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# 六福集團(國際)有限公司

LUK FOOK HOLDINGS (INTERNATIONAL) LIMITED

(於百慕達註冊成立之有限公司)  
(Incorporated in Bermuda with Limited Liability)  
Stock Code 股份代號 : 0590

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2016

### HIGHLIGHTS

- Revenue and profit attributable to equity holders reached HK\$14.0 billion and HK\$959 million respectively, reduced by 11.9% and 40.6% respectively
- A final dividend of HK\$0.34 per share and special dividend of HK\$0.21 per share were proposed, with annual dividend of HK\$1.10 per share, dividend payment ratio is 67.5%
- As at 31 March 2016, the Group had a global network of 1,437 shops, a net growth of 54 shops

### FINANCIAL PERFORMANCE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	Y-o-Y Change
Revenue	<b>14,031,302</b>	15,922,708	-11.9%
Gross Profit	<b>3,254,111</b>	3,831,538	-15.1%
Operating Profit	<b>1,212,152</b>	1,976,211	-38.7%
Profit for the year	<b>961,454</b>	1,620,628	-40.7%
Profit Attributable to Equity Holders	<b>958,692</b>	1,614,805	-40.6%
Basic Earnings per Share	<b>HK\$1.63</b>	HK\$2.74	-40.5%
Final Dividend per Share	<b>HK\$0.34</b>	HK\$0.55	-38.2%
Special Dividend per Share	<b>HK\$0.21</b>	–	Nil
Annual Dividend per Share	<b>HK\$1.10</b>	HK\$1.10	0%
Gross Margin	<b>23.2%</b>	24.1%	-0.9 p.p.
Operating Margin	<b>8.6%</b>	12.4%	-3.8 p.p.
Net Margin	<b>6.9%</b>	10.2%	-3.3 p.p.
EBITDA	<b>1,269,037</b>	2,112,148	-39.9%

The board of directors (the “Board”) of Luk Fook Holdings (International) Limited (the “Company”) presents the consolidated annual results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2016 together with the comparative figures as follows:

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	3	14,031,302	15,922,708
Cost of sales	4	<u>(10,777,191)</u>	<u>(12,091,170)</u>
Gross profit		3,254,111	3,831,538
Other income		139,293	174,386
Selling and distribution costs		(1,981,763)	(1,937,059)
Administrative expenses		(148,818)	(147,247)
Other (losses)/gains, net	5	<u>(50,671)</u>	<u>54,593</u>
Operating profit	4	<u>1,212,152</u>	<u>1,976,211</u>
Finance income		41,725	48,874
Finance costs		<u>(13,689)</u>	<u>(20,474)</u>
Finance income, net		<u>28,036</u>	<u>28,400</u>
Share of results of associates	9	<u>(79,103)</u>	<u>(21,793)</u>
Profit before income tax		1,161,085	1,982,818
Income tax expenses	6	<u>(199,631)</u>	<u>(362,190)</u>
Profit for the year		<u>961,454</u>	<u>1,620,628</u>
Profit attributable to:			
Equity holders of the Company		958,692	1,614,805
Non-controlling interests		<u>2,762</u>	<u>5,823</u>
		<u>961,454</u>	<u>1,620,628</u>
Earnings per share for profit attributable to equity holders of the Company during the year	7		
Basic		<u>HK\$1.63</u>	<u>HK\$2.74</u>
Diluted		<u>HK\$1.63</u>	<u>HK\$2.74</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit for the year	<u>961,454</u>	<u>1,620,628</u>
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurements of employee benefit obligations	12,766	3,261
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences:		
— Group	(141,711)	(16,685)
— Associates	(12,300)	(1,312)
Revaluation of available-for-sale financial assets	<u>(3,977)</u>	<u>(4,680)</u>
Other comprehensive income for the year, net of tax	<u>(145,222)</u>	<u>(19,416)</u>
Total comprehensive income for the year	<u><u>816,232</u></u>	<u><u>1,601,212</u></u>
Attributable to:		
— Equity holders of the Company	814,594	1,595,454
— Non-controlling interests	<u>1,638</u>	<u>5,758</u>
Total comprehensive income for the year	<u><u>816,232</u></u>	<u><u>1,601,212</u></u>

## CONSOLIDATED BALANCE SHEET

As at 31 March 2016

		As at 31 March	
	Note	2016 HK\$'000	2015 HK\$'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		603,878	618,012
Land use rights		215,245	224,883
Investment properties		24,617	45,792
Interests in associates	9	154,531	245,934
Loan to an associate	10	86,911	83,160
Derivative financial instrument	11	46,135	66,735
Available-for-sale financial assets		8,767	8,820
Trading licence		1,080	1,080
Rental deposits and prepayment		121,828	128,517
Deferred income tax assets		36,770	28,025
		<u>1,299,762</u>	<u>1,450,958</u>
Current assets			
Inventories		6,344,728	7,394,696
Trade receivables	12	214,534	200,759
Deposits, prepayments and other receivables		241,752	257,701
Derivative financial instruments	11	9	5,234
Amount due from an associate	9	56,374	30,076
Loan to an associate	10	20,000	20,000
Income tax recoverable		20,155	61,686
Cash and bank balances		2,432,185	2,090,127
		<u>9,329,737</u>	<u>10,060,279</u>
Total assets		<u>10,629,499</u>	<u>11,511,237</u>

		<b>As at 31 March</b>	
		<b>2016</b>	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>EQUITY</b>			
Capital and reserves attributable to the equity holders of the Company			
Share capital	<i>13</i>	<b>58,710</b>	58,910
Share premium	<i>13</i>	<b>2,494,040</b>	2,522,983
Reserves		<b>5,798,137</b>	5,630,461
Proposed dividends		<b>322,909</b>	324,009
		<u><b>8,673,796</b></u>	<u>8,536,363</u>
Non-controlling interests		<b>95,123</b>	64,144
		<u><b>8,768,919</b></u>	<u>8,600,507</u>
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		<b>79,892</b>	85,421
Employee benefit obligations		<b>23,918</b>	34,008
		<u><b>103,810</b></u>	<u>119,429</u>
Current liabilities			
Trade payables, other payables and accruals	<i>14</i>	<b>892,459</b>	902,126
Amount due to an associate	<i>9</i>	<b>2,235</b>	1,674
Bank borrowings		<b>400,000</b>	1,470,633
Gold loans		<b>310,692</b>	242,802
Current income tax liabilities		<b>151,384</b>	174,066
		<u><b>1,756,770</b></u>	<u>2,791,301</u>
Total liabilities		<u><b>1,860,580</b></u>	<u>2,910,730</u>
Total equity and liabilities		<u><b>10,629,499</b></u>	<u>11,511,237</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Luk Fook Holdings (International) Limited (the “Company”) was incorporated in Bermuda on 3 September 1996 as a company with limited liability under the Companies Act of Bermuda. The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM 12 Bermuda.

The Company and its subsidiaries (together, the “Group”) are principally engaged in the sourcing, designing, wholesaling, trademark licensing and retailing of a variety of gold and platinum jewellery, and gem-set jewellery.

The Company’s shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 May 1997.

## 2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are carried 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.

- (a) New amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2015 and are relevant to the Group’s operations:

Amendment to HKAS 19, “Employee benefits on defined benefit plans”, this narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Annual improvements 2012, these amendments include changes from the 2010–2012 cycle of the annual improvements project that affect the below standards:

- (i) HKFRS 8, “Operating segments”, the standard is amended to require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity’s assets when segment assets are reported;
- (ii) HKAS 16, “Property, plant and equipment” and HKAS 38, ‘Intangible assets’, both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model; and
- (iii) HKAS 24, “Related party disclosures”, the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity’s employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual improvements 2013, the amendments include changes from the 2011–2013 cycle of the annual improvements project that affect the below standards:

- (i) HKFRS 3, “Business combinations”, it clarifies that HKFRS 3 does not apply to the accounting for the formation of any joint arrangement under HKFRS 11 in the financial statements of the joint arrangement;
- (ii) HKFRS 13, “Fair value measurement”, it clarifies that the portfolio exception in HKFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of HKAS 39 or HKFRS 9; and
- (iii) HKAS 40, “Investment property”, it clarifies the interrelationship between HKAS 40 and HKFRS 3 when classifying property as investment property or owner-occupied property

The adoption of these amendments to standards did not have a significant impact on the consolidated financial statements.

