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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

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

### HIGHLIGHTS

- Revenue reached HK\$6.965 billion, representing a decrease of 7.7% as compared with the same period last year
- Overall same store sales growth\* (“SSSG”) was -11.6%, while SSSG of gem-set jewellery products in Mainland China achieved 17.5%, representing positive growth for 10 consecutive quarters
- Small-scale “gold-rushes” improved the sales mix of gold products which bore relatively lower gross margin, resulting in a drop of 1.2 p.p. in overall gross margin to 22.7%, gross profits dropped by 12.2% to HK\$1.579 billion
- Operating profit decreased by 39.3% to HK\$594 million
- Profit attributable to equity holders amounted to HK\$463 million, a decrease of 42.4% as compared with the same period last year
- Proposed interim and special dividends of HK\$0.315 and HK\$0.235 per share
- Opened 29 new stores in Mainland China and currently the Group has more than 1,400 Lukfook Jewellery shops world-wide

\* 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.

## FINANCIAL PERFORMANCE

	<b>For the six months ended 30 September 2015 HK\$'000</b>	For the six months ended 30 September 2014 HK\$'000	Y-o-Y Change
Revenue	<b>6,964,909</b>	7,542,358	-7.7%
Gross Profit	<b>1,579,085</b>	1,798,941	-12.2%
Operating Profit	<b>593,749</b>	978,260	-39.3%
Profit for the period	<b>463,385</b>	807,683	-42.6%
Profit Attributable to Equity Holders	<b>463,428</b>	804,637	-42.4%
Basic Earnings per Share	<b>HK\$0.79</b>	HK\$1.37	-42.3%
Interim Dividend per Share	<b>HK\$0.315</b>	HK\$0.55	-42.7%
Special Dividend per Share	<b>HK\$0.235</b>	–	Nil
Dividend Payout Ratio	<b>69.9%</b>	40.3%	+29.6 p.p
Gross Margin	<b>22.7%</b>	23.9%	-1.2 p.p
Operating Margin	<b>8.5%</b>	13.0%	-4.5 p.p
Net Margin	<b>6.7%</b>	10.7%	-4.0 p.p
EBITDA	<b>615,833</b>	1,044,039	-41.0%
EBITDA Margin	<b>8.8%</b>	13.8%	-5.0 p.p
Total Operating Expenses to Revenue Ratio	<b>14.6%</b>	13.0%	+1.6 p.p
Effective Tax Rate	<b>18.0%</b>	18.2%	-0.2 p.p

The board of directors (the “Board”) of Luk Fook Holdings (International) Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2015 together with comparative figures for the corresponding period in 2014 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2015

		<b>Unaudited</b>	
		<b>for the six months ended</b>	
		<b>30 September</b>	
	<i>Note</i>	<b>2015</b>	2014
		<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	5	<b>6,964,909</b>	7,542,358
Cost of sales		<b>(5,385,824)</b>	(5,743,417)
Gross profit		<b>1,579,085</b>	1,798,941
Other income	7	<b>58,810</b>	98,735
Selling and distribution costs		<b>(957,633)</b>	(911,131)
Administrative expenses		<b>(62,227)</b>	(65,681)
Other (losses)/gains, net	8	<b>(24,286)</b>	57,396
Operating profit	6	<b>593,749</b>	978,260
Finance income	9	<b>27,499</b>	21,457
Finance costs	9	<b>(9,442)</b>	(6,617)
Share of results of associates	13	<b>(46,517)</b>	(5,195)
Profit before income tax		<b>565,289</b>	987,905
Income tax expenses	10	<b>(101,904)</b>	(180,222)
Profit for the period		<b>463,385</b>	807,683
Profit attributable to:			
Equity holders of the Company		<b>463,428</b>	804,637
Non-controlling interests		<b>(43)</b>	3,046
		<b>463,385</b>	807,683
Earnings per share for profit attributable to equity holders of the Company during the period — Basic and diluted	11	<b>HK\$0.79</b>	HK\$1.37

Details of dividends to equity holders of the Company are set out in Note 12.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
*For the six months ended 30 September 2015*

	<b>Unaudited</b>	
	<b>for the six months ended</b>	
	<b>30 September</b>	
	<b>2015</b>	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<b>463,385</b>	807,683
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss in future periods</i>		
Currency translation differences		
— Group	<b>(93,670)</b>	17,784
— Associates	<b>1,680</b>	(41)
Revaluation of available-for-sale financial assets	<b>(3,285)</b>	(3,690)
Other comprehensive income for the period, net of tax	<b>(95,275)</b>	14,053
Total comprehensive income for the period	<b>368,110</b>	821,736
Attributable to:		
— Equity holders of the Company	<b>368,102</b>	818,495
— Non-controlling interests	<b>8</b>	3,241
Total comprehensive income for the period	<b>368,110</b>	821,736

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2015

		Unaudited As at 30 September 2015 HK\$'000	Audited As at 31 March 2015 HK\$'000
	<i>Note</i>		
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment		612,986	618,012
Land use rights		213,488	224,883
Investment properties		25,111	45,792
Interests in associates	13	201,097	245,934
Loan to an associate	14	85,026	83,160
Derivative financial instruments	15	46,675	66,735
Available-for-sale financial assets		5,535	8,820
Trading licence		1,080	1,080
Rental deposits and prepayments		146,062	128,517
Deferred income tax assets		32,423	28,025
		<u>1,369,483</u>	<u>1,450,958</u>
Current assets			
Inventories		6,656,888	7,394,696
Trade receivables	16	206,230	200,759
Deposits, prepayments and other receivables		197,024	257,701
Derivative financial instruments	15	5,234	5,234
Amount due from an associate		40,523	30,076
Loan to an associate	14	20,000	20,000
Income tax recoverable		33,450	61,686
Cash and bank balances	17	1,992,986	2,090,127
		<u>9,152,335</u>	<u>10,060,279</u>
Total assets		<u>10,521,818</u>	<u>11,511,237</u>
<b>EQUITY</b>			
Capital and reserves attributable to the equity holders of the Company			
Share capital		58,910	58,910
Share premium		2,522,983	2,522,983
Reserves		5,674,554	5,630,461
Proposed dividends	12	324,009	324,009
		<u>8,580,456</u>	<u>8,536,363</u>
Non-controlling interests		<u>93,493</u>	<u>64,144</u>
Total equity		<u>8,673,949</u>	<u>8,600,507</u>

