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PERFECT GROUP INTERNATIONAL HOLDINGS LIMITED

保發集團國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3326)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

The board (the “**Board**”) of directors (the “**Directors**”) of Perfect Group International Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 together with comparative figures for the corresponding period in 2015 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2016

		Six months ended	
		30 June	
	<i>NOTES</i>	2016	2015
		HK\$’000	HK\$’000
		(Unaudited)	(Audited)
Revenue	2	198,348	265,803
Cost of goods sold		(142,211)	(191,285)
Gross profit		56,137	74,518
Other income		258	316
Other gains		42	1
Selling and distribution costs		(6,993)	(6,725)
General and administrative and other expenses		(19,226)	(18,690)
Finance costs		–	(1,301)
Profit before taxation	3	30,218	48,119
Taxation	4	(3,699)	(6,171)
Profit for the period		26,519	41,948

	Six months ended	
	30 June	
<i>NOTES</i>	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Other comprehensive income for the period		
Item that will not be reclassified subsequently to profit or loss:		
Surplus on revaluation of land and buildings	–	8,347
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	–	25
	<hr/>	<hr/>
Other comprehensive income for the period	–	8,372
	<hr/>	<hr/>
Total comprehensive income for the period	26,519	50,320
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Earnings per share – Basic	6 5.9 HK cents	12.4 HK cents
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

		At 30 June 2016 <i>HK\$'000</i> (Unaudited)	At 31 December 2015 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		7,300	5,801
Deposits		4,121	752
Deferred tax assets		478	977
		11,899	7,530
Current assets			
Inventories		162,803	179,129
Trade and other receivables	7	131,995	126,720
Bank balances and cash		157,483	41,209
		452,281	347,058
Current liabilities			
Trade and other payables	8	34,831	49,878
Taxation payable		10,090	6,996
Amount due to a related company		–	282,103
		44,921	338,977
Net current assets		407,360	8,081
Total assets less current liabilities		419,259	15,611
Non-current liabilities			
Provision for long service payments		999	936
Net assets		418,260	14,675
Share capital and reserves			
Share capital	9	4,500	–
Reserves		413,760	14,675
Total equity		418,260	14,675

NOTES:

1. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

In the current interim period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable for the sales of fine jewellery products and net of discounts and returns during both periods.

The executive directors of the Company, being the chief operating decision maker, regularly review revenue analysis by product types, including ring, earrings, pendant, bangle, necklace and bracelet, and by location of delivery to customers. The executive directors of the Company considered the operating activities of manufacturing and sales of jewellery products as a single operating segment. The operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, and is regularly reviewed by the executive directors of the Company. The executive directors of the Company review the overall results, assets and liabilities of the Group as a whole to make decisions about resources allocation. Accordingly, no analysis of this single operating segment is presented.

Entity-wide information

An analysis of the Group’s revenue by product types is as follows:

	Six months ended	
	30 June	
	2016	2015
	HK\$’000	HK\$’000
	(Unaudited)	(Audited)
Sales of		
– Ring	66,741	101,840
– Earrings	56,170	74,765
– Pendant	21,646	29,729
– Bangle	20,970	22,743
– Necklace	16,146	17,073
– Bracelet	16,675	19,653
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	198,348	265,803
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Revenue from external customers, based on location of delivery to customers is as follows:

	Six months ended	
	30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Revenue		
– Hong Kong	107,605	112,470
– Dubai	90,743	123,802
– United States of America	–	29,531
	198,348	265,803

An analysis of the Group's non-current assets by their physical geographical location is as follows:

	At	At
	30 June	31 December
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Hong Kong	4,418	4,474
Mainland China	6,615	1,591
Dubai	388	488
	11,421	6,553

3. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Audited)
Profit before taxation has been arrived at after charging:		
Depreciation		
– cost of sales	421	263
– general and administrative and other expenses	752	3,101
	<hr/>	<hr/>
Total depreciation	1,173	3,364
	<hr/>	<hr/>
Directors' remuneration		
– fee	1,217	–
– salaries and other benefits	2,434	840
– retirement benefit scheme contributions	33	27
	<hr/>	<hr/>
	3,684	867
Other staff's salaries and other benefits	15,736	15,844
Other staff's retirement benefits scheme contributions	1,406	2,514
	<hr/>	<hr/>
Total staff costs	20,826	19,225
	<hr/>	<hr/>
Auditor's remuneration	600	600
Cost of inventories recognised as expenses (included in cost of goods sold)	142,211	191,285
Listing expenses (included in general and administrative and other expenses)	1,588	3,968
Operating lease rentals in respect of rented premises	2,994	1,200
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4. TAXATION

