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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 2018

HIGHLIGHTS

- Revenue regained growth after three consecutive years of decline because of the improved retail sentiment, with an increase of 13.8% to approximately HK14.6 billion
- Benefiting from stable overall gross margin and operating leverage, profit attributable to equity holders increased by 34.7% and reached approximately HK\$1.4 billion
- A final dividend of HK\$0.55 per share was proposed, with annual dividend of HK\$1.10 per share, dividend payout ratio is 47.2%
- As at 31 March 2018, the Group had a global network of 1,642 shops, a net growth of 137 shops

FINANCIAL PERFORMANCE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Y-o-Y Change
Revenue	14,578,409	12,807,277	+13.8%
Gross Profit	3,741,377	3,277,061	+14.2%
Operating Profit	1,620,806	1,289,317	+25.7%
Profit for the year	1,370,314	1,026,968	+33.4%
Profit Attributable to Equity Holders	1,369,393	1,016,838	+34.7%
Basic Earnings per Share	HK\$2.33	HK\$1.73	+34.7%
Final Dividend per Share	HK\$0.55	HK\$0.40	+37.5%
Special Dividend per Share	–	HK\$0.15	Nil
Annual Dividend per Share	HK\$1.10	HK\$1.10	0%
Gross Margin	25.7%	25.6%	+0.1 p.p.
Operating Margin	11.1%	10.1%	+1.0 p.p.
Net Margin	9.4%	8.0%	+1.4 p.p.
EBITDA	1,718,819	1,366,536	+25.8%

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 2018 together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2018

	Note	2018 HK\$'000	2017 HK\$'000
Revenue	3	14,578,409	12,807,277
Cost of sales		<u>(10,837,032)</u>	<u>(9,530,216)</u>
Gross profit		3,741,377	3,277,061
Other income	5	183,364	175,594
Selling and distribution costs		(2,150,937)	(1,994,310)
Administrative expenses		(166,581)	(155,253)
Other gains/(losses), net	6	<u>13,583</u>	<u>(13,775)</u>
Operating profit	4	<u>1,620,806</u>	<u>1,289,317</u>
Finance income		28,922	23,982
Finance costs		<u>(6,392)</u>	<u>(9,011)</u>
Finance income, net		<u>22,530</u>	<u>14,971</u>
Share of results of associates	10	<u>(29,897)</u>	<u>(54,273)</u>
Profit before income tax		1,613,439	1,250,015
Income tax expenses	7	<u>(243,125)</u>	<u>(223,047)</u>
Profit for the year		<u>1,370,314</u>	<u>1,026,968</u>
Profit attributable to:			
Equity holders of the Company		1,369,393	1,016,838
Non-controlling interests		<u>921</u>	<u>10,130</u>
		<u>1,370,314</u>	<u>1,026,968</u>
Earnings per share for profit attributable to equity holders of the Company during the year	8		
Basic		<u>HK\$2.33</u>	<u>HK\$1.73</u>
Diluted	8	<u>HK\$2.33</u>	<u>HK\$1.73</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit for the year	<u>1,370,314</u>	<u>1,026,968</u>
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
<i>Remeasurements of employee benefit obligations</i>	16,646	1,349
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences:		
– Group	396,943	(158,405)
– Associates	12,478	(15,246)
Revaluation of available-for-sale financial assets	<u>(1,615)</u>	<u>(1,077)</u>
Other comprehensive income for the year	<u>424,452</u>	<u>(173,379)</u>
Total comprehensive income for the year	<u>1,794,766</u>	<u>853,589</u>
Attributable to:		
– Equity holders of the Company	1,789,668	845,372
– Non-controlling interests	<u>5,098</u>	<u>8,217</u>
Total comprehensive income for the year	<u>1,794,766</u>	<u>853,589</u>