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 September 2015

		Unaudited As at 30 September 2015 <i>HK\$'000</i>	Audited As at 31 March 2015 <i>HK\$'000</i>
	<i>Note</i>		
<b>LIABILITIES</b>			
Non-current liabilities			
Deferred income tax liabilities		72,061	85,421
Employee benefit obligations		<u>34,008</u>	<u>34,008</u>
		<u>106,069</u>	<u>119,429</u>
Current liabilities			
Trade payables, other payables and accruals	18	772,167	902,126
Derivative financial instruments	15	11,137	–
Amount due to an associate		1,536	1,674
Bank borrowings		540,100	1,470,633
Gold loans		228,594	242,802
Current income tax liabilities		<u>188,266</u>	<u>174,066</u>
		<u>1,741,800</u>	<u>2,791,301</u>
Total liabilities		<u>1,847,869</u>	<u>2,910,730</u>
Total equity and liabilities		<u>10,521,818</u>	<u>11,511,237</u>
Net current assets		<u>7,410,535</u>	<u>7,268,978</u>
Total assets less current liabilities		<u>8,780,018</u>	<u>8,719,936</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2015*

	Unaudited					
	Attributable to equity holders of the Company				Non- controlling interests	Total equity
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Subtotal <i>HK\$'000</i>		
<b>For the period ended 30 September 2015</b>						
As at 1 April 2015	58,910	2,522,983	5,954,470	8,536,363	64,144	8,600,507
<b>Comprehensive income</b>						
Profit for the period	-	-	463,428	463,428	(43)	463,385
Other comprehensive income						
Currency translation differences						
— Group	-	-	(93,721)	(93,721)	51	(93,670)
— Associates	-	-	1,680	1,680	-	1,680
Revaluation of available-for-sale financial assets	-	-	(3,285)	(3,285)	-	(3,285)
<b>Total comprehensive income</b>	-	-	368,102	368,102	8	368,110
<b>Transaction with owners</b>						
Dividends paid	-	-	(324,009)	(324,009)	-	(324,009)
Establishment of a non-wholly owned subsidiary	-	-	-	-	29,341	29,341
As at 30 September 2015	<u>58,910</u>	<u>2,522,983</u>	<u>5,998,563</u>	<u>8,580,456</u>	<u>93,493</u>	<u>8,673,949</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(CONTINUED)**

*For the six months ended 30 September 2014*

	Unaudited					Total equity HK\$'000
	Attributable to equity holders of the Company				Non- controlling interests HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Reserves HK\$'000	Subtotal HK\$'000		
<b>For the period ended 30 September 2014</b>						
As at 1 April 2014	58,910	2,522,983	5,058,876	7,640,769	58,386	7,699,155
<b>Comprehensive income</b>						
Profit for the period	—	—	804,637	804,637	3,046	807,683
Other comprehensive income						
Currency translation differences						
— Group	—	—	17,589	17,589	195	17,784
— Associates	—	—	(41)	(41)	—	(41)
Revaluation of available-for-sale financial assets	—	—	(3,690)	(3,690)	—	(3,690)
<b>Total comprehensive income</b>	—	—	818,495	818,495	3,241	821,736
<b>Transaction with owners</b>						
Dividends paid	—	—	(375,851)	(375,851)	—	(375,851)
As at 30 September 2014	58,910	2,522,983	5,501,520	8,083,413	61,627	8,145,040



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2015

		<b>Unaudited</b>	
		<b>for the six months ended</b>	
		<b>30 September</b>	
		<b>2015</b>	2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities			
Net cash generated from operations		<b>1,270,897</b>	625,500
Hong Kong profits tax paid		<b>(19,456)</b>	(109)
Overseas income taxes paid		<b>(57,771)</b>	(104,472)
		<hr/>	<hr/>
Net cash generated from operating activities		<b>1,193,670</b>	520,919
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Cash flows from investing activities			
Purchases of property, plant and equipment		<b>(45,572)</b>	(112,602)
Prepayment for purchase of property		<b>(9,429)</b>	–
Decrease/(increase) in short-term bank deposits, with maturities over 3 months		<b>162,867</b>	(827,354)
Interest received		<b>15,211</b>	6,840
Proceeds from disposals of property, plant and equipment		<b>330</b>	132
Acquisition of an associate		–	(194,810)
Increase in loan to an associate		–	(100,000)
Subscription of convertible bond		–	(57,080)
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		<b>123,407</b>	(1,284,874)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Cash flows from financing activities			
Proceeds from bank borrowings		<b>369,000</b>	1,173,628
Proceeds from gold loans		<b>544,083</b>	373,087
Repayment of bank borrowings		<b>(1,299,513)</b>	(598,000)
Repayment of gold loans		<b>(542,531)</b>	(191,421)
Establishment of a non-wholly owned subsidiary		<b>29,341</b>	–
Interest on bank borrowings and gold loans		<b>(9,442)</b>	(6,617)
Dividends paid		<b>(324,009)</b>	(375,851)
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		<b>(1,233,071)</b>	374,826
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net increase/(decrease) in cash and cash equivalents		<b>84,006</b>	(389,129)
Cash and cash equivalents at 1 April	<i>17</i>	<b>1,375,079</b>	1,646,475
Exchange differences		<b>(18,280)</b>	6,892
		<hr/>	<hr/>
Cash and cash equivalents at 30 September	<i>17</i>	<b>1,440,805</b>	1,264,238
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## NOTES:

### 1 GENERAL INFORMATION

Luk Fook Holdings (International) Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the sourcing, designing, wholesaling, trademark licensing and retailing of a variety of platinum and gold jewellerys, gold ornaments and gem-set jewellery products.