- (b) Certain new standards and amendments to existing standards relevant to the Group have been published that are mandatory for the Group’s accounting periods beginning on or after 1 April 2016 or later periods, which the Group has not early adopted, are as follows:

HKAS 1 Amendment	Disclosure initiative <sup>(1)</sup>
HKAS 16 and HKAS 38 Amendment	Clarification of acceptable methods of depreciation and amortisation <sup>(1)</sup>
HKAS 27 Amendment	Equity method in separate financial statements <sup>(1)</sup>
HKFRS 9	Financial instruments <sup>(2)</sup>
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the consolidation exception <sup>(1)</sup>
HKFRS 10 and HKAS 28 Amendment	Sale or contribution of assets between an investor and its associate or joint venture <sup>(4)</sup>
HKFRS 15	Revenue from contracts with customers <sup>(2)</sup>
HKFRS 16	Leases <sup>(3)</sup>
Annual Improvements Project 2014	Annual improvements 2012–2014 cycle <sup>(1)</sup>

<sup>(1)</sup> Effective for annual period beginning on or after 1 April 2016

<sup>(2)</sup> Effective for annual period beginning on or after 1 April 2018

<sup>(3)</sup> Effective for annual period beginning on or after 1 April 2019

<sup>(4)</sup> To be announced by HKICPA

- (c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

### 3. SEGMENT INFORMATION

The chief operating decision-makers (“CODM”) have been identified as the executive directors and senior management collectively. The CODM review the Group’s internal reporting in order to assess performance and allocate resources. The operating segments are reported in accordance with the internal reporting reviewed by the CODM.

CODM consider the business by nature of business activities and assesses the performance of the following operating segments:

- i. Retailing — Hong Kong, Macau and overseas
- ii. Retailing — Mainland China
- iii. Wholesaling — Hong Kong
- iv. Wholesaling — Mainland China
- v. Licensing

CODM assess the performance of the operating segments based on segment results. Finance income and costs, corporate income and expenses are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Assets of reportable segments exclude interests in associates, certain land and buildings, investment properties, deferred income tax assets and corporate assets, all of which are managed on a central basis.

Sales to external customers are stated after elimination of inter-segment sales. Sales between segments are carried out at mutually agreed terms. The revenue from external parties, assets and liabilities, reported to the CODM is measured in a manner consistent with that in the consolidated income statement and balance sheet.



Year ended 31 March 2016

	Retailing – Hong Kong, Macau and overseas HK\$'000	Retailing – Mainland China HK\$'000	Wholesaling – Hong Kong HK\$'000	Wholesaling – Mainland China HK\$'000	Licensing HK\$'000	Inter- segment elimination HK\$'000	Reportable segments Total HK\$'000
<b>Revenue</b>							
Sales to external customers	9,628,905	1,311,807	32,992	2,072,051	-	-	13,045,755
Sales of scrap gold and platinum	-	-	457,654	-	-	-	457,654
	<u>9,628,905</u>	<u>1,311,807</u>	<u>490,646</u>	<u>2,072,051</u>	<u>-</u>	<u>-</u>	<u>13,503,409</u>
Inter-segment sales	240,243	8,238	2,085,531	274,428	-	(2,608,440)	-
Sales of merchandises	9,869,148	1,320,045	2,576,177	2,346,479	-	(2,608,440)	13,503,409
Royalty and service income	-	-	-	-	511,177	-	511,177
Consultancy fee income	-	-	-	-	16,716	-	16,716
Total	<u>9,869,148</u>	<u>1,320,045</u>	<u>2,576,177</u>	<u>2,346,479</u>	<u>527,893</u>	<u>(2,608,440)</u>	<u>14,031,302</u>
<b>Results of reportable segments</b>	<u>642,129</u>	<u>79,516</u>	<u>86,567</u>	<u>195,070</u>	<u>297,797</u>	<u>-</u>	<u>1,301,079</u>
A reconciliation of results of reportable segments to profit for the year is as follows:							
<b>Results of reportable segments</b>							1,301,079
Unallocated income							67,192
Unallocated expenses							(156,119)
<b>Operating profit</b>							1,212,152
Finance income							41,725
Finance costs							(13,689)
Share of results of associates							(79,103)
<b>Profit before income tax</b>							1,161,085
Income tax expenses							(199,631)
<b>Profit for the year</b>							961,454
Non-controlling interests							(2,762)
<b>Profit attributable to equity holders of the Company</b>							<u>958,692</u>

Year ended 31 March 2016

	Retailing – Hong Kong, Macau and overseas HK\$'000	Retailing – Mainland China HK\$'000	Wholesaling – Hong Kong HK\$'000	Wholesaling – Mainland China HK\$'000	Licensing HK\$'000	Inter- segment elimination HK\$'000	Reportable segments Total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Depreciation of property, plant and equipment	(59,524)	(16,022)	(4,522)	(11,727)	(7,283)	–	(99,078)	(28,464)	(127,542)
Amortisation of land use rights	–	–	–	(445)	(6,931)	–	(7,376)	(326)	(7,702)
Depreciation of investment properties	–	–	–	–	–	–	–	(744)	(744)
Additions of non-current assets	<u>46,969</u>	<u>26,797</u>	<u>416</u>	<u>8,785</u>	<u>14,152</u>	<u>–</u>	<u>97,119</u>	<u>15,661</u>	<u>112,780</u>

As at 31 March 2016

	Retailing – Hong Kong, Macau and overseas HK\$'000	Retailing – Mainland China HK\$'000	Wholesaling – Hong Kong HK\$'000	Wholesaling – Mainland China HK\$'000	Licensing HK\$'000	Inter- segment elimination HK\$'000	Reportable segments Total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment assets	<u>5,842,188</u>	<u>1,489,006</u>	<u>742,357</u>	<u>1,923,297</u>	<u>503,053</u>	<u>(1,611,496)</u>	<u>8,888,405</u>		8,888,405
Interests in associates								154,531	154,531
Land and buildings								282,957	282,957
Investment properties								24,617	24,617
Deferred income tax assets								36,770	36,770
Income tax recoverable								20,155	20,155
Other unallocated assets								1,222,064	1,222,064
Total assets									<u>10,629,499</u>
Segment liabilities	<u>(198,364)</u>	<u>(56,873)</u>	<u>(1,584,007)</u>	<u>(286,390)</u>	<u>(293,342)</u>	<u>1,611,496</u>	<u>(807,480)</u>		(807,480)
Deferred income tax liabilities								(79,892)	(79,892)
Current income tax liabilities								(151,384)	(151,384)
Bank borrowings								(400,000)	(400,000)
Gold loans								(310,692)	(310,692)
Other unallocated liabilities								(111,132)	(111,132)
Total liabilities									<u>(1,860,580)</u>

Year ended 31 March 2015

	Retailing – Hong Kong, Macau and overseas <i>HK\$'000</i>	Retailing – Mainland China <i>HK\$'000</i>	Wholesaling – Hong Kong <i>HK\$'000</i>	Wholesaling – Mainland China <i>HK\$'000</i>	Licensing <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Reportable segments Total <i>HK\$'000</i>
<b>Revenue</b>							
Sales to external customers	11,329,725	1,221,848	97,258	2,203,661	–	–	14,852,492
Sales of scrap gold and platinum	–	–	492,463	–	–	–	492,463
	<u>11,329,725</u>	<u>1,221,848</u>	<u>589,721</u>	<u>2,203,661</u>	<u>–</u>	<u>–</u>	<u>15,344,955</u>
Inter-segment sales	93,090	5,631	3,437,945	155,677	–	(3,692,343)	–
Sales of merchandises	11,422,815	1,227,479	4,027,666	2,359,338	–	(3,692,343)	15,344,955
Royalty and service income	–	–	–	–	545,660	–	545,660
Consultancy fee income	–	–	–	–	32,093	–	32,093
Total	<u>11,422,815</u>	<u>1,227,479</u>	<u>4,027,666</u>	<u>2,359,338</u>	<u>577,753</u>	<u>(3,692,343)</u>	<u>15,922,708</u>
<b>Results of reportable segments</b>	<u>1,175,023</u>	<u>72,936</u>	<u>147,348</u>	<u>237,082</u>	<u>361,439</u>	<u>–</u>	<u>1,993,828</u>
A reconciliation of results of reportable segments to profit for the year is as follows:							
<b>Results of reportable segments</b>							1,993,828
Unallocated income							60,030
Unallocated expenses							(77,647)
<b>Operating profit</b>							1,976,211
Finance income							48,874
Finance costs							(20,474)
Share of results of associates							(21,793)
<b>Profit before income tax</b>							1,982,818
Income tax expenses							(362,190)
<b>Profit for the year</b>							1,620,628
Non-controlling interests							(5,823)
<b>Profit attributable to equity holders of the Company</b>							<u>1,614,805</u>

