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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Perfect Group International Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016 together with comparative figures for the previous year as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	2	**322,423**	458,306
Cost of goods sold		**(233,479)**	(326,229)
Gross profit		**88,944**	132,077
Other income		**1,438**	577
Other gains and losses		**(2,051)**	(2)
Selling and distribution costs		**(13,631)**	(14,184)
General and administrative and other expenses		**(34,791)**	(51,014)
Finance costs		**(440)**	(1,458)
Profit before taxation	3	**39,469**	65,996
Taxation	4	**(4,770)**	(9,536)
Profit for the year		**34,699**	56,460

	NOTE	**2016** **HK$'000**	2015 HK$'000
Other comprehensive income (expense) for the year			
Item that will not be reclassified subsequently to profit or loss:			
Surplus on revaluation of land and buildings		**–**	8,347
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**–**	25
Exchange differences released upon disposal of foreign operations		**–**	(61)
Other comprehensive income for the year		**–**	8,311
Total comprehensive income for the year		**34,699**	64,771
Earnings per share – Basic	5	**7.7 HK cents**	16.7 HK cents

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
Non-current assets			
Property, plant and equipment		**6,076**	5,801
Rental deposits		**752**	752
Deferred tax assets		**688**	977
		7,516	7,530
Current assets			
Inventories		**169,221**	179,129
Trade and other receivables	6	**75,731**	126,720
Deposits		**31,619**	–
Bank balances and cash		**202,567**	41,209
		479,138	347,058
Current liabilities			
Trade and other payables	7	**31,069**	49,878
Taxation payable		**11,031**	6,996
Bank loans		**2,365**	–
Other borrowing		**28,250**	–
Amount due to a related company		**–**	282,103
		72,715	338,977
Net current assets		**406,423**	8,081
Total assets less current liabilities		**413,939**	15,611
Non-current liability			
Provision for long service payments		**999**	936
Net assets		**412,940**	14,675
Share capital and reserves			
Share capital	8	**4,500**	–
Reserves		**408,440**	14,675
Total equity		**412,940**	14,675

NOTES:

1. BASIS OF PREPARATION AND APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (the "HKFRSs")

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and by the Hong Kong Companies Ordinance (the "**CO**").

The Group has consistently applied all the amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2016 for both current and prior years.

The application of these amendments to HKFRSs has had no material effect on the amounts reported in these consolidated financial statements and/or discloses set out in these 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 years.

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:

	2016	2015
	HK$'000	*HK$'000*
Sales of		
– Ring	**105,728**	170,982
– Earrings	**92,063**	128,548
– Pendant	**35,597**	51,764
– Bangle	**33,211**	42,853
– Necklace	**25,899**	29,581
– Bracelet	**29,925**	34,578
	322,423	458,306

Revenue from external customers, based on location of delivery to customers is as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
– Hong Kong	**187,629**	203,476
– Dubai and others	**134,794**	254,830
	322,423	458,306

No individual customer contributes revenue which accounted for more than 10% of the Group's total revenue during both years.

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

	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**3,730**	4,474
Mainland China	**2,721**	1,591
Dubai	**377**	488
	6,828	6,553

3. PROFIT BEFORE TAXATION

	2016	2015
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation		
– cost of goods sold	**952**	695
– general and administrative and other expenses	**1,426**	3,734
Total depreciation	**2,378**	4,429
Directors' remuneration		
– fees	**859**	–
– salaries and other benefits	**6,473**	1,711
– performance-based bonus	**–**	3,435
– retirement benefit scheme contributions	**60**	54
	7,392	5,200
Other staff's salaries and other benefits	**29,716**	32,606
Other staff's retirement benefits scheme contributions	**3,331**	4,190
Total staff costs	**40,439**	41,996
Auditor's remuneration	**1,700**	1,800
Cost of inventories recognised as expenses (included in cost of goods sold)	**233,479**	326,229
Listing expenses (included in general and administrative and other expenses)	**1,588**	16,815
Operating lease rentals in respect of rented premises	**6,254**	4,097

4. TAXATION

	2016	2015
	HK$'000	*HK$'000*
The taxation charge (credit) comprises:		
Hong Kong Profits Tax		
– Current year	**4,028**	6,598
– Overprovision in prior years	**–**	(1,464)
PRC Enterprise Income Tax ("EIT")		
– Current year	**453**	463
Overseas tax		
– Current year	**–**	2,506
	4,481	8,103
Deferred tax charge	**289**	1,433
	4,770	9,536

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

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 years. 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 was subject to certain overseas tax for the sales made in overseas.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profits for the year of HK$34,699,000 (2015: HK$56,460,000) and on the weighted average number of ordinary shares of 450,000,000 (2015: 337,500,000) shares.