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’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 6 May 1997.

### 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2015 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2015, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

### 3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2015, as described in those annual financial statements.

3.1 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:

HKAS 19 (2011) (Amendment)	Employee benefits: defined benefit plans — employee contributions
Annual improvement 2012	Annual improvements 2010-2012 reporting cycle
Annual improvement 2013	Annual improvements 2011-2013 reporting cycle

The application of the above amendments to existing standards in the current interim period has had no material impact to the reported results and financial position of the Group.

3.2 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)	Presentation of financial statement — Disclosure initiative <sup>1</sup>
HKAS 16 (Amendment) and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation <sup>1</sup>
HKAS 27 (Amendment)	Separate financial statements — Equity method in separate financial statements <sup>1</sup>
HKFRS 9 (2014)	Financial instruments <sup>2</sup>
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception <sup>1</sup>
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture <sup>1</sup>
HKFRS 15	Revenue from contracts with customer <sup>2</sup>
Annual improvements 2014	Annual improvements 2012-2014 reporting cycle <sup>1</sup>

(1) Effective for annual period beginning on or after 1 April 2016

(2) Effective for annual periods beginning on or after 1 April 2018

The Group is in the process of making an assessment on the impact of these new standards and amendments to existing standards and is not yet in a position to state whether they would have a significant impact on the Group's results of the operations and financial position taken as a whole. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

#### 4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2015.

## 5 SEGMENT INFORMATION

The chief operating decision-maker (“CODM”) has been identified collectively as the executive directors and senior management. The CODM reviews 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.

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

Assets of reportable segments exclude interests in associates, certain leasehold land and buildings, investment properties, deferred income tax assets and corporate assets, all of which are managed on a central basis. These form part of the reconciliation to total assets of the condensed consolidated balance sheet.

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 condensed consolidated income statement and balance sheet.

	For the six months ended 30 September 2015						Reportable segments
	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	Total HK\$'000
<b>Revenue</b>							
Sales to external customers	4,955,043	567,273	15,646	932,736	-	-	6,470,698
Sales of scrap gold and platinum	-	-	223,610	-	-	-	223,610
	<u>4,955,043</u>	<u>567,273</u>	<u>239,256</u>	<u>932,736</u>	<u>-</u>	<u>-</u>	<u>6,694,308</u>
Inter-segment sales	44,664	1,108	960,672	102,775	-	(1,109,219)	-
	<u>4,999,707</u>	<u>568,381</u>	<u>1,199,928</u>	<u>1,035,511</u>	<u>-</u>	<u>(1,109,219)</u>	<u>6,694,308</u>
Sales of merchandises	4,999,707	568,381	1,199,928	1,035,511	-	(1,109,219)	6,694,308
Royalty and service income	-	-	-	-	260,000	-	260,000
Consultancy fee income	-	-	-	-	10,601	-	10,601
	<u>4,999,707</u>	<u>568,381</u>	<u>1,199,928</u>	<u>1,035,511</u>	<u>270,601</u>	<u>(1,109,219)</u>	<u>6,964,909</u>
<b>Total</b>	<u>4,999,707</u>	<u>568,381</u>	<u>1,199,928</u>	<u>1,035,511</u>	<u>270,601</u>	<u>(1,109,219)</u>	<u>6,964,909</u>
<b>Results of reportable segments</b>	<u>338,534</u>	<u>24,701</u>	<u>53,857</u>	<u>82,126</u>	<u>174,802</u>	<u>-</u>	<u>674,020</u>

A reconciliation of results of reportable segments to profit for the period is as follows:

<b>Results of reportable segments</b>	674,020
Unallocated income	26,452
Unallocated expenses	(106,723)
<b>Operating profit</b>	593,749
Finance income	27,499
Finance costs	(9,442)
Share of results of associates	(46,517)
<b>Profit before income tax</b>	565,289
Income tax expenses	(101,904)
<b>Profit for the period</b>	463,385
Non-controlling interests	43
<b>Profit attributable to equity holders of the Company</b>	<u>463,428</u>

As at 30 September 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>6,079,394</u>	<u>1,607,183</u>	<u>961,302</u>	<u>1,302,459</u>	<u>423,271</u>	<u>(1,613,569)</u>	<u>8,760,040</u>		<u>8,760,040</u>
Interests in associates								201,097	201,097
Land and buildings								286,921	286,921
Investment properties								25,111	25,111
Deferred income tax assets								32,423	32,423
Income tax recoverable								33,450	33,450
Other unallocated assets								<u>1,182,776</u>	<u>1,182,776</u>
<b>Total assets</b>									<u><u>10,521,818</u></u>
Segment liabilities	<u>(274,268)</u>	<u>(25,253)</u>	<u>(1,521,563)</u>	<u>(221,829)</u>	<u>(280,542)</u>	<u>1,613,569</u>	<u>(709,886)</u>		(709,886)
Deferred income tax liabilities								(72,061)	(72,061)
Current income tax liabilities								(188,266)	(188,266)
Bank borrowings								(540,100)	(540,100)
Gold loans								(228,594)	(228,594)
Other unallocated liabilities								<u>(108,962)</u>	<u>(108,962)</u>
<b>Total liabilities</b>									<u><u>(1,847,869)</u></u>