Year ended 31 March 2015

	Retailing – Hong Kong, Macau and overseas HK\$'000	Retailing – Mainland China HK\$'000	Wholesaling – Hong Kong HK\$'000	Wholesaling – Mainland China HK\$'000	Licensing HK\$'000	Inter- segment elimination HK\$'000	Reportable segments Total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Depreciation of property, plant and equipment	(65,631)	(17,748)	(7,864)	(20,448)	(10,009)	–	(121,700)	(25,066)	(146,766)
Amortisation of land use rights	–	–	–	(460)	(8,865)	–	(9,325)	(336)	(9,661)
Depreciation of investment properties	–	–	–	–	–	–	–	(1,303)	(1,303)
Additions of non-current assets	<u>66,471</u>	<u>16,027</u>	<u>9,852</u>	<u>24,189</u>	<u>6,917</u>	<u>–</u>	<u>123,456</u>	<u>302,340</u>	<u>425,796</u>

As at 31 March 2015

	Retailing – Hong Kong, Macau and overseas HK\$'000	Retailing – Mainland China HK\$'000	Wholesaling – Hong Kong HK\$'000	Wholesaling – Mainland China HK\$'000	Licensing HK\$'000	Inter- segment elimination HK\$'000	Reportable segments Total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment assets	<u>6,365,889</u>	<u>1,471,458</u>	<u>1,185,377</u>	<u>1,694,687</u>	<u>419,277</u>	<u>(1,595,376)</u>	<u>9,541,312</u>		9,541,312
Interests in associates								245,934	245,934
Land and buildings								270,944	270,944
Investment properties								45,792	45,792
Deferred income tax assets								28,025	28,025
Income tax recoverable								61,686	61,686
Other unallocated assets								<u>1,317,544</u>	<u>1,317,544</u>
Total assets									<u>11,511,237</u>
Segment liabilities	<u>(215,260)</u>	<u>(11,859)</u>	<u>(1,612,381)</u>	<u>(281,314)</u>	<u>(290,101)</u>	<u>1,595,376</u>	<u>(815,539)</u>		(815,539)
Deferred income tax liabilities								(85,421)	(85,421)
Current income tax liabilities								(174,066)	(174,066)
Bank borrowings								(1,470,633)	(1,470,633)
Gold loans								(242,802)	(242,802)
Other unallocated liabilities								<u>(122,269)</u>	<u>(122,269)</u>
Total liabilities									<u>(2,910,730)</u>

The Group's revenues are mainly derived from Hong Kong customers, Mainland China visitors to Hong Kong and Macau and Mainland China customers. An analysis of the Group's revenue by location in which the transaction took place is as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Hong Kong	<b>8,218,304</b>	9,513,081
Mainland China	<b>3,911,751</b>	4,003,262
Macau and overseas	<b>1,901,247</b>	2,406,365
	<b><u>14,031,302</u></b>	<u>15,922,708</u>

An analysis of the Group's non-current assets (other than deferred income tax assets, available-for-sale financial assets, derivative financial instrument, rental deposits and prepayment and loan to an associate) by location of assets is as follows:

	2016				2015			
	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Macau and overseas <i>HK\$'000</i>	Total <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Macau and overseas <i>HK\$'000</i>	Total <i>HK\$'000</i>
Property, plant and equipment	371,080	214,168	18,630	603,878	369,417	222,088	26,507	618,012
Land use rights	-	215,245	-	215,245	-	224,883	-	224,883
Investment properties	16,835	7,782	-	24,617	37,309	8,483	-	45,792
Interests in associates	154,531	-	-	154,531	245,934	-	-	245,934
Trading licence	1,080	-	-	1,080	1,080	-	-	1,080
	<b><u>543,526</u></b>	<b><u>437,195</u></b>	<b><u>18,630</u></b>	<b><u>999,351</u></b>	<b><u>653,740</u></b>	<b><u>455,454</u></b>	<b><u>26,507</u></b>	<b><u>1,135,701</u></b>

#### 4 OPERATING PROFIT

The operating profit is stated after charging the following:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of sales		
— cost of inventories sold ( <i>Note</i> )	10,554,456	11,887,329
— cost of licensing business ( <i>Note</i> )	222,735	203,841
	<u>10,777,191</u>	<u>12,091,170</u>
Staff costs (including the directors' emoluments)	716,258	747,560
Operating lease		
— minimum lease payments	647,484	587,003
— contingent rents	134,865	151,266
Commission expenses to credit card companies	111,797	131,339
Depreciation of property, plant and equipment	127,542	146,766
Depreciation of investment properties	744	1,303
Amortisation of land use rights	7,702	9,661
Loss on disposal of property, plant and equipment	994	755
Auditor's remuneration	5,145	5,040
	<u>5,145</u>	<u>5,040</u>

*Note:* Cost of inventories sold and cost of licensing business include staff costs (including the directors emoluments) of HK\$276,263,000 (2015: HK\$269,776,000).

#### 5 OTHER (LOSSES)/GAINS, NET

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net realised (losses)/gains on derivative financial instruments	(6,716)	12,974
Fair value losses on derivative financial instruments	(5,225)	—
Fair value (losses)/gains on convertible bond	(20,600)	9,655
Net realised (losses)/gains on gold loans	(3,577)	14,874
Net unrealised (losses)/gains on gold loans	(4,029)	8,687
Net realised losses on foreign exchange forward contracts	(12,650)	—
Net exchange gains	2,126	9,222
Others	—	(819)
	<u>(50,671)</u>	<u>54,593</u>

## 6 INCOME TAX EXPENSES

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) 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.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current taxation:		
— Hong Kong profits tax	91,355	149,802
— overseas taxation	122,797	173,054
— (over)/under-provision in prior years	(247)	2,520
Deferred income tax	(14,274)	36,814
	<u>199,631</u>	<u>362,190</u>

## 7 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\$958,692,000 (2015: HK\$1,614,805,000) and the weighted average number of 588,636,276 (2015: 589,107,850) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 March 2016 and 2015 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

## 8 DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
2015/16 interim, paid, of HK\$0.315 (2014/15 interim: HK\$0.55) per ordinary share	185,569	324,009
2015/16 special dividend, paid, of HK\$0.235 (2014/15 special: Nil) per ordinary share	138,440	—
	<u>324,009</u>	<u>324,009</u>
2015/16 final, proposed, of HK\$0.34 (2014/15 final: HK\$0.55) per ordinary share ( <i>Note</i> )	199,617	324,009
2015/16 special dividend, proposed, of HK\$0.21 (2014/15 special: Nil) per ordinary share ( <i>Note</i> )	123,292	—
	<u>322,909</u>	<u>324,009</u>

*Note:* At a meeting held on 23 June 2016, the directors recommended the payment of a final dividend of HK\$0.34 per ordinary share and a special dividend of HK\$0.21 per ordinary share, totalling HK\$0.55. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company on 17 August 2016. This proposed dividend is not reflected as dividends payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2017.