CONSOLIDATED BALANCE SHEET

As at 31 March 2018

		As at 31 March	
	Note	2018 HK\$'000	2017 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		547,659	564,270
Land use rights		273,019	247,781
Investment properties		35,810	35,020
Interests in associates	10	67,593	85,012
Loan to an associate	11	94,927	90,830
Derivative financial instrument	12	50,782	48,979
Available-for-sale financial assets		6,075	7,690
Trading licence		1,080	1,080
Rental deposits and prepayment		212,167	121,204
Deferred income tax assets		47,114	45,954
		<u>1,336,226</u>	<u>1,247,820</u>
Current assets			
Inventories		7,991,727	6,972,770
Trade receivables	13	359,796	217,258
Deposits, prepayments and other receivables		364,765	323,323
Derivative financial instruments	12	–	9
Amount due from an associate	10	13,173	33,340
Loan to an associate	11	43,190	20,000
Income tax recoverable		8,134	2,956
Cash and bank balances		2,097,867	1,861,774
		<u>10,878,652</u>	<u>9,431,430</u>
Total assets		<u><u>12,214,878</u></u>	<u><u>10,679,250</u></u>

		As at 31 March	
		2018	2017
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		58,710	58,710
Share premium		2,494,040	2,494,040
Reserves		7,482,019	6,320,600
		10,034,769	8,873,350
Non-controlling interests		44,968	106,590
Total equity		10,079,737	8,979,940
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		100,714	81,670
Employee benefit obligations		8,237	23,754
		108,951	105,424
Current liabilities			
Trade payables, other payables and accruals	<i>14</i>	1,125,453	1,004,664
Amount due to an associate	<i>10</i>	3,555	1,995
Bank borrowings		415,000	–
Gold loans		311,283	437,151
Current income tax liabilities		170,899	150,076
		2,026,190	1,593,886
Total liabilities		2,135,141	1,699,310
Total equity and liabilities		12,214,878	10,679,250

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”) and the disclosure requirements of Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets, gold loans, 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 2017 and are relevant to the Group’s operations:

- Amendment to HKAS 7, “Disclosure initiative”. This amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- Amendment to HKAS 12, “Recognition of deferred tax assets for unrealized losses”. This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value.
- Amendment from annual improvements to HKFRSs 2014-2016 Cycle, on HKFRS 12, “Disclosure of interests in other entities”.

Except for the amendments to HKAS 7 which results in additional disclosure of changes in liabilities arising from financing activities, the adoption of the above amendments to standards did not have material impact on the consolidated financial statements or results in any significant changes to the Group’s significant accounting policies.

- (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 2018 or later periods, which the Group has not early adopted, are as follows:

Amendments to HKAS 40	Transfers of investment property ⁽¹⁾
Amendments to HKFRSs	Annual improvements 2014-2016 cycle ⁽¹⁾
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ⁽¹⁾
Amendments to HKFRS 4	Applying HKFRS 9 “Financial instruments” with HKFRS 4 “Insurance contracts” ⁽¹⁾
HKFRS 9	Financial instruments ⁽¹⁾
HKFRS 15	Revenue from contracts with customers ⁽¹⁾
Amendments to HKFRS 15	Clarifications to HKFRS 15 ⁽¹⁾
HK (IFRIC) 22	Foreign currency transactions and advance consideration ⁽¹⁾
Amendments to HKAS 28	Long-term interests in an associate or joint ventures ⁽²⁾
Amendments to HKFRSs	Annual improvements 2015-2017 cycle ⁽²⁾
HKFRS 9 (Amendment)	Prepayment features with negative compensation ⁽²⁾
HKFRS 16	Leases ⁽²⁾
HK (IFRIC) 23	Uncertainty over income tax treatments ⁽²⁾
HKFRS 17	Insurance contracts ⁽³⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ⁽⁴⁾

⁽¹⁾ Effective for annual period beginning on or after 1 January 2018

⁽²⁾ Effective for annual period beginning on or after 1 January 2019

⁽³⁾ Effective for annual periods beginning on or after 1 January 2021

⁽⁴⁾ To be announced by HKICPA

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2018 and have not been early adopted in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except those new standards set out below:

(i) HKFRS 9 “Financial instruments”

