation Service, the Laboratory also successfully met the principles of ISO 9001:2000 Quality Management Systems – Requirements, demonstrating the professional quality assurance system of the Group. China Gems Laboratory is the sole subsidiary laboratory of local jewellery shops with this qualification.

### Customer Service

Excellent customer service is prominent for maintaining our competitiveness in the market. To foster excellent customer service, the Group is devoted to a continuous enhancement of our services.

During the year under review, the Group won the "2006 Hong Kong Top Brand Award" and "2006 Hong Kong Top Service Brand Award". Luk Fook was also the only jewellery brand that gained the "2006 Hong Kong Awards for Industries: Customer Service Award" from the Hong Kong Retailing Management Association. These awards, once again, confirmed the Group's successful customer-focused strategy to win the trust and recognition from customers and the industry.

## PROSPECTS

The Group's remarkable financial performance has proven the financial year of 2006/07 a year of success. As we always believe that there are huge potentials for long-term growth in the PRC market, we will penetrate unremittingly into the PRC market while consolidating our existing markets and tapping into new markets.

With the vast business opportunities in the PRC, we will continue to select carefully suitable licensing partners for setting up retail outlets and ensure that they offer the best products, designs and services to customers. We will continue to impose stringent quality control on the products sold in our licensee shops and continue to provide technical support and consultancy services to all of the licensed jewelers in the PRC.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

The Group's core business is gold and jewellery retailing. As at 31st March 2007, the Group's cash on hand reached approximately HK$175 million (2006: HK$109 million). The Group's debt-to-equity ratio at the year-end, being the proportion of total debts of approximately HK$257 million (2006: HK$171 million) against total shareholders' equity of approximately HK$850 million (2006: HK$715 million), was 30.2% (2006: 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$28 million (2006: HK$34 million), including the costs of leasehold improvement, furniture, fixture and equipment.

### Capital Commitments

As at 31st March 2007, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$7 million.

### Charge on Group Asset

As at 31st March 2007, no Group asset was under charge to any financial institution except the pledge of a bank deposit of HK$562,000 (2006:HK$541,000) to secure a rental guarantee in favour of a landlord.

### Contingent Liabilities

The Group did not have any significant contingent liabilities at 31st March 2007 (2006: Nil).

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

As at 31st March 2007, the number of employees of the Group was approximately 2,124 (2006: 1,726). 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 20 August 2007 to 23 August 2007, 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, Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 17 August 2007.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code on Corporate Governance Practices as set out in the Listing Rules except for the following deviations from certain code provisions:

### 1. Code Provision A.4.2

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

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

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

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

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

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

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

## AUDIT COMMITTEE

In compliance with paragraph 14 of the Code of Best Practice (applicable before 1st January 2005), the Board has established an audit committee comprising all independent non-executive directors, to monitor the accounting and financial reporting practices and internal control systems of the Company. Since 1st April 2006, the audit committee has held several meetings to consider matters including the 2006 annual report of the Company, internal controls, the unaudited interim condensed consolidated financial information for the six months ended 30th September 2006, the 2007 annual report of the Company and the Group's IT control environment.

## REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31st March 2007. The figures in respect of the preliminary announcement of the Group's results for the year ended 31st March 2007 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## 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 July and December 2006, the Remuneration Committee held two meetings to review the policies for determining annual salary increments for the calendar year 2007, to approve the payment of the discretionary year-end bonus for 2006, 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 2007.

## 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.

## PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

The results announcement is required to be published on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Lastest Listed Companies Information" and the Company at www.lukfook.com.hk under the section of "About Luk Fook/Corporate Information/Listing Rules Documents/Announcements and Notices" respectively. The annual report of the Company for the year ended 31st March 2007 will be dispatched to the shareholders on 31st July 2007 and published on the websites of the HKEX's and the Company's websites in due course.

## 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 2007