## 9 INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets, as at 1 April	<b>245,934</b>	7,046
Acquisition ( <i>Note i</i> )	–	244,810
Subscription of CGS Share Option ( <i>Note ii</i> )	–	(5,234)
Effect of shareholder's loan ( <i>Note 10</i> )	–	19,793
Share of results of associates	<b>(79,103)</b>	(21,793)
Share of reserve movement of associates for the year	<b>(12,300)</b>	1,312
	<hr/> <b>154,531</b> <hr/>	<hr/> 245,934 <hr/>
Share of net assets, as at 31 March		
	<b>56,374</b>	30,076
Amount due from an associate ( <i>Note iii</i> )	<hr/> <b>56,374</b> <hr/>	<hr/> 30,076 <hr/>
	<b>(2,235)</b>	(1,674)
Amount due to an associate ( <i>Note iii</i> )	<hr/> <b>(2,235)</b> <hr/>	<hr/> (1,674) <hr/>

Particulars of the associates of the Group as at 31 March 2016 are as follows:

Name	Place of incorporation	Particulars of issued share capital	% of attributable interests held indirectly		Principal activities
			2016	2015	
Luk Fook Diamond Company Limited	Hong Kong	HK\$6,120,000	50%	50%	Manufacturing and wholesale of diamond products
China Gold Silver Group Company Limited (“CGS”)	The British Virgin Islands (“BVI”)	US\$3,334	50%	50%	Retailing and franchising operations of gold and jewellery products in Hong Kong, Macau and Mainland China

*Notes:*

- (i) On 6 June 2014, the Company purchased a 50% shareholding in CGS, a wholly-owned subsidiary of Hong Kong Resources Holdings Limited (“HKRH”) which is engaged in the retailing and franchising operations of gold and jewellery products in Hong Kong, Macau and Mainland China under the brand name “3D-GOLD”, at a consideration of approximately HK\$245 million (the “Acquisition”).

The Group accounts for its holding of CGS as investment in an associated company using equity accounting method.



- (ii) Prior to the Acquisition, CGS issued to a third party a convertible bond in the principal amount of US\$5 million (equivalent to HK\$39 million) (“the MGIL CGS CB”). If the MGIL CGS CB is exercised by its holder, the Company’s equity interest in CGS will be diluted.

In order to maintain at least 50% ownership of CGS, the Company subscribed for a CGS Share Option (“CGS Share Option”) for US\$1. The exercise price of the CGS Share Option is US\$5 million at a rate of US\$24,390 per CGS conversion share.

The exercise period is from the date of issue to 3 months after (i) 15 January 2018 or (ii) the date as extended once by one year by mutual agreement.

As the CGS Share Option is negotiated as part of the Acquisition, the fair value of the CGS Share Option at its date of subscription is deducted from the initial investment consideration for the Acquisition at date of completion of the Acquisition.

The CGS Share Option was initially recognised at HK\$5,234,000 and was assessed by an independent valuer using the Trinomial Option Pricing Model at the date of completion of the Acquisition. The CGS Share Option was subsequent revalued to HK\$9,000 (Note 11) and the fair value loss of HK\$5,225,000 (2015: Nil) was included under “Other (losses)/gains, net” in the consolidated income statement for the year ended 31 March 2016.

No revaluation was performed for the year ended 31 March 2015 as the directors consider any change from the date of completion of Acquisition to the year ended 31 March 2015 was not material.

- (iii) Amount due from an associate of HK\$56,374,000 (2015: HK\$30,076,000) represents trade receivables due from the company.

Amount due from/(to) associates are denominated in HK\$ and are unsecured, interest-free and repayable on demand.

- (iv) The Group’s associates did not have any significant capital commitments as at 31 March 2016 and 2015.

## **10 LOAN TO AN ASSOCIATE**

Loan to an associate included under non-current assets:

In connection with the Acquisition, both of the Company and HKRH agreed each to provide funding of HK\$100,000,000 to CGS by way of shareholder loan for general working capital and business expansion purpose.

The shareholder loan is unsecured, interest-free and not to be repaid within one year after the end of the reporting period.

The difference between the nominal value of the loan and its fair value of HK\$80,207,000 at the time of the acquisition amounting to HK\$19,793,000 is regarded as part of the cost of the investment in CGS (Note 9).

Loan to an associate included under current assets:

On 4 May 2015, the Group and HKRH agreed each to provide a short term shareholder loan of HK\$20,000,000 to CGS. The short term shareholder loan is interest bearing at 2% per annum and repayable on 4 May 2016. The short term shareholder loan was rolled-over for one year subsequent to the balance sheet date.

## 11 DERIVATIVE FINANCIAL INSTRUMENT

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current portion</b>		
Convertible bond ( <i>Note i</i> )	46,135	66,735
<b>Current portion</b>		
CGS Share Option ( <i>Note 9(ii)</i> )	9	5,234
	<u>46,144</u>	<u>71,969</u>

*Notes:*

- (i) On 6 June 2014, the Company subscribed a convertible bond of HKRH of HK\$57,080,000 with 3% interest rate per annum and 5 years of maturity from the date of issuance. The conversion period commences on the 2nd anniversary of the issue date and expires on the date which is three days before its maturity.

The convertible bond comprises a loan receivable component and option component which together have been designated as derivative financial instrument by the Company. The convertible bond was initially recognised at HK\$57,080,000 and subsequently revalued to HK\$46,135,000 at year end (2015: HK\$66,735,000).

The fair value loss of HK\$20,060,000 (2015: fair value gain of HK\$9,655,000) was included under “Other (losses)/gains, net” in the consolidated income statement for the year ended 31 March 2016.

## 12 TRADE RECEIVABLES

The Group's sales to retail customers comprised mainly cash sales and credit card sales. Concessionaire sales through department stores and sales to wholesale customers are generally on credit terms ranging from 0 to 90 days.

The ageing of trade receivables is as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–30 days	<b>148,719</b>	145,674
31–60 days	<b>52,730</b>	49,004
61–90 days	<b>12,121</b>	2,163
91–120 days	<b>36</b>	1,033
Over 120 days	<b>928</b>	2,885
	<u><b>214,534</b></u>	<u>200,759</u>

The carrying amounts of trade receivables approximate their fair values.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
HK\$	<b>15,242</b>	24,750
RMB	<b>193,259</b>	161,040
MOP	<b>5,314</b>	12,912
Other currencies	<b>719</b>	2,057
	<u><b>214,534</b></u>	<u>200,759</u>

The credit quality of trade receivables has been assessed by reference to historical default rate of the counterparty. The existing counterparties have not defaulted in the past.

As at 31 March 2016, trade receivables of HK\$964,000 (2015: HK\$3,918,000) were past due but not considered impaired, all of which were aged over 90 days.

### 13 SHARE CAPITAL AND SHARE PREMIUM

#### (a) Share capital

	2016		2015	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each	<u>800,000,000</u>	<u>80,000</u>	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.1 each	<u>587,107,850</u>	<u>58,710</u>	<u>589,107,850</u>	<u>58,910</u>

#### (b) Share premium

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March	<u>2,494,040</u>	<u>2,522,983</u>

A summary of movements in the Company's issued share capital, share premium and capital redemption reserve is as follows:

	Number of shares in issue	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>
As at 1 April 2014	<u>589,107,850</u>	<u>58,910</u>	<u>2,522,983</u>	<u>–</u>
At 31 March 2015 and 1 April 2015	589,107,850	58,910	2,522,983	–
Repurchases of shares ( <i>Note</i> )	<u>(2,000,000)</u>	<u>(200)</u>	<u>(28,943)</u>	<u>200</u>
At 31 March 2016	<u>587,107,850</u>	<u>58,710</u>	<u>2,494,040</u>	<u>200</u>

*Note:*

The Company purchased 2,000,000 of its shares on Stock Exchange at a total consideration of HK\$29,143,000. All the repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium paid on repurchase was charged against the share premium of the Company. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

## 14 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	246,076	217,909
Deposits from customers and licensees	297,397	333,236
Salaries and welfare payables	154,873	181,537
Other payables	142,359	104,720
Accrued expenses	51,754	64,724
	<u>892,459</u>	<u>902,126</u>

The ageing of trade payables is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0–30 days	150,510	171,675
31–60 days	81,445	41,532
61–90 days	9,512	3,395
91–120 days	4,583	1,285
Over 120 days	26	22
	<u>246,076</u>	<u>217,909</u>