Nature of change

HKFRS 9 “Financial instruments” addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The equity investment that is currently classified as available-for-sale will satisfy the conditions for classification as at fair value through other comprehensive income (“FVOCI”) and the debt instruments currently classified as loans and receivables meet the conditions for classification at amortized cost under HKFRS 9. For the derivative financial instruments, it will also be classified at fair value through profit or loss (“FVTPL”). Hence there will be no significant change to the accounting for these assets. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets classified at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be no significant impact on the Group's accounting for its financial liabilities. Gold loans which involved cash settlement will be qualified for designation at fair value through profit or loss ("FVTPL") under HKFRS 9. Thus, there will be no significant change in the classification of these financial liabilities. However, under HKFRS 9, the fair value changes of these financial liabilities designated at FVTPL that is attributable to changes on own credit risk will be recognised in other comprehensive income. Based on management assessment undertaken to date, the change in fair values attributed to change in credit risk is not expected to be material and the Group does not expect any significant changes in measurement of these financial liabilities.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

HKFRS 9 is mandatory for financial years starting on or after 1 January 2018. The new standard is not expected to be applied by the Group until the financial year ending 31 March 2019.

(ii) HKFRS 15 "Revenue from contracts with customers"

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognised by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

The Group engaged are principally engaged in the sourcing, designing, wholesaling, trademark licensing and retailing of a variety of gold and platinum jewellery, and gem-set jewellery products.

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements and, based on the assessment undertaken to date, management has identified the following areas that are likely to be affected by the adoption of HKFRS 15:

- Rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. At this stage, the Group's estimates that the financial impact of applying new HKFRS 15 is not expected to be material.
- Customer loyalty program – The Group has set up a customer loyalty program and customers could earn reward points via their purchases. Under the program, customers could utilise these reward points to redeem gifts and coupons over a specific period. In applying HKFRS 15, a portion of the transaction price shall be deferred and be recognised only when the customers redeem their points or due to the expiration of these reward points. Currently, the Group recognise its obligation based on the estimated future costs for the redemption of reward points and deferred the related revenue. The Group does not expect the financial impact of implementing the new HKFRS 15 to be material.

Date of adoption by the Group

HKFRS 15 is mandatory for financial years starting on or after 1 January 2018. The new standard is not expected to be applied by the Group until the financial year ending 31 March 2019.

(iii) HKFRS 16 “Leases”

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$961,297,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Date of adoption by the Group

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 and share of results of associates 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.

Liabilities of reportable segments exclude deferred income tax liabilities, current income tax liabilities, bank borrowings, gold loans and corporate liabilities, 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 2018

	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>
Revenue							
Sales to external customers	8,771,979	2,223,114	65,050	2,223,920	–	–	13,284,063
Sales of scrap gold and platinum	–	–	641,144	–	–	–	641,144
	<u>8,771,979</u>	<u>2,223,114</u>	<u>706,194</u>	<u>2,223,920</u>	<u>–</u>	<u>–</u>	<u>13,925,207</u>
Inter-segment sales	133,162	262	2,429,032	476,822	–	(3,039,278)	–
Sales of merchandises	8,905,141	2,223,376	3,135,226	2,700,742	–	(3,039,278)	13,925,207
Royalty and service income	–	–	–	–	591,951	–	591,951
Consultancy fee income	–	–	–	–	61,251	–	61,251
Total	<u>8,905,141</u>	<u>2,223,376</u>	<u>3,135,226</u>	<u>2,700,742</u>	<u>653,202</u>	<u>(3,039,278)</u>	<u>14,578,409</u>
Results of reportable segments	<u>697,739</u>	<u>159,353</u>	<u>160,148</u>	<u>222,460</u>	<u>440,915</u>	<u>–</u>	<u>1,680,615</u>
A reconciliation of results of reportable segments to profit for the year is as follows:							
Results of reportable segments							1,680,615
Unallocated income							53,707
Unallocated expenses							(113,516)
Operating profit							1,620,806
Finance income							28,922
Finance costs							(6,392)
Share of results of associates							(29,897)
Profit before income tax							1,613,439
Income tax expenses							(243,125)
Profit for the year							1,370,314
Non-controlling interests							(921)
Profit attributable to equity holders of the Company							<u>1,369,393</u>