For the six months ended 30 September 2014

	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	5,360,801	538,863	61,762	1,066,801	—	—	7,028,227
Sales of scrap gold and platinum	—	—	233,324	—	—	—	233,324
	<u>5,360,801</u>	<u>538,863</u>	<u>295,086</u>	<u>1,066,801</u>	<u>—</u>	<u>—</u>	<u>7,261,551</u>
Inter-segment sales	30,752	2,170	2,109,609	65,149	—	(2,207,680)	—
	<u>30,752</u>	<u>2,170</u>	<u>2,109,609</u>	<u>65,149</u>	<u>—</u>	<u>(2,207,680)</u>	<u>—</u>
Sales of merchandises	5,391,553	541,033	2,404,695	1,131,950	—	(2,207,680)	7,261,551
Royalty and service income	—	—	—	—	261,749	—	261,749
Consultancy fee income	—	—	—	—	19,058	—	19,058
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,058</u>	<u>—</u>	<u>19,058</u>
Total	<u>5,391,553</u>	<u>541,033</u>	<u>2,404,695</u>	<u>1,131,950</u>	<u>280,807</u>	<u>(2,207,680)</u>	<u>7,542,358</u>
<b>Results of reportable segments</b>	<u>563,189</u>	<u>40,817</u>	<u>62,026</u>	<u>121,661</u>	<u>185,227</u>	<u>—</u>	<u>972,920</u>
A reconciliation of results of reportable segments to profit for the period is as follows:							
<b>Results of reportable segments</b>							972,920
Unallocated income							39,167
Unallocated expenses							(33,827)
<b>Operating profit</b>							978,260
Finance income							21,457
Finance costs							(6,617)
Share of results of associates							(5,195)
<b>Profit before income tax</b>							987,905
Income tax expenses							(180,222)
<b>Profit for the period</b>							807,683
Non-controlling interests							(3,046)
<b>Profit attributable to equity holders of the Company</b>							<u>804,637</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>
<b>Total assets</b>									<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>
<b>Total liabilities</b>									<u>(2,910,730)</u>

## 6 OPERATING PROFIT

Operating profit is stated after charging the following:

	For the six months ended 30 September	
	2015 HK\$'000	2014 HK\$'000
Cost of sales		
— cost of inventories sold ( <i>Note</i> )	<b>5,292,082</b>	5,653,069
— cost of licensing business ( <i>Note</i> )	<b>93,742</b>	90,348
Staff costs (including directors' emoluments)	<b>337,987</b>	359,683
Operating lease		
— minimum lease payments	<b>325,080</b>	278,650
— contingent rents	<b>62,940</b>	67,753
Commission expenses to credit card companies	<b>56,651</b>	60,833
Depreciation of investment properties	<b>393</b>	604
Depreciation of property, plant and equipment	<b>63,444</b>	65,504
Loss on disposal of property, plant and equipment	<b>635</b>	246
Amortisation of land use rights	<b>4,764</b>	4,866

*Note:* Cost of inventories sold and cost of licensing business include staff cost (including directors' emoluments) of HK\$104,511,000 (2014: HK\$99,095,000).



## 7 OTHER INCOME

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Valued-added tax refund ( <i>Note i</i> )	28,078	71,948
Government subsidies ( <i>Note ii</i> )	18,699	16,328
Rental income	3,746	4,813
Others	8,287	5,646
	<u>58,810</u>	<u>98,735</u>

### Notes:

- (i) This represents refund from the tax authority in Mainland China. The amount of refund is based on 13% of the cost of imported diamonds. The Group is entitled to the refund as it is a member of the Shanghai Diamond Exchange and the diamonds are imported through the Shanghai Diamond Exchange.
- (ii) This represents subsidies from a municipal government in Mainland China.

## 8 OTHER (LOSSES)/GAINS, NET

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Net realised gains on derivative financial instruments	7,300	7,572
Fair value (loss)/gain on convertible bond	(20,060)	15,588
Net realised gains on gold loans	14,006	2,583
Net unrealised gains on gold loans	125	8,162
Net exchange (losses)/gains	(12,829)	23,511
Net realised losses on foreign exchange forward contracts	(1,691)	–
Net unrealised losses on foreign exchange forward contracts	(11,137)	–
Others	–	(20)
	<u>(24,286)</u>	<u>57,396</u>

## 9 FINANCE INCOME AND FINANCE COSTS

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Finance income		
— Bank interest income	24,577	19,757
— Effective interest income on the loan to an associate	1,866	1,149
— Interest income on the convertible bond	856	551
— Interest income on the short term loan to an associate	200	—
	<u>27,499</u>	<u>21,457</u>
Finance costs		
— Interest expenses on bank borrowings	8,068	6,068
— Interest expenses on gold loans	1,374	549
	<u>9,442</u>	<u>6,617</u>

## 10 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the period.

Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Current taxation:		
— Hong Kong profits tax	61,037	71,081
— Overseas taxation	58,626	95,865
Deferred taxation	<u>(17,759)</u>	<u>13,276</u>
	<u>101,904</u>	<u>180,222</u>

Overseas taxation mainly represents the corporate income tax in Mainland China and the complementary tax in Macau and is calculated at tax rate of 25% (2014: 25%) and the progressive rate ranging from 9% to 12% (2014: 9% to 12%), respectively.

## 11 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\$463,428,000 (2014: HK\$804,637,000) and the weighted average number of 589,107,850 (2014: 589,107,850) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 September 2015 and 2014 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period.

## 12 DIVIDENDS

At a meeting held on 25 June 2015, the directors recommended the payment of a final dividend of HK\$0.55 per ordinary share, totalling HK\$324,009,000, for the year ended 31 March 2015. Such dividend was approved by the shareholders at the Annual General Meeting on 19 August 2015, paid during the period ended 30 September 2015 and has been reflected as an appropriation of retained earnings for the period.

At a meeting held on 26 November 2015, the directors declared the payment of an interim dividend of HK\$0.315 per ordinary share and a special dividend of HK\$0.235 per ordinary share, totalling HK\$324,009,000 for the year ending 31 March 2016. This dividend has not been reflected as a dividend payable in these condensed consolidated interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2016.