	Six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
The taxation charge (credit) comprises:		
Hong Kong Profits Tax		
– Current period	2,945	4,607
PRC Enterprise Income Tax (“EIT”)		
– Current period	255	115
Overseas tax		
– Current period	–	1,846
	<hr/>	<hr/>
	3,200	6,568
Deferred tax charge (credit)	499	(397)
	<hr/>	<hr/>
	3,699	6,171
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

The Group is engaged in manufacturing of fine jewellery products through a processing factory in the Mainland China under contract processing arrangement which is effective from 23 April 2008 to 7 April 2018. Accordingly, under such 50:50 onshore/offshore arrangement between the Group and the processing factory, certain profits of the Group are not taxable under Hong Kong Profits Tax during both periods. In addition, the processing factory of the Group is subject to PRC EIT at a rate of 25% on the deemed profit generated in Mainland China. Also, the Group is subject to certain overseas tax for the sales made in overseas.

5. DIVIDEND

For the six months ended 30 June 2015, the predecessor that carried out jewellery business prior to the Group Reorganisation distributed an interim dividend of HK\$20,000,000 to the then shareholders.

Subsequent to 30 June 2016, the directors of the Company resolved to declare an interim dividend of HK\$0.03 per share, totaling HK\$13,500,000 for the six months ended 30 June 2016 payable on 15 September 2016 to the shareholders of the Company whose names appear on the register of members of the Company on 31 August 2016.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the condensed consolidated profits for the period of HK\$26,519,000 (six months ended 30 June 2015: HK\$41,948,000) and on the number of 450,000,000 (six months ended 30 June 2015: 337,500,000) shares on the assumption that the Group Reorganisation, the loan capitalisation issue and the capitalisation issue have been effective on 1 January 2015.

No diluted earnings per share is presented as there were no potential ordinary shares during both periods.

7. TRADE AND OTHER RECEIVABLES

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables	127,647	116,051
Other receivables, prepayments and deposits	4,348	10,669
	<u>131,995</u>	<u>126,720</u>

The following is an analysis of trade receivable by age, presented based on the invoice date, which approximates the respective revenue recognition dates.

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
0 – 30 days	30,869	23,351
31 – 60 days	26,630	17,236
61 – 180 days	38,995	53,330
181 – 365 days	15,679	21,614
Over 1 year	15,474	520
	<u>127,647</u>	<u>116,051</u>

The Group generally allows a credit period of up to 120 days to its customers. A longer credit period may be granted to large or long established customers with good payment history.

Before accepting any new customers, the Group has an internal credit control system to assess the potential customers' credit quality and the Board has delegated the management to be responsible for the determination of credit limits and credit approvals for customers. Limits attributed to customers are reviewed periodically. Approximately 31% (31 December 2015: 28%) of the trade receivables as at 30 June 2016 are neither past due nor impaired and they were assessed to be of good credit rating attributable under the credit control system used by the Group.

As at 30 June 2016, trade receivables of HK\$87,514,000 (31 December 2015: HK\$83,689,000) are past due but not impaired. The Group does not hold any collateral as security over these balances.

8. TRADE AND OTHER PAYABLES

	At 30 June 2016 <i>HK\$'000</i> (Unaudited)	At 31 December 2015 <i>HK\$'000</i> (Audited)
Trade payables	10,401	12,099
Accruals and other payables	24,430	37,779
	34,831	49,878

The following is an aged analysis of trade payables presented based on invoice date at the end of the period:

	At 30 June 2016 <i>HK\$'000</i> (Unaudited)	At 31 December 2015 <i>HK\$'000</i> (Audited)
0 – 60 days	8,429	11,251
61 – 90 days	1,029	775
91 – 120 days	943	73
	10,401	12,099