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

6. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**74,375**	116,051
Less: Allowance for doubtful debts	**(1,980)**	–
	72,395	116,051
Other receivables, prepayments and deposits	**3,336**	10,669
	75,731	126,720

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

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**15,817**	23,351
31 – 60 days	**13,350**	17,236
61 – 180 days	**27,376**	53,330
181 – 365 days	**7,896**	21,614
Over 1 year	**7,956**	520
	72,395	116,051

The Group 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% (2015: 28%) of the trade receivables as at 31 December 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.

The Group's management takes into consideration of customers' credit history, settlement patterns, subsequent settlements and aging analysis of trade receivables in determining the recoverability of the overdue trade receivables. The directors of the Company considered that the consideration of credit risk is limited due to customer base being large and unrelated.

As at 31 December 2016, trade receivables of HK$49,498,000 (2015: HK$83,689,000) are past due but not impaired. Such receivables relate to a number of customers of which substantial subsequent settlements were made. The Group does not hold any collateral as security over these balances.

7. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**6,257**	12,099
Accruals and other payables	**24,812**	37,779
	31,069	49,878

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

	2016	2015
	HK$'000	*HK$'000*
0 – 60 days	**6,257**	11,251
61 – 90 days	**–**	775
91 – 120 days	**–**	73
	6,257	12,099

8. 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. As at 31 December 2015, the Company had 200 issued and fully paid ordinary shares of HK$0.01 each, amounted to HK$2.

On 4 January 2016, as part of the group reorganisation, pursuant to the listing of the shares of the Company on the Stock Exchange, 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 31 December 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 *pair passu* with the then existing in issue in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Business outlook and future prospects

2016 continued to be a challenging year for the Group as a results of the weak global market sentiment for high-end fine jewelry products, which affected the 2015 year, continued to affect the 2016 year. On the other hand, the Board of Directors expects that there will be a continued demand for luxury goods including high-end fine jewellery in the PRC with its steady GDP growth rate and growth in purchasing power.

In view of the aforesaid, the Board has resolved to re-allocate approximately HK$44.34 million out of the unutilised net proceeds originally intended for expanding the Middle East and European high-end markets and upgrading the existing production facilities and hiring and training additional labour to establishing the headquarter in the PRC and developing the PRC market. The Board is of the view that such re-allocation of unutilised net proceeds is in line with the Group's business strategy on diversification of customer base in reducing geographical and seasonality risks.

In February 2017, as part of relocation process to establish a headquarter in the PRC and to respond to the impending expiry of the lease agreement of the processing factory in Dongguan City, Guangdong Province in 2018, and also in order to leverage the presence of a large number of local small and medium enterprises on the jewelry industry chain in Lunjiao Shilong Industrial Zone, Shunde District, Foshan City, Guangdong Province, the PRC, the Group, with an establishment of a joint venture, acquired the land use right of approximately 100,370 metres of land in Lunjiao Shilong Industrial Zone, at a consideration of approximately RMB105.3 million. It is expected that the Group, after completion of the development, will relocate the processing factory to and establish the headquarter of the Group in the Lunjiao Shilong Industrial Zone which will provide the Group with a more perpetual location and platform for its future business development in the PRC. It is intended that approximately 264,000 square meters of the land will be allocated for the Group's use as its factory plants and approximately 36,000 square meters of the land will be used as ancillary facilities such as dormitories and canteens.

Financial review

Revenue

The Group's revenue for the year ended 31 December 2016 was approximately HK$322.4 million (2015: HK$458.3 million), representing a decrease of approximately HK$135.9 million or 29.7% over the corresponding year of 2015. The decrease in the Group's revenue was primarily due to the continuing weak global market sentiment and the consequential decrease in demand for the Group's high-end fine jewelry products.

The sales of each product types were all affected by the weak global market demand. The sales of ring and earrings, which accounted for 32.8% and 28.6% respectively of the sales for the year, have dropped from approximately HK$171.0 million and approximately HK$128.5 million respectively to HK$105.7 million and HK$92.1 million for the year ended 31 December 2015 and 2016 respectively, which represented a drop of approximately 38.2% and approximately 28.4% respectively. The other products, pendant and bangle, which formed 11.0% and 10.3% of the revenue for the year, also dropped from approximately HK$51.8 million and HK$42.9 million to approximately HK$35.6 million and HK$33.2 million respectively, which represented a drop of 31.2% and 22.5% respectively.