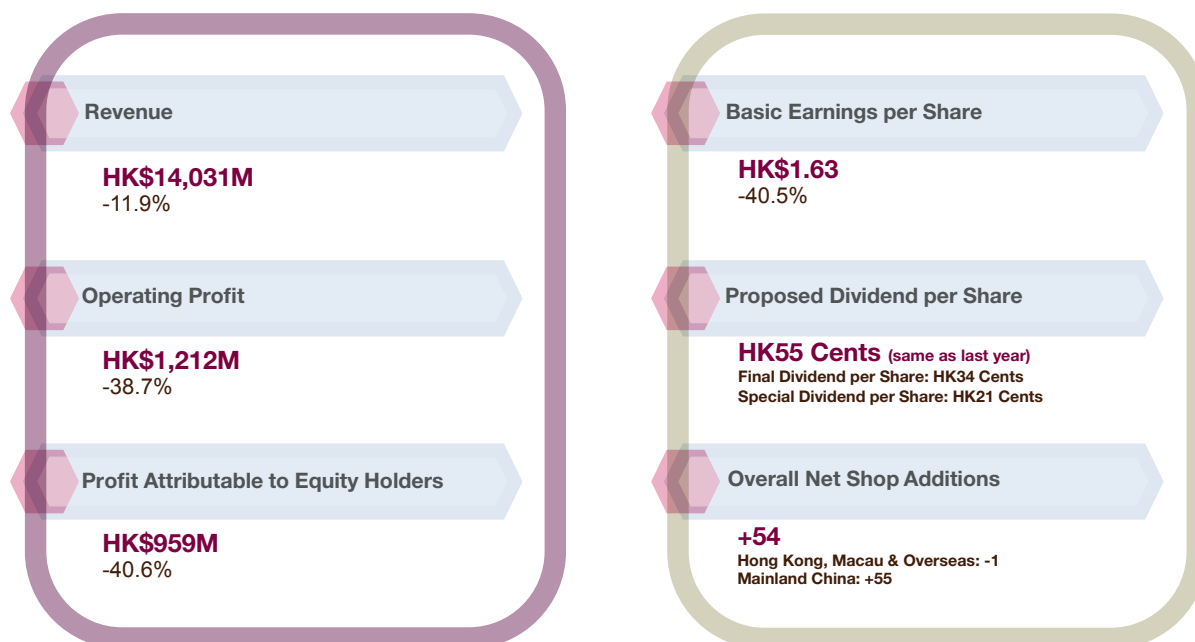
The carrying amounts of trade payables and other payables approximate their fair values.

The carrying amounts of the Group's trade payables, other payables and accruals are denominated in the following currencies:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
HK\$	338,477	333,606
RMB	442,575	421,788
US\$	73,386	100,878
MOP	35,235	43,307
Other currencies	2,786	2,547
	<u>892,459</u>	<u>902,126</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

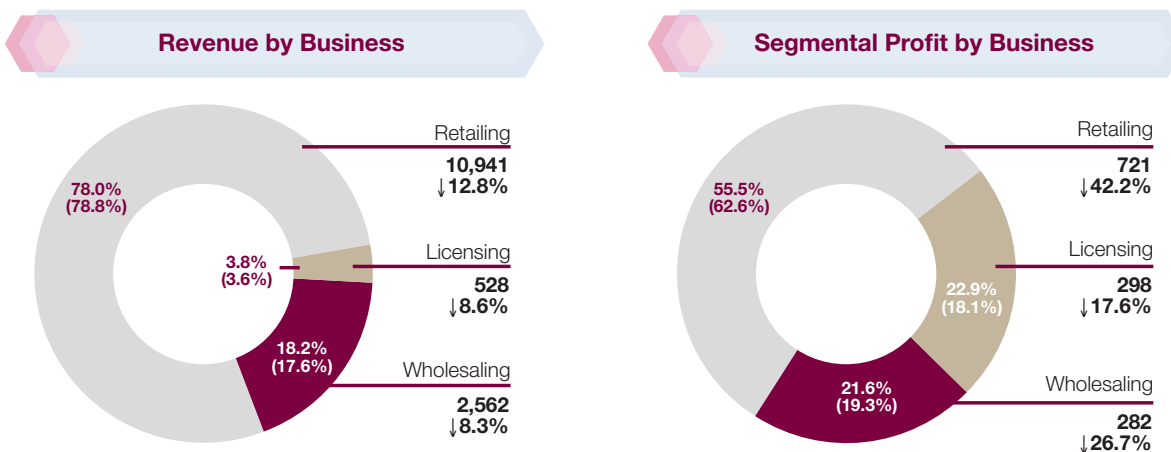


### Results

For the year ended 31 March 2016 (the “Year under review”), given the macro-economic downturn, anticipated interest hike of US Dollar leading to strong Hong Kong Dollar and weak Renminbi as well as the currency devaluation in popular tourist destinations such as Japan, Korea and other Southeast Asian countries, together with the adjustment to the Individual Visiting Scheme in Mainland China (the “IVS”), tourist sentiment on travelling to Hong Kong and Macau dampened. Besides, consumer sentiment remained weak under the slowing economic growth in Mainland China. Consequently, during the Year under review, Luk Fook Holdings (International) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded revenue drop of 11.9% to HK\$14,031,302,000 (2015: HK\$15,922,708,000). Furthermore, because of the adjustment of retail price to cope with market price changes of diamond, gross margin of gem-set jewellery products decreased, resulted in overall gross margin drop of 0.9 p.p. to 23.2% (2015: 24.1%). Gross profit decreased by 15.1% to HK\$3,254,111,000 (2015: HK\$3,831,538,000). In addition, as it is common for rental adjustments to lag behind, the rental cost still recorded single-digit growth even when the revenue decreased, which caused the total operating expenses to increase by 2.2% and its ratio to revenue increased to 15.2% (2015: 13.1%). Moreover, the profit derived from the investments and operating activities in relation to HKRH and its subsidiaries turned into a loss during the Year under review. The operating profit therefore decreased by 38.7% to HK\$1,212,152,000 (2015: HK\$1,976,211,000) and the operating margin was 8.6% (2015: 12.4%). With a net margin of 6.9% (2015: 10.2%), the profit attributable to equity holders decreased by 40.6% to HK\$958,692,000 (2015: HK\$1,614,805,000). Basic earnings per share were HK\$1.63 (2015: HK\$2.74).

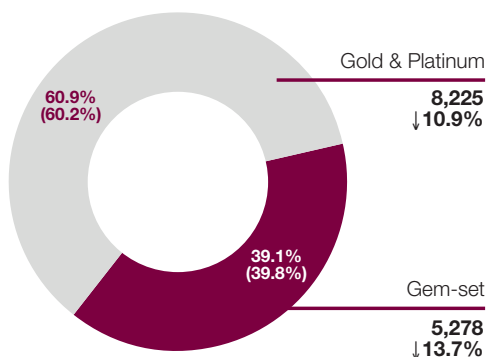
## Overview

During the Year under review, the Group added a net total of 54 new shops worldwide, including a net addition of 46 Lukfook shops (among them were 20 licensed shops and 26 self-operated shops) in Mainland China and 9 3D-GOLD self-operated shops through the new joint venture (of which the Group held 51% equity) with a licensee in Mainland China. The Group reduced 1 self-operated Lukfook shop in Hong Kong and opened a new one in Canada while closing the licensed shop in Korea temporarily, pending for relocation. As at 31 March 2016, the Group had a global network of 1,437 (2015: 1,383) shops, including 1,428 (2015: 1,383) Lukfook shops, spanning over in Mainland China, Hong Kong, Macau, Singapore, the United States, Canada and Australia, and operated 9 3D-GOLD shops (2015: Nil) in Mainland China, representing a step forward in the execution of our dual-brand strategy.