Year ended 31 March 2018							
	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>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Depreciation of property, plant and equipment	(52,906)	(23,060)	(4,170)	(11,281)	(5,790)	(19,849)	(117,056)
Amortisation of land use rights	–	–	–	(435)	(8,923)	(319)	(9,677)
Depreciation of investment properties	–	–	–	–	–	(1,177)	(1,177)
Additions of non-current assets	39,094	29,112	842	4,172	4,050	135,433	212,703
	<u>39,094</u>	<u>29,112</u>	<u>842</u>	<u>4,172</u>	<u>4,050</u>	<u>135,433</u>	<u>212,703</u>
As at 31 March 2018							
	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>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>5,050,651</u>	<u>1,963,530</u>	<u>766,839</u>	<u>2,976,945</u>	<u>485,622</u>		<u>11,243,587</u>
Interests in associates						67,593	67,593
Land and buildings						267,844	267,844
Investment properties						35,810	35,810
Deferred income tax assets						47,114	47,114
Income tax recoverable						8,134	8,134
Other unallocated assets						544,796	544,796
Total assets							<u>12,214,878</u>
Segment liabilities	<u>(247,842)</u>	<u>(46,198)</u>	<u>(180,403)</u>	<u>(196,307)</u>	<u>(381,331)</u>		<u>(1,052,081)</u>
Deferred income tax liabilities						(100,714)	(100,714)
Current income tax liabilities						(170,899)	(170,899)
Bank borrowings						(415,000)	(415,000)
Gold loans						(311,283)	(311,283)
Other unallocated liabilities						(85,164)	(85,164)
Total liabilities							<u>(2,135,141)</u>

Year ended 31 March 2017

	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>
Revenue							
Sales to external customers	7,959,286	1,659,391	117,712	1,958,559	–	–	11,694,948
Sales of scrap gold and platinum	–	–	596,188	–	–	–	596,188
	<u>7,959,286</u>	<u>1,659,391</u>	<u>713,900</u>	<u>1,958,559</u>	<u>–</u>	<u>–</u>	<u>12,291,136</u>
Inter-segment sales	196,922	81,502	2,011,307	432,471	–	(2,722,202)	–
Sales of merchandises	8,156,208	1,740,893	2,725,207	2,391,030	–	(2,722,202)	12,291,136
Royalty and service income	–	–	–	–	502,332	–	502,332
Consultancy fee income	–	–	–	–	13,809	–	13,809
Total	<u>8,156,208</u>	<u>1,740,893</u>	<u>2,725,207</u>	<u>2,391,030</u>	<u>516,141</u>	<u>(2,722,202)</u>	<u>12,807,277</u>
Results of reportable segments	<u>512,408</u>	<u>177,613</u>	<u>135,229</u>	<u>303,662</u>	<u>290,384</u>	<u>–</u>	<u>1,419,296</u>
A reconciliation of results of reportable segments to profit for the year is as follows:							
Results of reportable segments							1,419,296
Unallocated income							69,002
Unallocated expenses							(198,981)
Operating profit							1,289,317
Finance income							23,982
Finance costs							(9,011)
Share of results of associates							(54,273)
Profit before income tax							1,250,015
Income tax expenses							(223,047)
Profit for the year							1,026,968
Non-controlling interests							(10,130)
Profit attributable to equity holders of the Company							<u>1,016,838</u>

	Year ended 31 March 2017						
	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>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Depreciation of property, plant and equipment	(54,054)	(17,102)	(4,261)	(11,245)	(7,112)	(28,481)	(122,255)
Amortisation of land use rights	–	–	–	(423)	(7,562)	(310)	(8,295)
Depreciation of investment properties	–	–	–	–	–	(942)	(942)
Additions of non-current assets	43,617	26,562	369	6,568	2,896	88,221	168,233