## 13 INTERESTS IN ASSOCIATES

	As at 30 September 2015 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>
Interests in associates	201,097	245,934
Amount due from an associate ( <i>Note iii</i> )	40,523	30,076
Amount due to an associate ( <i>Note iii</i> )	<u>(1,536)</u>	<u>(1,674)</u>
	<b>For the six months ended 30 September 2015 <i>HK\$'000</i></b>	<b>2014 <i>HK\$'000</i></b>
Beginning of the period as at 1 April	245,934	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 14</i> )	–	19,793
Share of results of associates for the period	(46,517)	(5,195)
Share of reserve movement of associates for the period	<u>1,680</u>	<u>(41)</u>
End of the period as at 30 September	<u>201,097</u>	<u>261,179</u>

*Notes:*

- (i) On 6 June 2014, the Company purchased a 50% shareholding in China Gold Silver Group Company Limited (“CGS”), a wholly-owned subsidiary of Hong Kong Resources Holdings Company Limited (“HKRH”) which 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 an associated company investment 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 no subsequent revaluation was performed at period end as the directors consider any change during the period is not material. The fair value at the date of completion of the Acquisition was assessed by an independent valuer by using the Trinomial Option Pricing Model.

- (iii) Amount due from an associate of HK\$40,523,000 (as at 31 March 2015: HK\$30,076,000) mainly represents trade receivables due from the company. Amount due from/(to) associate are denominated in HK\$ and are unsecured, interest-free and repayable on demand.

#### 14 LOAN TO AN ASSOCIATE

Loan to an associate included under non-current assets:

In connection with the acquisition of CGS on 6 June 2014, 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 agreed with CGS that 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.

Loan to an associate included under current assets:

On 4 May 2015, the Group and HKRH each agreed 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 with maturity of 1 year.

#### 15 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 September 2015 HK\$'000	As at 31 March 2015 HK\$'000
<u>Assets</u>		
<b>Non-current portion</b>		
Convertible bond (Note i)	<u>46,675</u>	<u>66,735</u>
<b>Current portion</b>		
CGS Share Option (Note 13(ii))	<u>5,234</u>	<u>5,234</u>
<u>Liabilities</u>		
<b>Current portion</b>		
Foreign exchange forward contracts (Note ii)	<u>11,137</u>	<u>–</u>

*Note (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\$46,675,000 at period end (as at 31 March 2015: HK\$66,735,000).

The fair value as at period/year end was valued by an independent valuer using the Trinomial Option Pricing Model. The key assumptions used are as follows:

	As at 30 September 2015	As at 31 March 2015
Share price of HKRH	HK\$0.12	HK\$0.20
Exercise price	HK\$0.18	HK\$0.18
Dividend yield	0%	0%
Effective interest rate	22.4%	20.7%
Volatility	42.1%	48.5%
Risk free rate	0.8%	1.0%

The fair value loss of HK\$20,060,000 (2014: fair value gain of HK\$15,588,000) was included under “other (losses)/gains, net” in the condensed consolidated interim financial information.

*Note (ii):* During the period, the Group entered into certain foreign exchange forward contracts to buy HK\$ and sell RMB. As at 30 September 2015, the notional principal amount of outstanding foreign exchange forward contracts was RMB484,000,000.

The net realised loss and unrealised loss on foreign exchange forward contract arising from change in fair value of HK\$1,691,000 (2014: HK\$Nil) and HK\$11,317,000 (2014: HK\$Nil) have been recognised in “other (losses)/gains, net” in the condensed consolidated interim financial information respectively.

## 16 TRADE RECEIVABLES

The Group’s sales 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:

	As at 30 September 2015 HK\$'000	As at 31 March 2015 HK\$'000
0–30 days	166,939	145,674
31–60 days	33,616	49,004
61–90 days	3,970	2,163
91–120 days	797	1,033
Over 120 days	908	2,885
	<u>206,230</u>	<u>200,759</u>

The carrying amounts of trade receivables approximate their fair values.

## 17 CASH AND BANK BALANCES

	As at 30 September 2015 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>
Short-term deposits	353,318	141,945
Cash at bank and on hand	<u>1,087,487</u>	<u>1,233,134</u>
Cash and cash equivalents	<b>1,440,805</b>	1,375,079
Short-term bank deposits, with maturities over 3 months	<u>552,181</u>	<u>715,048</u>
Total cash and bank balances	<u><b>1,992,986</b></u>	<u>2,090,127</u>

## 18 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals are trade payables of HK\$138,540,000 (As at 31 March 2015: HK\$217,909,000) and the ageing is as follows:

	As at 30 September 2015 <i>HK\$'000</i>	As at 31 March 2015 <i>HK\$'000</i>
0–30 days	119,533	171,675
31–60 days	16,110	41,532
61–90 days	2,491	3,395
91–120 days	276	1,285
Over 120 days	<u>130</u>	<u>22</u>
	<u><b>138,540</b></u>	<u>217,909</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE

#### Results

Slowing economic growth in Mainland China plus currency depreciation and relaxed visa requirements in popular tourist destinations such as Europe, Japan and Korea continued to impose negative impact on the consumer sentiment of tourists travelling to Hong Kong and Macau. All these hindered the recovery of the retail business of Luk Fook Holdings (International) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”). For the six months ended 30 September 2015 (the “Period under review”), the revenue of the Group amounted to HK\$6,964,909,000 (2014: HK\$7,542,358,000), representing a decrease of 7.7% as compared with the same period last year, mostly contributed by the sales drop in gem-set jewellery products in the Hong Kong and Macau market. Nevertheless, the decline in revenue was less than expected. It was mainly attributable to the revenue contribution from the improved sales of gold products boosted by the small-scale “gold rushes” in July and August. However, with a higher-than-expected sales mix of gold products which bore relatively lower gross margin, overall gross margin decreased by 1.2 p.p. to 22.7% (2014: 23.9%). Total gross profit therefore declined by 12.2% to HK\$1,579,085,000 (2014: HK\$1,798,941,000). The decrease in revenue, together with the increase in total rental expenses mainly contributed by the high rental of the loss-making new shops in certain Hong Kong prime locations, resulted in the increase in the total operating expenses to revenue ratio to 14.6% (2014: 13.0%). Apart from that, the reduction in import of diamonds to Mainland China led to a decrease of VAT refund from HK\$71,948,000 same period last year to current period’s HK\$28,078,000. In addition, uncontrollable factors such as valuation of the fair value of convertible bond in Hong Kong Resources Holdings Company Limited turned from a gain of HK\$15,588,000 in the same period last year to a loss of HK\$20,060,000 in the current period. There was also an exchange loss of HK\$12,829,000 compared to an exchange gain of HK\$23,511,000 in the previous period and mainly attributable to the devaluation of Renminbi. Operating profit thus decreased by 39.3% to HK\$593,749,000 (2014: HK\$978,260,000) and operating margin was 8.5% (2014: 13.0%). Furthermore, the share of losses in associates increased from HK\$5,195,000 in the same period last year to current period’s HK\$46,517,000. The decrease of profit attributable to equity holders therefore enlarged to 42.4%, reaching HK\$463,428,000 (2014: HK\$804,637,000). Basic earnings per share amounted to HK\$0.79 (2014: HK\$1.37).