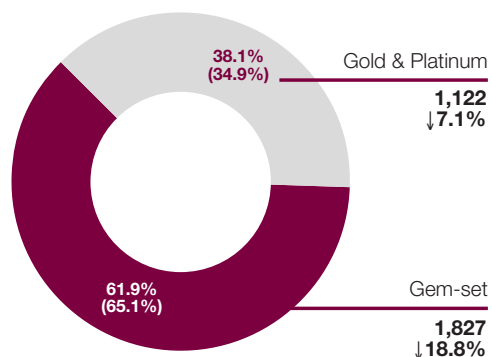
The retail business continued to be the primary revenue source for the Group with its revenue declined by 12.8% to HK\$10,940,712,000 (2015: HK\$12,551,573,000), accounting for 78.0% (2015: 78.8%) of the Group's total revenue. Its segmental profit dropped by 42.2% to HK\$721,645,000 (2015: HK\$1,247,959,000), representing 55.5% (2015: 62.6%) of the total. Its segmental profit margin was 6.6% (2015: 9.9%). The wholesale business revenue decreased by 8.3% over the previous year to HK\$2,562,697,000 (2015: HK\$2,793,382,000), accounting for 18.2% (2015: 17.6%) of the Group's total revenue. Its segmental profit dropped by 26.7% to HK\$281,637,000 (2015: HK\$384,430,000), representing 21.6% (2015: 19.3%) of the total, while its segmental profit margin was 11.0% (2015: 13.8%). Licensing income decreased by 8.6% to HK\$527,893,000 (2015: HK\$577,753,000), accounting for 3.8% (2015: 3.6%) of the Group's total revenue. Its segmental profit dropped by 17.6% to HK\$297,797,000 (2015: HK\$361,439,000), representing 22.9% (2015: 18.1%) of the total, while its segmental profit margin was 56.4% (2015: 62.6%).

### Sales<sup>1</sup> by Product



<sup>1</sup> Sales = Revenue – Licensing Income

### Gross Profit<sup>2</sup> by Product



<sup>2</sup> Gross Profit = Consolidated Gross Profit – Gross Profit of Licensing Income

Gold products remained the most favourite item among customers and together with platinum products, their revenue decreased by 10.9% (2015: -26.1%) to HK\$8,225,319,000 (2015: HK\$9,231,225,000), accounting for 60.9% (2015: 60.2%) of overall sales (Group revenue minus licensing income). Although there was a slight increase in gross margin of gold products to 13.6% (2015: 13.1%), gross profit of gold and platinum products dropped by 7.1% to HK\$1,122,157,000 (2015: HK\$1,207,811,000), accounting for 38.1% (2015: 34.9%) of overall gross profit (consolidated gross profit of the Group minus gross profit of licensing income). Sales of gem-set jewellery products dropped by 13.7% to HK\$5,278,090,000 (2015: HK\$6,113,730,000), accounting for 39.1% (2015: 39.8%) of overall sales. Because of the adjustment of retail price in response to the changes in diamond market price, gross margin of gem-set jewellery products dropped by 2.2 p.p. to 34.6% (2015: 36.8%), while its gross profit decreased by 18.8% to HK\$1,826,796,000 (2015: HK\$2,249,815,000), accounting for 61.9% (2015: 65.1%) of overall gross profit.

During the Year under review, the overall same store sales growth\* (“SSSG”) of the Group was -19.3% (2015: -28.3%). SSSG for the Hong Kong and Macau market was -20.1% (2015: -28.2%) and that for the Mainland China market was -8.2% (2015: -29.8%). The SSSG for gold and platinum products was -16.7% (2015: -34.3%) and that for gem-set jewellery products was -24.1% (2015: -13.8%).

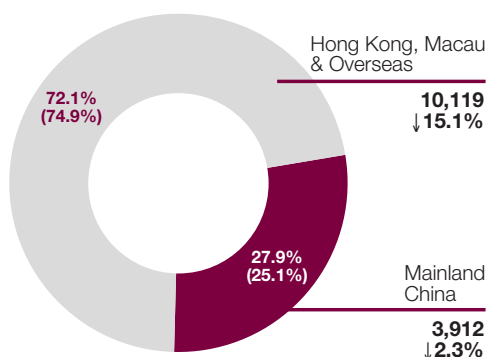
The Group has been striving to diversify its product mix to offer customers with more choices. Since 2010, the Group has been endeavouring to expand the mid-to-high-end watch business. As at 31 March 2016, the Group was the authorized dealer of 34 watch brands, including ARNOLD & SON, AUDEMARS PIGUET, BALL and its BALL for BMW series, BALMAIN, BULOVA, BURBERRY, BVLGARI, CERTINA, COINWATCH, CORUM, DOXA, EMILE CHOURIET, EMPORIO ARMANI, ENICAR, ERNEST BOREL, ETERNA, FREDERIQUE CONSTANT, GRONFELD, HAMILTON, H. MOSER & CIE, LONGINES, LOUIS ERARD, LUDOVIC BALLOUARD, MAURICE LACROIX, MIDO, OMEGA, ORIS, RADO, ROMAGO SWISS, TAG HEUER, TISSOT, URWERK, VICTORIONX SWISS ARMY and ZENITH. For the Year under review, the watch business contributed a revenue of HK\$247,843,000 (2015: HK\$320,444,000), representing 1.8% (2015: 2.0%) of the Group’s total revenue with 22.7% decrease when compared with last year.

\* Same store sales growth represented a comparison of sales of the same self-operated shop having full day operations in the comparable periods and such data did not include sales of licensed shops and Mainland China’s e-commerce business.

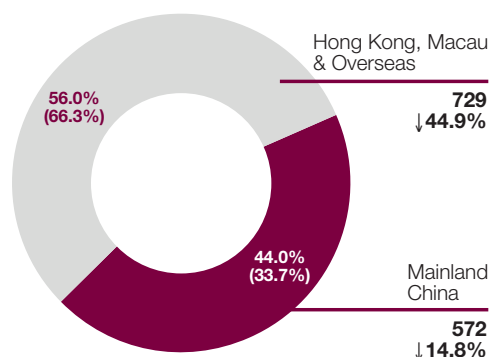


## BUSINESS REVIEW

### Revenue by Market



### Segmental Profit by Market



### Hong Kong, Macau and Overseas

#### *Hong Kong*

The Hong Kong market remained the key source of revenue for the Group. Mainland Chinese visitors had been the major driver for the retail business growth in Hong Kong for the past few years. However, due to the slowing economic growth in Mainland China, the adjustment to the IVS and the growing popularity of other travel destinations under currency devaluation, there was a trend of shorter stay period and reduced spending on luxury items in Hong Kong by Mainland tourists. In light of gloomy macro-economic situation and reduced spending power of consumers, per capita spending by Mainland Chinese visitors was declining. According to statistics on visitor arrivals published by the Hong Kong Tourism Board (the “HKTB”) in January 2016, visitor arrivals from Mainland China in 2015 decreased by 3% over the previous year and reached approximately 45.84 million. According to the visitor arrival statistics published by the HKTB in March 2016, the number of Mainland arrivals under the IVS decreased by 26% from 3.05 million in January 2015 to 2.27 million in December 2015. In respect of tourist spending, according to the figures on retail sales released by the Census and Statistics Department in February 2016, the value of sales of jewellery, watches and clocks, and valuable gifts in 2015 decreased by 15.6% when compared to 2014. Due to the impact of overall market performance, the Group’s retail revenue in Hong Kong decreased by 13.4% to HK\$7,727,658,000 (2015: HK\$8,923,360,000). The revenue of the wholesale business generated from the Hong Kong market decreased by 16.8% to HK\$490,646,000 (2015: HK\$589,721,000) due to the drop in scrap gold and platinum sales and sales to 3D-GOLD shops operated by CGS. As at 31 March 2016, the Group operated a total of 47 self-operated shops (2015: 48) in Hong Kong, 1 shop less than the previous year.

## *Macau*

The performance of Macau market was even worse than that of Hong Kong. According to the tourism statistics published by the Statistics and Census Service of the Macau Special Administrative Region, visitor arrivals slightly decreased by 2.6% in 2015 to 30.71 million, but gross domestic product of Macau decreased by 20.3% over last year. According to figures from the Macau Government Tourist Office of the Macau Special Administrative Region, visiting tourists' per capita spending on jewellery and watches substantially decreased by 59.3% from MOP214 in 2014 to MOP87 in 2015. Therefore, the Group's revenue generated from the Macau market decreased by 22.3% to HK\$1,758,769,000 (2015: HK\$2,264,882,000). As at 31 March 2016, the Group had a total of 10 (2015: 10) self-operated shops in Macau.