	As at 31 March 2017						
	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>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	4,621,864	1,587,734	682,328	2,151,384	430,868		9,474,178
Interests in associates						85,012	85,012
Land and buildings						325,306	325,306
Investment properties						35,020	35,020
Deferred income tax assets						45,954	45,954
Income tax recoverable						2,956	2,956
Other unallocated assets						710,824	710,824
Total assets							10,679,250
Segment liabilities	(247,615)	(37,506)	(159,874)	(179,064)	(295,745)		(919,804)
Deferred income tax liabilities						(81,670)	(81,670)
Current income tax liabilities						(150,076)	(150,076)
Gold loans						(437,151)	(437,151)
Other unallocated liabilities						(110,609)	(110,609)
Total liabilities							(1,699,310)

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue		
Hong Kong	7,407,584	6,940,960
Mainland China	5,063,673	4,134,091
Macau and overseas	2,107,152	1,732,226
	14,578,409	12,807,277

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, interests in associate and loan to an associate) by location of assets is as follows:

	2018				2017			
	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	312,421	214,020	21,218	547,659	337,835	199,791	26,644	564,270
Land use rights	-	273,019	-	273,019	-	247,781	-	247,781
Investment properties	15,963	19,847	-	35,810	16,399	18,621	-	35,020
Prepayments for purchase of property, plant and equipment, and land use right	131,543	2,966	-	134,509	-	12,694	-	12,694
Trading licence	1,080	-	-	1,080	1,080	-	-	1,080
	461,007	509,852	21,218	992,077	355,314	478,887	26,644	860,845

4 OPERATING PROFIT

The operating profit is stated after charging the following:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cost of sales (<i>Note</i>)		
– cost of inventories sold	10,637,774	9,322,365
– cost of licensing business	199,258	207,851
	10,837,032	9,530,216
Staff costs (including the directors' emoluments)	864,985	737,794
Operating lease		
– minimum lease payments	626,939	645,875
– contingent rents	196,778	148,980
Commission expenses to credit card companies	100,665	95,300
Depreciation of property, plant and equipment	117,056	122,255
Depreciation of investment properties	1,177	942
Amortisation of land use rights	9,677	8,295
Loss on disposal of property, plant and equipment	1,783	1,966
Auditor's remuneration		
– Audit services	5,487	5,353
– Non-audit services	1,701	926

Note: Staff costs (including directors' emoluments) of HK\$317,483,000 (2017: HK\$284,915,000) are included in cost of sales.

5 OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Government subsidies		
– Value-added tax refund (<i>Note i</i>)	121,782	105,157
– Other subsidies (<i>Note ii</i>)	34,634	35,370
Rental income	4,974	4,762
Others	21,974	30,305
	<u>183,364</u>	<u>175,594</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 the 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.

6 OTHER GAINS/(LOSSES), NET

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Net realised (losses)/gains on derivative financial instruments (<i>Note</i>)	(29,551)	899
Realised fair value losses on China Gold Silver Group Limited share option	(9)	–
Fair value gains on convertible bond	1,803	2,844
Net realised gains/(losses) on gold loans	1,981	(14,815)
Net unrealised gains/(losses) on gold loans	2,020	(9,716)
Net exchange gains	37,339	7,013
	<u>13,583</u>	<u>(13,775)</u>

Note:

Derivative financial instruments mainly represent the gold contracts, gold future contracts and gold forward contracts. These derivative financial instruments are not qualified for hedge accounting.