The sales to Hong Kong drop from approximately HK$203.5 million to HK$187.6 million, representing a decrease of 7.8%. The revenue to Dubai and others has significantly dropped from approximately HK$254.8 million to HK$134.8 million, representing a decrease of 47.1%. The management considers that this may be due to the drop in demand in high end jewelleries in line with the decrease in income of this region.

Gross profit and gross profit margin

The gross profit dropped from approximately HK$132.1 million to approximately HK$88.9 million in line with the drop in revenue. Despite the drop in gross profit, gross profit margin was maintained at similar level for the year ended 31 December 2016 of 27.6% (2015:28.8%) mainly due to more stringent cost control on production.

Other income

Other income of approximately HK$1.4 million increased from approximately HK$0.6 million mainly due to the sales of scraps and interest income during the year.

Other gains and losses

Other gains and losses included the allowance for doubtful debts of approximately HK$2.0 million (2015: nil) against long outstanding accounts receivables in line with the Group's accounting policy.

Operating expenses

The selling and distribution costs of approximately HK$13.6 million (2015: HK$14.2 million), maintained at similar level as 2015. These costs did not decrease in line with the decrease in turnover as the cost of exhibition expenses and regular overseas business trip expenses, which contributed to a significant portion of the cost, were mostly fixed in nature.

The general and administrative and other expenses decreased from approximately HK$51.0 million for the year ended 31 December 2015 to approximately HK$34.8 million for the year ended 31 December 2016. This was mainly due to the decrease in the initial public offering expenses in 2016 compared with approximately HK$16.8 million spent in 2015 and the reduction of depreciation for the amount of approximately HK$2.1 million following the distribution of land and building on initial public offering process which was partially offset by the increase in rent for the lease on operation.

Profit for the year

As a result of the above factors and the reduction in taxation charges, profit for the year was approximately HK$34.7 million (2015: HK$56.5 million), representing a decrease of approximately 38.5%.

Financial Position

There is no significant addition of plant and equipment during the year. However, the Group has paid a refundable deposit of approximately HK$28.3 million for the formation of a joint venture and acquisition of land use right the balance of which was still outstanding as at 31 December 2016. Following successful bidding of the land through the joint venture on 15 February 2017, the deposit will be used as settlement of part of the RMB105,390,000 consideration for the land investment to the project. Further details on the formation of joint venture and acquisition of lands could be found in the Group's circular dated 7 February 2017 and announcement dated 15 February 2017.

Inventory of approximately HK$169.2 million has been maintained at a similar level as last year amounted to approximately HK$179.1 million.

As a consequence of the decrease in turnover and purchases, the trade receivables and trade payables decreased accordingly. Trade receivables decreased from approximately HK$116 million as at 31 December 2015 to approximately HK$74.4 million as at 31 December 2016 and trade payables decreased from approximately HK$12.1 million to approximately HK$6.3 million, representing a decrease of 35.9% and 48.3% respectively.

Other borrowing included a loan obtained in September 2016 to finance the refundable deposit for acquisition of lands. The deposit was settled in March 2017.

To facilitate the financing of the operation of the Group, the Group has also entered into certain banking facilities in the form of trust receipt loans, which, as at 31 December, 2016, has an outstanding balance of approximately HK$2.3 million (2015: nil).

Liquidity and financial resources

As at 31 December 2016, the Group had current assets of approximately HK$479,138,000 (2015: HK$347,058,000) which comprised bank balances and cash of approximately HK$202,567,000 (2015: HK$41,209,000). As at 31 December 2016, the current liabilities amounted to approximately HK$72,715,000 (2015: HK$338,977,000). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was approximately 6.8 as at 31 December 2016 (2015: 1.0).

The financial resources for the operation of the Group were mainly derived from the net cash inflows of approximately HK$83.6 million (2015: HK$81.7 million) from operating activities. Taking into consideration the existing financial resources of the Group, the Directors believe that the Group has adequate working capital to support its operations and development requirements.