#### Overview

During the Period under review, the Group opened a net total of 29 Lukfook shops (including 23 licensed shops and 6 self-operated shops), and 4 3D-GOLD self-operated shops established by the new joint venture (the Group held 51% equity) with a licensee in Mainland China. The number of shops in Hong Kong and Macau and overseas remained unchanged. Accordingly, as at 30 September 2015, the Group had a total of 1,412 Lukfook shops globally in Mainland China, Hong Kong, Macau, Singapore, Korea, the United States, Canada and Australia and 4 3D-GOLD shops operated in Mainland China, further implementing our dual-brand strategy.

The retail business continued to be the primary source of revenue for the Group. Retail revenue declined by 6.4% year-on-year to HK\$5,522,316,000 (2014: HK\$5,899,664,000), accounting for 79.3% (2014: 78.2%) of the Group’s total revenue. Because of the decrease in number of new licensed shops from same period last year’s 65 to current period’s 23, the wholesale revenue fell by 13.9% over the same period last year to HK\$1,171,992,000 (2014: HK\$1,361,887,000), accounting for 16.8% (2014: 18.1%) of the Group’s total revenue.

Licensing revenue decreased by 3.6% to HK\$270,601,000 (2014: HK\$280,807,000) for the same reason, accounting for the remaining 3.9% (2014: 3.7%) of the Group's total revenue. Sales of gold products, remained the most favourite item among customers, and together with platinum products recorded a decrease of 1.7% to HK\$4,188,884,000 (2014: HK\$4,263,201,000), contributing to approximately 62.6% (2014: 58.7%) of the Group's total sales, excluding licensing revenue. The sales of gem-set jewellery products declined by 16.4% to HK\$2,505,424,000 (2014: HK\$2,998,350,000) and contributed approximately 37.4% (2014: 41.3%) of the Group's total sales.

During the Period under review, the overall same store sales growth\* ("SSSG") of the Group was -11.6% (2014: -41.0%). SSSG for the Hong Kong and Macau market and the Mainland China market were -12.6% (2014: -40.7%) and +1.2% (2014: -44.1%) respectively. SSSG for gold and platinum products was -5.6% (2014: -50.1%) and that for gem-set jewellery products was -22.0% (2014: -12.9%).

The Group has been striving to widen its product mix to offer customers with more diversified choices. Since 2010, the Group has been endeavouring to expand the mid-to-high-end watch business. As at 30 September 2015, the Group was the authorised dealer of 32 watch brands, including AUDEMARS PIGUET, BALL and its BALL for BMW series, BULOVA, CERTINA, COINWATCH, CORUM, DOXA, ENICAR, ERNEST BOREL, GRONEFELD, H. MOSER & CIE, HAMILTON, LONGINES, LUDOVIC BALLOUARD, MAURICE LACROIX, MIDO, OMEGA, RADO, TAG HEUER, TISSOT, URWERK, EMILE CHOURIET, ARNOLD & SON, ZENITH, ORIS, BALMAIN, BVLGARI, EMPORIO ARMANI, BURBERRY, VICTORINOX, ETERNA and LOUIS ERARD. During the Period under review, revenue generated from the watch business amounted to HK\$119,388,000 (2014: HK\$167,362,000), representing 1.7% (2014: 2.2%) of the Group's total revenue with a decrease of 28.7% over the same period last year. Such revenue was grouped under the gem-set jewellery category.

## **BUSINESS REVIEW**

### **Hong Kong and Macau**

The Hong Kong market remained the key source of revenue for the Group, contributing approximately 60.4% (2014: 59.5%) of the Group's total revenue. Given consumers' preference for spending in other regions, its revenue decreased by 6.3% to HK\$4,204,765,000 (2014: HK\$4,488,665,000). As at 30 September 2015, the Group operated a total of 48 self-operated shops in Hong Kong, with the number of shops remaining unchanged during the Period under review.

Mainland Chinese visitors remained the primary customer group for the Hong Kong retail business. However, the devaluation of other foreign currencies against the strengthening US dollar attracted customers to shop in other regions during holidays, especially long holidays. This, coupled with the lacklustre macro-economic conditions in Mainland China and Hong Kong, posed intensifying challenges on the luxury market. According to the visitor arrivals statistics published by Hong Kong Tourism Board in October 2015, visitor arrivals from Mainland China from January to September 2015 rose by 0.3% over the previous year to

\* 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.



approximately 35 million. As per the “Report on Monthly Survey of Retail Sales” released in November by the Census and Statistics Department, the value of retail sales of jewellery, watches and clocks, and valuable gifts for the same period decreased by 14.7% over a year earlier. The significant decline in the sales value with a similar number of visitors comparable to that for the same period last year reflected that Mainland visitors’ spending pattern has shifted towards low- and medium-priced products. The Group’s revenue from the Hong Kong market therefore declined though to a lesser extent due to the better-than-expected gold sales arising from the small-scale “gold rushes” during the Period under review. Accordingly, the Group’s retail revenue in the Hong Kong market decreased by 5.4% to HK\$3,965,509,000 (2014: HK\$4,193,579,000) with the drop of gem-set jewellery sales by 17.3%. Because of the decline in scrap gold and platinum sales and wholesale value to 3D-GOLD shops operated by the Group’s associated company, China Gold Silver Group Company Limited (“CGS”), the wholesale revenue decreased by 18.9% to HK\$239,256,000 (2014: HK\$295,086,000).