7 INCOME TAX EXPENSES

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 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.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current taxation:		
– Hong Kong profits tax	88,296	80,047
– Overseas taxation	174,379	149,710
– (Over)/under-provision in prior years	(37,434)	696
Deferred income tax	17,884	(7,406)
	<u>243,125</u>	<u>223,047</u>

8 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\$1,369,393,000 (2017: HK\$1,016,838,000) and the weighted average number of 587,107,850 (2017: 587,107,850) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 March 2018 and 2017 is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

9 DIVIDENDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
2017/18 interim, paid, of HK\$0.35 (2016/17 interim: HK\$0.29) per ordinary share	205,488	170,261
2017/18 special, paid, of HK\$0.20 (2016/17 special: HK\$0.26) per ordinary share	117,421	152,648
	<u>322,909</u>	<u>322,909</u>
2017/18 final, proposed, of HK\$0.55 (2016/17 final: HK\$0.40) per ordinary share (<i>Note</i>)	322,909	234,843
2016/17 special, proposed, of HK\$0.15 per ordinary share	–	88,066
	<u>322,909</u>	<u>322,909</u>

Note: At a meeting held on 27 June 2018, the directors recommended the payment of a final dividend of HK\$0.55 per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company on 15 August 2018. This proposed dividend is not reflected as dividends payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2019.

10 INTERESTS IN ASSOCIATES

	Group	
	2018 HK\$'000	2017 HK\$'000
As at 1 April	85,012	154,531
Share of results of associates for the year (<i>Note (ii)</i>)	(29,897)	(54,273)
Share of reserve movement of associates for the year	<u>12,478</u>	<u>(15,246)</u>
As at 31 March	<u><u>67,593</u></u>	<u><u>85,012</u></u>
Amount due from an associate (<i>Note i</i>)	<u><u>13,173</u></u>	<u><u>33,340</u></u>
Amount due to an associate (<i>Note i</i>)	<u><u>(3,555)</u></u>	<u><u>(1,995)</u></u>

Notes:

- (i) Amount due from an associate of HK\$13,173,000 (2017: HK\$33,340,000) are trade in nature. Amount due from/(to) associates are denominated in HK\$ and are unsecured, interest-free and repayable on demand.
- (ii) The financial year of one of the associates is not conterminous with that of the Group and the financial statements used for equity accounting are for the 12 months ended 31 December 2017. This associate uses 30 June as its financial year to conform with its holding company's reporting date.
- (iii) The Group's associates did not have any significant capital commitments as at 31 March 2018 and 2017.

11 LOAN TO AN ASSOCIATE

	2018 HK\$'000	2017 HK\$'000
Non-current portion (<i>Note i</i>)	<u>94,927</u>	<u>90,830</u>
Current portion (<i>Note ii</i>)	<u>43,190</u>	<u>20,000</u>
	<u><u>138,117</u></u>	<u><u>110,830</u></u>

Notes:

- (i) In connection with the acquisition of China Gold Silver Group Limited ("CGS") on 6 June 2014, both of the Group and Hong Kong Resources Holdings Company Limited ("HKRH") each agreed 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 acquisition amounting to HK\$19,793,000 is regarded as part of the cost of the investment in CGS.

- (ii) The Group and HKRH each agreed to provide short term shareholder loans of HK\$43,190,000 in total (2017: HK\$20,000,000) to CGS. The short term shareholder loans are interest bearing at 2% per annum and with maturity within one year.

12 DERIVATIVE FINANCIAL INSTRUMENT

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current portion		
Convertible bond (<i>Note</i>)	50,782	48,979
Current portion		
CGS Share Option	–	9
	<u>50,782</u>	<u>48,988</u>

Note:

On 6 June 2014, the Group 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 Group. The convertible bond was initially recognised at HK\$57,080,000 and subsequently revalued to HK\$50,782,000 at 31 March 2018 (2017: HK\$48,979,000).

The fair value gain of HK\$1,803,000 (2017: fair value loss of HK\$2,844,000) was included under “Other gains/(losses), net” in the consolidated income statement for the year ended 31 March 2018.

13 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 by due date is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0–30 days	244,820	143,542
31–60 days	76,925	44,481
61–90 days	20,170	20,371
91–120 days	8,769	2,944
Over 120 days	9,112	5,920
	<u>359,796</u>	<u>217,258</u>

As at 31 March 2018, trade receivables of HK\$17,881,000 (2017: HK\$8,864,000) were past due but not considered impaired, all of which were aged over 90 days.