## *Overseas*

Adhering to its motto "Brand of Hong Kong, Sparkling the World", the Group has been seeking opportunities all over the world in recent years. During the Year under review, the Group opened its second self-operated shop in Canada and temporarily closed its licensed shop in Korea pending for relocation. As at 31 March 2016, the Group has a total of 6 overseas shops (2015: 5), including 1 in Singapore, 2 in the United States, 2 in Canada and 1 in Australia.

The revenue of the Hong Kong, Macau and overseas markets amounted to HK\$10,119,551,000 (2015: HK\$11,919,446,000), accounting for 72.1% (2015: 74.9%) of the Group's total revenue. Due to the drop in sales in the Hong Kong and Macau market and the decline in gross margin of gem-set jewellery products, together with the continuing rental rise, the segmental profit of the Hong Kong, Macau and overseas markets declined by 44.9% to HK\$728,696,000 (2015: HK\$1,322,371,000), accounting for 56.0% (2015: 66.3%) of the total. Their segmental profit margin was 7.2% (2015: 11.1%).

The SSSG for gold and platinum products of Hong Kong, Macau and overseas markets was -16.9% (2015: -34.2%) and that for gem-set jewellery products was -25.5% (2015: -14.9%).

## **Mainland China**


During the Year under review, retail revenue from the Mainland China market increased by 7.4% to HK\$1,311,807,000 (2015: HK\$1,221,848,000) due to the increase in the number of self-operated shops. The SSSG for gold and platinum products of Mainland China was -12.8% (2015: -35.8%) and that for gem-set jewellery products was +8.7% (2015: +10.5%).

The revenue of the wholesale business generated from the Mainland China market fell by 6.0% to HK\$2,072,051,000 (2015: HK\$2,203,661,000) mainly because of the decrease in the number of new licensed shops, while the licensing income reduced by 8.6% to HK\$527,893,000 (2015: HK\$577,753,000).

As at 31 March 2016, the Group had 105 self-operated shops (2015: 79) and 1,260 licensed shops (2015: 1,240), totalling 1,365 shops (2015: 1,319) under the “Lukfook” brand name in Mainland China. During the Year under review, the Group had a net increase of 20 licensed shops (2015: 115 shops) and 26 self-operated Lukfook shops (2015: -4 shops) there. 14 of the new self-operated shops were opened by a joint venture (of which the Group held 51% equity) established with a licensee. Apart from that, 9 self-operated 3D-GOLD shops were also opened in Mainland China by the same joint venture during the Year under review, furthering the development of the Group’s dual-brand strategy.

During the Year under review, revenue from the Mainland China market decreased by 2.3% to HK\$3,911,751,000 (2015: HK\$4,003,262,000), accounting for 27.9% (2015: 25.1%) of the Group’s total revenue. Its segmental profit declined by 14.8% to HK\$572,383,000 (2015: HK\$671,457,000), accounting for 44.0% (2015: HK\$33.7%) of the total and its segmental profit margin was 14.6% (2015: 16.8%).

### Financial Impact in relation to Investments and Operating Activities in HKRH & Its Subsidiaries

 Profit/(Loss)			
HK\$M	FY2016	FY2015	Y-o-Y Change
50% Share of Results of Associate	(81)	(23)	(58)
Valuation (Loss)/Gain on Convertible Bond	(21)	10	(31)
Wholesale Gross Profit	13	14	(1)
Fair Value Devaluation of Option	(5)	–	(5)
Interest Income on Working Capital Loan	4	3	1
Interest Income on Convertible Bond	2	1	1
<b>Total</b>	<b>(88)</b>	<b>5</b>	<b>(93)</b>

The financial impact of investments and operating activities in HKRH and its subsidiaries during the Year under review turned from a profit into a loss of HK\$88,000,000 (2015: HK\$5,000,000 profit).

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 31 March 2016, the Group's cash and bank balances were approximately HK\$2,432,000,000 (2015: HK\$2,090,000,000). The Group's net gearing ratio at the year-end was 0% (2015: 0%), which was concluded by using the ratio of total bank borrowings and gold loans of approximately HK\$711,000,000 (2015: HK\$1,713,000,000) less cash and bank balances against total shareholders' equity of approximately HK\$8,674,000,000 (2015: HK\$8,536,000,000). Net cash was approximately HK\$1,721,000,000 (2015: HK\$377,000,000). The debt-to-equity ratio was approximately 21.5% (2015: 34.1%), being the ratio of total liabilities of approximately HK\$1,861,000,000 (2015: HK\$2,911,000,000) against total shareholders' equity of approximately HK\$8,674,000,000 (2015: HK\$8,536,000,000). The Group's income and expenditure streams are mainly denominated in Hong Kong dollars.

### Inventory

#### Inventory Turnover Days by Product

	FY2016	FY2015
Gold	119	104
Gem-set	469	412
Overall	238	209

As at 31 March 2016, with proactive inventory control under the declining sales trend in the bleak economic condition, the Group's inventory balance therefore dropped by 14.2% to approximately HK\$6,345,000,000 (2015: HK\$7,395,000,000). The average inventory turnover days were 238 days (2015: 209 days) with inventory turnover days of gold products being 119 days (2015: 104 days) and that of gem-set jewellery products being 469 days (2015: 412 days).

### Capital Expenditure

During the Year under review, the Group incurred capital expenditures of approximately HK\$113,000,000 (2015: HK\$255,000,000), including the costs of properties, leasehold lands, land use rights, leasehold improvements, furniture, fixtures and equipments.

### Capital Commitments

As at 31 March 2016, the Group had total capital commitments of approximately HK\$12,000,000 (2015: HK\$10,000,000).

## **Contingent Liabilities**

As at 31 March 2016, the Group had outstanding financial guarantees amounting to approximately HK\$673,000,000 (2015: HK\$780,000,000) issued to several banks in respect of banking facilities granted to an associate.

## **Human Capital Policy**

As at 31 March 2016, the number of employees of the Group was approximately 7,100 (2015: 6,900). The increase in headcount was mainly because of increased number of self-operated shops in Mainland China. Remuneration policies were reviewed and approved by the management regularly to ensure fair rewards and compensation for employees. Remuneration packages were structured to be comparable to the market while bonuses and other merit payments were linked to the performances of the Group and the employees. Such a reward system aims to use financial incentives to motivate employees to act in alignment with the Group's business performance objectives.

## **BRANDING**

In order to align with the branding theme of "Love is Beauty", the Group has been building a brand image that is welcoming and warm-hearted, and strengthening customers' emotional attachment to the brand through outstanding marketing campaigns and excellent customer service programmes. The Group launched a new TV commercial and a series of promotional activities during the Year under review to extend the legend of "Love is Beauty", further enhance Lukfook's brand awareness and strengthen Lukfook Jewellery's leading position in the retail sector. Apart from good use of traditional promotion platforms, the Group also captured the trend of rapid growth in Internet usage to place advertisements on major social media platforms, portals and video websites and organised different types of promotional campaigns to intensify our brand exposure and focus on our targeted audience more precisely, as well as enable the Group's distinctive image to take root in people's minds.

The Group's tireless efforts in brand building have been well-received by the industry and the market. During the Year under review, the Group received numerous awards and recognition in branding, corporate management, service quality, community welfare and environmental protection, including the "2015 Hong Kong Top Service Brand Ten Year Achievement Award" in the "Hong Kong Top Service Brand Awards" by the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong, in recognition of the Group's outstanding performance in providing quality products and caring service for customers worldwide.

## OUTLOOK



The ongoing uncertainties in global economy, the slowing economic growth in Mainland China, the adjustment to the IVS, the currency devaluation and relaxed visa requirements in other destinations under the backdrop of strong Hong Kong Dollar and weak Renminbi, all adversely affected the Group's retail business. Therefore, the Group remains prudent about the business growth in the near term. Nevertheless, the Group is still optimistic about the mid- to long- term business prospect and will endeavour to uphold the Group's business with strategies on three focuses including product, China and branding via product offering enrichment, China focus network expansion and market oriented strategies, respectively, in the coming year.