The performance of the Macau market was even worse than that of the Hong Kong market. According to the tourism statistics published by the Statistics and Census Service of the Macau Special Administrative Region, visitor arrivals in the first three quarters of 2015 decreased by 2.9% year-on-year to around 23 million, among which Mainland visitor arrivals decreased by 3.8% to around 15 million, larger than the decrease in overall visitor arrivals. Due to the obvious changes in the consumption structure of visitors to Macau, value of retail sales of watches, clocks and jewellery in Macau dropped significantly by 29.2% in the first half of 2015, recording the largest decline among the retail sector. The Group’s revenue generated from the Macau market therefore decreased by 16.2% to HK\$920,098,000 (2014: HK\$1,098,274,000), contributing 13.2% (2014: 14.6%) of the Group’s total revenue while gem-set jewellery sales dropped by 25.5%. As at 30 September 2015, the Group had a total of 10 self-operated shops in Macau, with no change in the number of shops during the Period under review as well.

Benefiting from the small scale “gold rushes” in July and August, SSSG for gold and platinum products of Hong Kong and Macau was -5.8% (2014: -50.2%) only, lower than expected, while SSSG for gem-set jewellery products was -23.6% (2014: -14.0%). The retail sales mix of gem-set jewellery products in the Hong Kong and Macau market thus decreased from 37.6% of the same period last year to 32.8% in the Period under Review.

### **Mainland China**

During the Period under review, revenue from the Mainland China market decreased by 6.1% to HK\$1,770,610,000 (2014: HK\$1,886,471,000), accounting for 25.4% (2014: 25.0%) of the Group’s total revenue. Mainland China’s retail sales amount recorded 5.3% growth, reaching HK\$567,273,000 (2014: HK\$538,863,000) mainly arising from the successful boost of the sales mix of gem-set jewellery products from prior period’s 20.2% to current period’s 23.9%. Due to the decrease in the number of new licensed shops, compared to the same period last year, wholesale revenue which was mainly derived from gem-set jewellery products declined by 12.6% to HK\$932,736,000 (2014: HK\$1,066,801,000). Accordingly, licensing revenue also decreased by 3.6% to HK\$270,601,000 (2014: HK\$280,807,000).

The SSSG for gold and platinum products of Mainland China was -2.9% (2014: -50.0%) and that for gem-set jewellery products was +17.5% (2014: +8.8%), representing a growth for 10 consecutive quarters.

As at 30 September 2015, the Group had 85 self-operated shops (2014: 82) and 1,263 licensed shops (2014: 1,190) totalling 1,348 shops (2014: 1,272) under “Lukfook” brand name in Mainland China. During the Period under review, the Group opened a total of 6 self-operated shops and 23 licensed shops in Mainland China. Apart from that, with the establishment of a joint venture with a licensee, 4 new self-operated 3D-GOLD shops were opened in Mainland China in September 2015.

### **Overseas Development**

Adhering to its motto “Brand of Hong Kong, Sparkling the World”, the Group has been seizing opportunities of adding new shops all over the world in recent years. As at 30 September 2015, the Group had a total of 5 overseas self-operated shops (2014: 5), including 1 in Singapore, 2 in the United States, 1 in Canada, 1 in Australia and 1 licensed shop in Korea (2014: 0).

### **Segmental Profit**

For retail business, the segmental profit of the Hong Kong, Macau and overseas markets declined by 39.9% to HK\$338,534,000 (2014: HK\$563,189,000), mainly because of the substantial drop in sales of gem-set jewellery products in the Hong Kong and Macau market, the decline of overall gross margin due to increased gold sales mix and the continuing rising rental. The profit margin was 6.8% (2014: 10.5%). For the retail business in the Mainland China market, as retail gold sales mix remained relatively higher in Mainland China, and with the decline of gold market price, the gross margin of retail gold sales reduced as a result of relatively slower turnover of gold products. Accordingly, the segmental profits dropped by 39.5% to HK\$24,701,000 (2014: HK\$40,817,000), and the profit margin was 4.4% (2014: 7.6%).

For wholesale business, the segmental profit of the Hong Kong market decreased by 13.2% to HK\$53,857,000 (2014: HK\$62,026,000) due to the drop in scrap gold and platinum sales and sales to 3D-GOLD shops operated by CGS and its licensees. The profit margin was 22.5% (2014: 21.0%). The segmental profit of the wholesale business generated from the Mainland China market fell by 32.5% to HK\$82,126,000 (2014: HK\$121,661,000) mainly because the decrease in the number of new licensed shops and the reduction in value-added tax refund for import of diamonds by approximately HK\$44,000,000. The profit margin was 8.8% (2014: 11.4%).

The segmental profit of the licensing business declined by 5.6% to HK\$174,802,000 (2014: HK\$185,227,000) because of reduced number of new licensed shops in the Period under review, and the margin was 64.6% (2014: 66.0%).

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

As at 30 September 2015, the Group’s cash and bank balances were approximately HK\$1,993 million (31 March 2015: approximately HK\$2,090 million). Because of the reduction in inventory level and Renminbi fixed deposits, the Group’s gearing ratio being proportion of total bank borrowings and gold loans of HK\$769 million (31 March 2015: HK\$1,713 million) against total shareholders’ equity of approximately HK\$8,580 million (31 March 2015: approximately HK\$8,536 million), decreased to 9.0% (31 March 2015: 20.1%). Net cash was HK\$1,224 million (31 March 2015: HK\$377 million). The debt-to-equity ratio was 21.5% (31 March 2015: 34.1%), being proportion of total liabilities of HK\$1,848 million (31 March 2015: HK\$2,911 million) against total shareholders’ equity of approximately HK\$8,580 million (31 March 2015: approximately HK\$8,536 million).