14 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals are trade payables of HK\$380,134,000 (2017: HK\$381,575,000) and the ageing by due date is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 – 30 days	276,949	247,907
31 – 60 days	79,244	120,730
61 – 90 days	19,596	11,224
91 – 120 days	4,345	1,417
Over 120 days	–	297
	<hr/> 380,134 <hr/>	<hr/> 381,575 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Revenue

HK\$14,578M

+13.8%

Operating Profit

HK\$1,621M

+25.7%

Profit Attributable to Equity Holders

HK\$1,369M

+34.7%

Mainland China E-commerce Business Performance

Revenue: +88.7% YoY Change

Contribution to Mainland China

Retail Revenue[#]: 15.5% (FY2017: 11.0%)

[#] Sales of self-operated shops and
e-commerce business

Basic Earnings per Share

HK\$2.33

+34.7%

Proposed Final Dividend per Share

HK55 Cents

Annual Dividend Payout Ratio: 47.2%

Overall Net Shop Additions

Lukfook: +135

Mainland China: +132

Hong Kong, Macau & Overseas: +3

3D-GOLD: +2

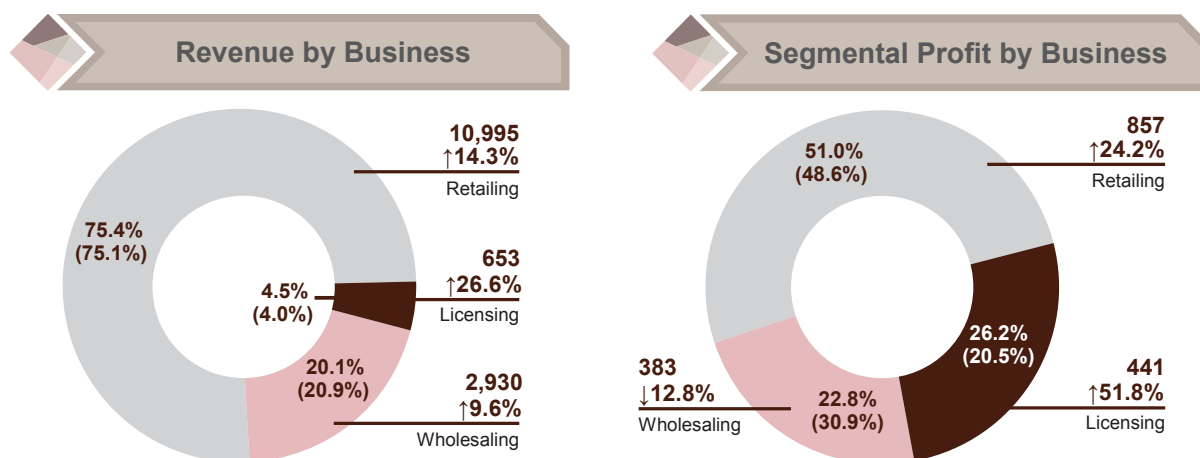
Mainland China: +2

Results

Benefiting from the overall economic recovery, successful product strategy and positive retail sentiment, Luk Fook Holdings (International) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded revenue growth of 13.8% to HK\$14,578,409,000 (2017: HK\$12,807,277,000) for the year ended 31 March 2018 (the “Year under review”). With a stable overall gross margin of 25.7% (2017: 25.6%), gross profit therefore rose by 14.2% to HK\$3,741,377,000 (2017: HK\$3,277,061,000), while the total operating expenses to revenue ratio decreased to 15.9% (2017: 16.8%). Therefore, operating profit improved by 25.7% to HK\$1,620,806,000 (2017: HK\$1,289,317,000). Operating margin was 11.1% (2017: 10.1%), while net margin increased by 1.4 p.p. to 9.4% (2017: 8.0%). Profit attributable to equity holders increased by 34.7% to HK\$1,369,393,000 (2017: HK\$1,016,838,000), which was higher than expected. Basic earnings per share were HK\$2.33 (2017: HK\$1.73).