Gearing ratio

The gearing ratio of the Group, calculated as net debt (including accruals and other payables, amount due to a related company, bank loans and other borrowing) divided by the total equity, was approximately 13.4% (2015: 2,179.8%). The significant decrease in gearing ratio was mainly due to a debts of HK$282,103,000 which represented the consideration of the business transfer from Hong Kong Perfect Jewellery Company Limited to Perfect Group International Holdings (HK) Limited (the "**Perfect (HK)**") recorded as amount due to a related company as at 31 December 2015 has been capitalized. Such debts had not been settled by Perfect (HK) as at 31 December 2015 but has been capitalised after 31 December 2015 and prior to the Listing on 4 January 2016.

However, based on the calculated of total borrowings (including bank loans and other borrowing) divided by the total equity, the gearing ratio was approximately 7.4% (2015: Nil).

Contingent liabilities

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

Charge on assets

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

Capital commitments

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

Subsequent event

On 15 February 2017, the Company has through the joint venture won the bidding for the land use right for the consideration of approximately RMB105.4 million for the purpose of establishing the headquarter in the PRC and developing the PRC market. Further details of the transaction could be found in announcement dated 13 January 2017 and the circular dated 7 February 2017.

Use of proceeds from the global offering

As at 31 December 2016, the Company had utilised approximately HK$12.10 million of net proceeds from the Listing. On 28 November 2016, the Board resolved to change the proposed use of the net proceeds from the Listing, and details of the original allocation of the net proceeds, the revised allocation of the net proceeds, and the utilisation of the net proceeds as at 31 December 2016 are set out below:

Uses	Original allocation *HK$'000*	Revised allocation *HK$'000*	Utilisation as at the date of this announcement *HK$'000*	Remaining balance after revised allocation *HK$'000*
Expanding the Middle East and European high-end markets	28,700	7,700	6,008	1,692
Upgrading the existing production facilities and hiring and training additional labour	25,179	1,839	1,839	–
Brand development	16,837	16,837	1,539	15,298
Enhancing the CRM system	3,597	3,597	494	3,103
Additional working capital and other general corporate purposes	2,220	2,220	2,220	–
Establishing the headquarter in the PRC and developing the PRC market	–	44,340	–	44,340
Total	**76,533**	**76,533**	**12,100**	**64,433**

Employee and remuneration policy

As at 31 December 2016, the Group had approximately 234 employees (2015: 296 employees) in Hong Kong and Mainland China. The total salaries and related costs for the year ended 31 December 2016 amounted to approximately HK$40.4 million (2015: HK$42.0 million).

The Group offered competitive remuneration package as an incentive to staff to improve the work performance. The Company has share option scheme in place as a means to encourage and reward the eligible employees' (including the Directors of the Company) contributions to the Group's performance and business development based on their individual performance. The employees' remuneration, promotion and salary are assessed by reference to their work performance, working experiences professional qualifications and the prevailing market practice.

Dividend

The Directors recommend the payment of HK$0.03 as the final dividend for the year ended 31 December 2016.

Code on corporate governance practices

The Company is committed to maintaining good standard of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and responsibility. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in the Appendix 14 of the Listing Rules. Since the date of Listing and up to the date of this announcement, the Company has complied with the code provision under the CG Code, except for the deviation from code provision A.2.1 of the CG Code as explained below. The Company will continue to enhance its corporate governance practices which are considered appropriate to the operation and growth of its business. According to code provision A.2.1 of the CG Code, the role of the chairman and chief executive officer should be separate and should not be performed by the same individual.

The role of the chief executive officer of the Company has been performed by Mr. Kan Kin Kwong, who is also the chairman of the Company. Mr. Kan Kin Kwong, as the founder of the Group, has extensive experience and knowledge in the fine jewelry 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 caliber 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 year ended 31 December 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 any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

Sufficiency of public float

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

Audit committee

The audit committee (the "**Audit Committee**") comprises one non-executive Director, Mr. He Dingding and two independent non-executive Directors namely, Mr. Li Cheuk Wai and Mr. Wong Wai Keung Frederick as at the date of this announcement. Mr. Wong Wai Keung Frederick is the chairman of the Audit Committee. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Publication of final results announcement and annual report

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

The annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will also be available at the Company's and the Stock Exchange's website and despatched to the Company's shareholders in due course.

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

Hong Kong, 20 March 2017

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. He Dingding; and the independent non-executive Directors are Mr. Fan Chor Ho, Mr. Li Cheuk Wai and Mr. Wong Wai Keung Frederick.