9. SHARE CAPITAL

The Company was incorporated and registered as an exempted company in the Cayman Islands on 16 June 2015 with an issued share capital of US\$100 divided into 100 shares of a nominal value of US\$1 each. Upon incorporation of the Company, 100 shares of US\$1 each was issued at US\$100. On 14 September 2015, the Company repurchased all the existing shares for an aggregate price of US\$100, following which all the existing shares were cancelled and the authorised but unissued share capital of the Company was diminished by the cancellation of all unissued shares of nominal value of US\$1 each in the share capital of the Company, and the authorised share capital of the Company became HK\$10,000,000 divided into 1,000,000,000 shares of nominal value of HK\$0.01 each.

On 4 January 2016, as part of the Group Reorganisation, 100 shares, 337,499,700 shares and 112,500,000 shares of the Company were issued to the then existing shareholders as a result of the loan capitalisation, capitalisation issue and the global offering respectively. The Company completed its global offering and its shares were listed on the Stock Exchange on 4 January 2016.

As at 30 June 2016, the Company has 450,000,000 (31 December 2015: 200) issued and fully paid ordinary shares of HK\$0.01 each. All shares issued rank pari passu with the then existing shares in issue in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is one of the top fine jewellery manufacturers and wholesalers with approximately 30 years of history in Hong Kong. The Group is primarily engaged in designing, manufacturing and sales of high-end fine jewellery (primarily mounted with diamonds). The Group positions its products to target the high-end segment of the fine jewellery market by average wholesale price.

The Group operates two offices, situated in Hong Kong and Dubai respectively. The Hong Kong office bridges the design, production and sales teams with customers worldwide whilst the Dubai office serves as the marketing and logistic hub in the Middle East and its vicinity. The Production operations are exclusively carried out at the processing factory in Dongguan (“**Perfect Factory**”) under the processing agreement. As at the date of this report, Perfect Factory is controlled by Perfect Group International Holdings (HK) Limited (“**Perfect Group HK**”), a wholly owned subsidiary of the Company. Under the processing agreement, Perfect Factory deploys raw materials, accessories, machinery equipment and packaging materials owned and imported by the Group to produce fine jewellery products for the Group exclusively whilst the Group closely participates in the operation and management of Perfect Factory and effectively controls its decision making process.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 4 January 2016 (the “**Listing Date**”).

Financial review

The Group’s revenue for the six months ended 30 June 2016 was approximately HK\$198,348,000 (six months ended 30 June 2015: HK\$265,803,000), representing a decrease of approximately 25.4% over the corresponding period of 2015. As reported in the prospectus dated 22 December 2015 of the Company and annual report of the Company for the year ended 31 December 2015, the weak global market sentiment and the decline in commodity prices (including oil prices), which affected the economies of commodity exporting countries, such as the Middle East countries in 2015, are expected to continue to impact on the Group’s business for the year of 2016. The drop in revenue for the six months ended 30 June 2016 was in line with such market sentiment and expectations.

The fluctuation in each of the Group’s product types is in line with the changes in customers’ preferences and needs and there was no exception for the period under review. For the six months ended 30 June 2016, revenue by product types followed relatively similar pattern as that for the corresponding period in 2015, despite a slightly higher mix of sales of bangle, necklace and bracelet. The sales of ring, earrings and pendant collectively accounted for approximately 72.9% of total revenue in 2016 (six months ended 30 June 2015: 77.6%) while the remaining 27.1% (six months ended 30 June 2015: 22.4%) of revenue was attributable to the sales of bangle, necklace and bracelet.

The Group's gross profit for the six months ended 30 June 2016 was approximately HK\$56,137,000 (six months ended 30 June 2015: HK\$74,518,000), representing a decrease of approximately 24.7% compared to that of the corresponding period of 2015, which in line with the revenue trend. The gross profit margin for the six months ended 30 June 2016 was approximately 28.3% (six months ended 30 June 2015: 28.0%), maintaining at similar level as that for the corresponding period of 2015.