The Group's income and expenditure streams are mainly denominated in Hong Kong dollars.

### **Inventory**

The Group's inventory level of gem-set jewellery products last year was higher than expected due to accommodation to the strategy of increasing the sales mix of gem-set jewellery products and the need for expansion of the wholesale business, along with the weaker-than-expected sales in the fourth quarter of last financial year. Nevertheless, after a period of inventory destocking, the Group's inventory has returned to a relatively normal level. As at 30 September 2015, the Group's inventory balance was HK\$6,657 million (31 March 2015: HK\$7,395 million), with average inventory turnover days increased to 243 days (2014: 213 days) as a result of the faster than inventory decline in sales of gem-set jewellery products.

### **Capital Expenditure**

During the Period under review, the Group incurred capital expenditures of approximately HK\$55 million (2014: HK\$187 million), including the costs of properties, leasehold lands, land use rights, leasehold improvements, furniture, fixtures and equipment.

### **Capital Commitments**

As at 30 September 2015, the Group had total capital commitments of approximately HK\$9 million (31 March 2015: HK\$10 million).

### **Contingent Liabilities**

As at 30 September 2015, the Group had financial guarantees amounting to approximately HK\$685 million (31 March 2015: HK\$780 million) issued to several banks in respect of banking facilities granted to an associate.

### **Human Capital Policy**

As at 30 September 2015, the number of employees of the Group was approximately 6,700 (31 March 2015: approximately 6,900). 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 correlated 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. In respect of staff development, both in-house and external training and development programmes are conducted on a regular basis.

### **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 the brand new TV commercial and a series of promotional activities during the Period 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 market. Apart from making 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 interactive network games 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 market. The Group received a number of awards in branding, corporate management, customer service, community welfare and environmental protection, affirming the Group's outstanding achievements.

## **OUTLOOK**

During the Period under review, the slowing economic growth in Mainland China, currency devaluation and relaxed visa requirements in Europe, Japan and Korea and a strong Hong Kong dollar against other currencies have caused the Mainland tourists to switch to overseas for consumption. These adversely affected the retail industry in Hong Kong and Macau. Therefore, the Group remains prudent about the business development in the second half of this financial year.

Nevertheless, the Group is still optimistic about the mid- to long- term business development. 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 rapid development of the gold and gem-set jewellery market. Accordingly, the Group will offer more fashionable and affordable jewellery products suitable for wearing in workplace to cater to the trend of trading down consumption and to attract middle-class customers.

Amid the weak sentiment in the retail market, the Group will continue to optimise the retail network by adding points of sale at residential areas in response to the considerable sales growth of the shops in such Hong Kong areas while reducing the shops at prime locations with unsatisfactory performance. Furthermore, the Group will endeavour to attract customers, particularly local customers, via enhanced product display, cross-selling promotions and VIP activities so as to improve the sales and profit. In addition, the Group will continue to tap into the Mainland China market to further secure market share there. As the market in the first-tier cities has become saturated after years of development, the Group will continue to accelerate the expansion in the second- and lower-tier cities by leveraging of the joint venture business model with certain licensees and dual brand strategy advantages with a view to establishing a sound retail network to increase market share.

The Group will also continue to develop e-commerce and to further strengthen cooperation with e-commerce platforms. In addition to the nine online sales platforms, including Tmall.com, JD.com and Suning.com, the Group has established presence in three more online sales platforms, with a plan to add two more in the second half this financial year, to further expand the distribution channels. Besides, the Group will continue to showcase, promote and market products through the mobile applications and social media platforms such as Facebook and WeChat. By understanding customers' consumption habits, the Group aims to provide products tailored to customers' consumption behaviour and market demand, which would help enhance customers' brand loyalty.

In the upcoming second half of the year, with continuing uncertainty in global economy, together with competitors' intensified discounting and promotional activities in the market, the overall operating environment will remain challenging. However, in the long run, as the per capita income in Mainland China increases, the Group believes that there will still be strong customer demand for jewellery products. This, coupled with the unique geographic and tax advantages of Hong Kong and Macau, as well as the Group's cumulative brand awareness over the years, extensive retail network and management's effective sales strategy, will contribute to the Group's continuous business development. The Group remains positive about the mid- to long- term business prospect. Therefore, the Group will maintain its pragmatic and prudent business strategy, and will also take a proactive approach towards market challenges to capture growth opportunities, thereby uplifting its competitive advantage and strengthening its leading position in the jewellery retail market.

#### **INTERIM DIVIDEND AND SPECIAL DIVIDEND**

The Board has resolved to declare an interim dividend of HK\$0.315 (2014: HK\$0.55 per share) per ordinary share and a special dividend of HK\$0.235 per ordinary share, totalling HK\$0.55 per ordinary share for the six months ended 30 September 2015 to shareholders whose names appear on the register of members of the Company on 11 December 2015. The interim dividend and special dividend will be paid on or around 21 December 2015.

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

The register of members of the Company for the interim dividend and special dividend will be closed on 11 December 2015 and no transfer of shares will be registered on that day. In order to qualify for the interim dividend and special dividend, 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, Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 10 December 2015.

#### **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, 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 six months ended 30 September 2015, 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 in the Mainland China market due to the norms in the Mainland China market on “status parity” when future business negotiations are conducted there. Besides, members of the Board also include qualified professionals and other prominent and experienced individuals from our community. The Board considers that the existing Board composition, with the support of Board Committees, 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 standard set out in the Model Code and its code of conduct regarding directors’ securities transactions during the Period under review.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period under review.

#### **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee of the Company has reviewed the financial statements of the Company for the six months ended 30 September 2015. PricewaterhouseCoopers as the Company’s auditor has reviewed the unaudited interim results of the Group for the Period under review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

#### **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT 2015/2016**

This interim 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 Interim Report 2015/2016 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, 26 November 2015

*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.*