### *Product Focus*

It was stated at the Fifth Plenary Session of the Eighteenth Central Committee of the Communist Party of China that China would maintain medium to high economic growth during the Thirteenth Five-Year Plan period (2016–2020) and that China would double its 2010 GDP and per capita income of urban and rural residents by 2020 as planned to build China into a moderately prosperous society in all respects. It is thus clear that the Central Government will continue to actively promote economic development and raise the income of residents. In the long run, the middle-class population will increase substantially, which is conducive to the development of the gold and gem-set jewellery market. Moreover, with the implementation of the two-child policy, demand for luxury products for kids will increase gradually too. Accordingly, the Group will offer more fashionable yet affordable products to cater for the trend of trading down consumption and target at the mass market covering middle-class customers, working groups as well as kids market.

### *China Focus*

Given the weak sentiment in the Hong Kong retail sector, the Group will optimise the retail network in Hong Kong by adding points of sale at residential areas in response to the better sales performance of the shops in these areas while reducing shops at prime locations with unsatisfactory performance. On the other hand, with the considerable growth of middle-class population, the Group will focus its market coverage enlargement in Mainland China. As the market in the first-tier cities has become saturated after years of development, the Group will continue to accelerate the expansion into the sub second-tier cities by leveraging on the joint venture business model with certain licensees and dual-brand strategy advantages. The Group will add not less than 50 shops in the coming year so as to establish a sound retail network to increase market share.

The Group will also continue to develop e-commerce business and to further strengthen cooperation with e-commerce platforms in Mainland China. During the Year under review, in addition to the 9 online sales platforms, including Tmall.com, JD.com and Suning.com, the Group has established presence in 5 more online sales platforms. The Group targets to grow e-commerce business revenue by 50% in the coming year.

### *Branding Focus*

The Group will also adopt a holistic approach to penetrate into middle-class, wedding and kids markets. By understanding customers' consumption habits, the Group aims to provide products tailored to their consumption behaviour and market demand, which would help enhance customers' brand loyalty. Furthermore, the Group will continue to attract customers and boost local consumption, via product display enhancement, cross-selling promotions and VIP activities so as to improve the sales and profit.

The Group will showcase, promote and market products through the mobile applications and social media platforms such as Facebook and WeChat. According to the report jointly published by Taobao and CBNDData on Internet spending trends in China, 80% of consumers aged between 20 and 40 learnt about gold and jewellery products through the Internet and 60% of them had spent money on the Internet. The proportion of spending on gold jewellery under RMB1,600 was 64%, while that on gold jewellery over RMB3,000 was a meagre 15%. There is enormous potential from younger consumers for their spending on online sales platforms. In light of that, the Group will endeavour to promote sales of low-priced jewellery on online platforms to attract younger consumers.

### *Productivity Enhancement*

In the year ahead, there are still uncertainties in the global economic outlook. The SSSG starting from the beginning of the new financial year up to date continues to decline. Apart from exploring various means of increasing revenue source, the Group will strive to implement productivity enhancement as well as cost-saving measures in different operational aspects, including reducing staff costs through voluntary turnover, grasping the opportunity to negotiate with landlords for reducing rents, enhancing service quality control, improving support to licensees, promoting the continuing improvement culture and automating operational processes in order to improve efficiency and reduce costs. Through these measures, it is expected that the impacts of lacklustre economic conditions on the Group's performance could be mitigated.

In the long run, with the unique geography and tax advantage of Hong Kong and Macau, cumulative brand awareness over the years, extensive retail network, management's effective sales strategy and increasing per capita income of Mainland China, there will still be strong customer demand for jewellery products. The outlook for jewellery industry remains promising, which will benefit the Group's continuous business development. Therefore, the Group will maintain its pragmatic and prudent business strategy, and will also take a proactive approach towards market challenges, thereby uplifting its competitive advantage and strengthening its leading position in the jewellery retail market.



## **FINAL DIVIDEND AND SPECIAL DIVIDEND**

The directors proposed a final dividend of HK\$0.34 per ordinary share and a special dividend of HK\$0.21 per ordinary share, totalling HK\$0.55 per ordinary share for the year ended 31 March 2016 (2015: HK\$0.55 per share) to shareholders whose names appear on the register of members of the Company on 23 August 2016. Taking into account of the interim and special dividends paid, the total dividend for the year would amount to HK\$1.10 per ordinary share, totalling HK\$646,918,000 for the year (2015: HK\$1.10 per ordinary share, totalling HK\$648,018,000). Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 17 August 2016, the final and special dividends will be paid on or around 1 September 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company for the annual general meeting will be closed from 15 August 2016 to 17 August 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance at the annual general meeting to be held on 17 August 2016, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 12 August 2016.

The register of members of the Company for the final and special dividends will also be closed on 23 August 2016 and no transfer of shares will be registered on that day. In order to qualify for the final and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 22 August 2016.

## **CORPORATE GOVERNANCE**

The Board and management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2016 (the "Annual Period"), except for the following deviation:

Code Provision A.2.1 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules provides that the roles of Chairman and Chief executive should be separate and should not be performed by the same individual, so that there is a clear division of responsibilities for the management of the Board and the day-to-day management of the Group's business to ensure a balance of power and authority.



In view of the increasing trend of business deriving from the Mainland China market, it is believed that Mr. WONG Wai Sheung, being the Chairman and Chief Executive of the Company, will further enhance the business development of the Group there due to the norms on “status parity” when future business negotiations are conducted in Mainland China. Besides, members of the Board also include qualified professionals and other prominent and experienced individuals from the community. The Board considers that the existing Board composition, with the support of Board Committees and two Deputy Chairmen, can ensure a balance of power and authority.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopts the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as a code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors, it is confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors’ securities transactions during the Annual Period.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company was authorised at its annual general meeting held on 19 August 2015 to repurchase shares up to a maximum of 10% of the shares in issue as at the date of passing the relevant resolution. During the Year under review, the Company repurchased its ordinary shares on the Stock Exchange when they were significantly trading at a discount in order to enhance shareholder value. During the Year under review, the Company repurchased an aggregate of 2,000,000 ordinary shares for a total consideration of apparently HK\$29,086,000 (excluding transaction cost) on the Stock Exchange. The repurchased shares were cancelled during the Year under review. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Consideration per share		Aggregate consideration paid (excluding transaction cost) HK\$’000
		Highest HK\$	Lowest HK\$	
December 2015	801,000	16.28	15.92	12,919
January 2016	1,199,000	15.94	12.84	16,167
	<u>2,000,000</u>			<u>29,086</u>

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Year under review.

## REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the financial statements of the Company for the year ended 31 March 2016. The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and related notes thereto for the year ended 31 March 2016 as set out in the preliminary announcement 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.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT 2016

This annual results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (the "HKEx") ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([lukfook.com](http://lukfook.com)). The Annual Report 2016 will be despatched to the shareholders of the Company and will be published on the websites of the HKEx and the Company in due course.

## APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to all our staff members, shareholders, customers, business partners and other stakeholders for their strong support and contributions to the Group's success. Moving forward, the Group will continue to implement pragmatic and sound growth measures, strengthen its competitive advantages and further consolidate its leading position in the market with a view to generating sustainable returns for our shareholders and establishing a new benchmark for corporate excellence.

By Order of the Board  
**Luk Fook Holdings (International) Limited**  
**WONG Wai Sheung**  
*Chairman and Chief Executive*

Hong Kong, 23 June 2016

*As at the date of this announcement, the Company's Executive Directors are Mr. WONG Wai Sheung (Chairman and Chief Executive), Mr. TSE Moon Chuen (Deputy Chairman), Ms. WONG Hau Yeung, Ms. WONG Lan Sze, Nancy, Ms. CHUNG Vai Ping and Dr. CHAN So Kuen; the Non-executive Directors are Mr. WONG Ho Lung, Danny (Deputy Chairman), Ms. YEUNG Po Ling, Pauline, Mr. HUI Chiu Chung, JP and Mr. LI Hon Hung, MH, JP; the Independent Non-executive Directors are Mr. TAI Kwok Leung, Alexander, Mr. IP Shu Kwan, Stephen, GBS, JP, Mr. MAK Wing Sum, Alvin, Ms. WONG Yu Pok, Marina, JP and Mr. HUI King Wai.*