The selling and distribution costs for the six months ended 30 June 2016 have increased by approximately 4.0% as the Group has attended more trade shows to promote the demand of its products during this period. While overall general and administrative and other expenses for the six months ended 30 June 2016 have increased marginally by 2.9%, the composition of the expenses has changed. Major changes noted are the additional expenses commensurated with a listed company, such as directors emolument, listing and compliance fees and printing costs associated with the printing and posting of annual and interim reports which amounted to approximately HK\$4,800,000. However, such additional expenses have been offset by (i) the reduction in depreciation changes on land and building of approximately HK\$2,100,000 as such land and buildings was distributed out of the Group during the business transferred on 5 August 2015, and (ii) listing expenses charged of approximately HK\$2,400,000 when compared with that for the corresponding period of 2015.

Profit for the six months ended 30 June 2016 was approximately HK\$26,519,000 (six months ended 30 June 2015: HK\$41,948,000), representing a decrease of approximately 36.8% compared with that of the corresponding period in 2015. The decrease was mainly attributable to the drop in gross profit as a result of drop in revenue.

Liquidity and financial resources

As at 30 June 2016, the Group had current assets of approximately HK\$452,281,000 (as at 31 December 2015: HK\$347,058,000) which comprised cash and bank balance of approximately HK\$157,483,000 (as at 31 December 2015: HK\$41,209,000). As at 30 June 2016, the current liabilities amounted to approximately HK\$44,921,000 (as at 31 December 2015: HK\$338,977,000). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was approximately 10.1 as at 30 June 2016 (as at 31 December 2015: 1.0). The Group considers its financial resources were mainly derived from the net cash inflows from operating activities and the net proceeds from listing. Taking into consideration the existing financial resources of the Group, it is anticipated that the Group should have adequate working capital to support its operations and development requirements.

Gearing ratio

The gearing ratio of the Group, calculated as debt (including accruals and other payables and amount due to a related company) divided by the total equity, was approximately 5.8% (as at 31 December 2015: 2,179.8%).

Charge on assets

There was no charge on the Group's asset as at 30 June 2016 (as at 31 December 2015: Nil).

Capital commitments

The Group had no material capital commitments as at 30 June 2016 (as at 31 December 2015: Nil).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2016 (as at 31 December 2015: Nil)

Employee and remuneration policy

As at 30 June 2016, the Group had an aggregate of 283 employees (six months ended 30 June 2015: 311 employees) in Hong Kong and the Mainland China. The total salaries and related costs for the six months ended 30 June 2016 amounted to approximately HK\$20,826,000 (six months ended 30 June 2015: HK\$19,225,000).

The Group offered competitive remuneration package as an incentive to staff for improvement. The Company has share option scheme in place as a means to encourage and reward the eligible employees' (including the Directors') contributions to the Group's results and business development based on their individual performance. Since the adoption of the share option scheme on 14 December 2015 and up to 30 June 2016, no options have been granted by the Company.

The employees' remuneration, promotion and salary are assessed by reference to work performance, working experience and professional qualifications and the prevailing market conditions.

Future plans and prospects

The weak global market sentiment, which has affected the buying behavior of our customers, and the economies of commodity exporting countries in 2015 and first half of 2016, is expected to continue in the near term. Furthermore, as the United Kingdom voted for the Brexit in its referendum, the worldwide economy is filled with further uncertainties, especially the European economy. To reduce these uncertainties and to put our business back on the growth path, we will conduct a review of our business strategies with the view to realigning such strategies for the near to mid-term and will inform the Company's shareholders once such strategic review has been completed.

In the meantime, the Group will strive to strengthen the Group's sales and marketing efforts, enhance the Group's product development and production capability, expand its customer base into worldwide markets, especially the Mainland China and fortify the existing Middle East markets.

Interim dividend

The Board, after considering the liquidity position and operation of the Group, resolved to declare an interim dividend of HK\$0.03 per share, totaling HK\$13,500,000 for the six months ended 30 June 2016 (For the six months ended 30 June 2015, the predecessor that carried out jewellery business prior to the Group Reorganisation distributed an interim dividend of HK\$20,000,000 to the then shareholders) payable on 15 September 2016 to the shareholders whose names appear on the register of members of the Company on 31 August 2016.

Closure of register of members

For determining the entitlement of the shareholders to interim dividend, the register of members of the Company will be closed from 29 August 2016 to 31 August 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not later than 4:00 p.m. on 26 August 2016.

Use of proceeds from global offering

The Company has received net proceeds of approximately HK\$76,533,000 after deducting the underwriting fee and commissions and relevant expenses in connection with the global offering on 4 January 2016. As at 30 June 2016, approximately HK\$9,539,000 of the net proceeds has been used by the Group. The unutilised proceeds were deposited with the licensed bank in Hong Kong. Set below is a summary of the utilisation of the net proceeds:

	Original plan allocation of net proceeds		Actual utilised as at 30 June 2016	Unutilised as at 30 June 2016
	%	HK\$'000	HK\$'000	HK\$'000
Used for expanding Middle East and European high-end markets by hiring sales team with relevant experience and participating in renowned and high-end focused jewellery exhibition in Europe;	37.5	28,700	3,471	25,229
Used for upgrading existing production facilities by purchasing the updated 3D printing machines, replacing equipment and machineries used for stones setting, filing and electroplating; installing the RFID inventory system at Perfect Factory; and hiring and training additional labour with relevant skills and experience;	32.9	25,179	1,839	23,340
Used for brand development, which includes investment inbrand image enhancement by employing professional marketing teams, renovating our VIP show rooms at our Hong Kong Office and Dubai Office to better serve high-end customers and initiating a different product line which targets to produce high quality fine jewellery with relatively simplistic designs and lower wholesale price so as to further stretch our customer base;	22.0	16,837	1,539	15,298
Used for enhancing CRM system by introducing the RFID technology in various jewellery exhibitions which enable the Company to collect computerised data of our visitors' purchasing behaviour;	4.7	3,597	470	3,127
Used for additional working capital and other general corporate purposes.	2.9	2,220	2,220	-

Code on corporate governance practices

The Company is committed to maintaining good standard of corporate governance to safeguard the interest of the shareholders and to enhance corporate value and responsibility. During the six months ended 30 June 2016, the Company has adopted and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 of the Listing Rules, except the deviation from code provision A.2.1 of the CG Code as explained below.

According to code provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual. The role of the chief executive officer was performed by Mr. Kan Kin Kwong, who was also the chairman of the Company. Mr. Kan as the founder of the Group has extensive experience and knowledge in the fine jewellery industry and is responsible for managing the overall operations of the Group and planning the business development and strategies. The Directors consider that vesting the role of the chairman of the Board and the chief executive officer in the same individual is beneficial to the management and business development of the Group. The balance of power and

authority is ensured by the operations of the Board and the senior management, which comprise experienced and high calibre individuals. The Board will continue to review and consider splitting the roles of the chairman of the Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

Model code for securities transactions of Directors

The Company adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company.

Having made specific enquiry of all Directors, the Directors have complied with the Model Code during the six months ended 30 June 2016.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company’s memorandum and articles of association or the Laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, sale or redemption of listing securities

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2016.

Sufficiency of public float

Since the Listing Date and up to the date of this announcement, the Company has maintained a sufficient public float.

Audit committee

The audit committee comprises one non-executive director, Mr. Chu Kin Wang Peleus and two independent non-executive directors namely, Mr. Li Cheuk Wai and Mr. Wong Wai Keung Frederick as the reported dated. Mr. Wong Wai Keung Frederick is the chairman of the audit committee. The audit committee and the Company’s auditors have reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

Publication of interim results announcement

The results announcement is published on Company’s website (www.hkperjew.com.hk) and the Stock Exchange’s website (www.hkexnews.hk).

The interim report of the Company for the six months ended 30 June 2016 containing all the information required by the Listing Rules also be available at the Company's and the Stock Exchange's website will be dispatched to the Company's shareholders in due course.

By order of the Board
Perfect Group International Holdings Limited
Kan Kin Kwong
Chairman

Hong Kong, 29 July 2016

As at the date of this announcement, the executive Directors are Mr. Kan Kin Kwong, Ms. Shek Mei Chun and Mr. Chung Chi Keung; the non-executive Director is Mr. Chu Kin Wang Peleus; and the independent non-executive Directors are Mr. Fan Chor Ho, Mr. Li Cheuk Wai and Mr. Wong Wai Keung Frederick.