Overview

During the Year under review, the Group added a net total of 135 new Lukfook shops worldwide, including a net addition of 132 shops in Mainland China, 1 self-operated shop in both Hong Kong and San Francisco, the United States plus the first licensed shop in Cambodia. As at 31 March 2018, the Group had a global network of 1,642 shops (2017: 1,505 shops), including 1,631 Lukfook shops (2017: 1,496 shops) and 11 3D-GOLD self-operated shops (2017: 9 shops) operated in Mainland China, with business spanning across Hong Kong, Macau, Mainland China, Singapore, Korea, Malaysia, Cambodia, the United States, Canada and Australia.



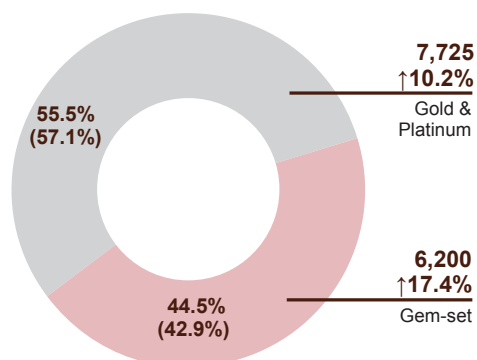
Remarks: Comparative figures for FY2017 are shown in brackets

The retail business was the Group's primary source of revenue. During the Year under review, its revenue rose by 14.3% year-on-year to HK\$10,995,093,000 (2017: HK\$9,618,677,000) under the improving overall retail sentiment, accounting for 75.4% (2017: 75.1%) of the Group's total revenue. With increased sales mix of gem-set jewellery products, segmental profit of the retail business therefore increased by 24.2% to HK\$857,092,000 (2017: HK\$690,021,000), accounting for 51.0% (2017: 48.6%) of the total; and its segmental profit margin was 7.8% (2017: 7.2%).

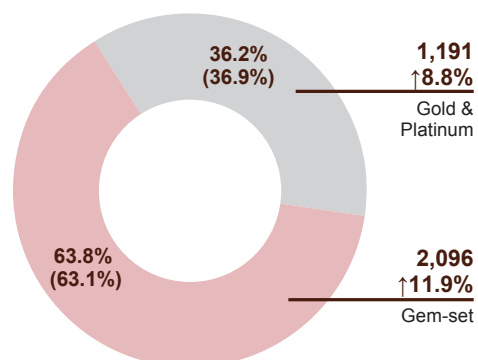
Attributable to the increase in the number of licensed shops, the wholesale business revenue rose by 9.6% over the corresponding period last year to HK\$2,930,114,000 (2017: HK\$2,672,459,000), accounting for 20.1% (2017: 20.9%) of the Group's total revenue. However, in order to enhance market competitiveness, the wholesale price of gem-set jewellery products have been reduced. In addition, the realised profit of the gem-set jewellery products of inter-segmental wholesale transactions in Mainland China went back to a more normal level. These two factors led to decrease in gross margin of wholesale business, resulting in the decline in its segmental profit by 12.8% to HK\$382,608,000 (2017: HK\$438,891,000), accounting for 22.8% (2017: 30.9%) of the total. Its segmental profit margin was 13.1% (2017: 16.4%).

Licensing income, which accounted for 4.5% (2017: 4.0%) of the Group's total revenue, increased by 26.6% to HK\$653,202,000 (2017: HK\$516,141,000) due to an increase in the number of licensed shops as well. Its segmental profit margin significantly improved to 67.5% (2017: 56.3%) because of high fixed cost proportion in its cost structure. It helped to offset the impact of the reduction in wholesale gross margin of gem-set jewellery products. Its segmental profit increased by 51.8% to HK\$440,915,000 (2017: HK\$290,384,000), accounting for 26.2% (2017: 20.5%) of the total.

Sales¹ by Product



Gross Profit² by Product



¹ Sales = Revenue – Licensing Income

² Gross Profit = Consolidated Gross Profit – Gross Profit of Licensing Income

Remarks: Comparative figures for FY2017 are shown in brackets

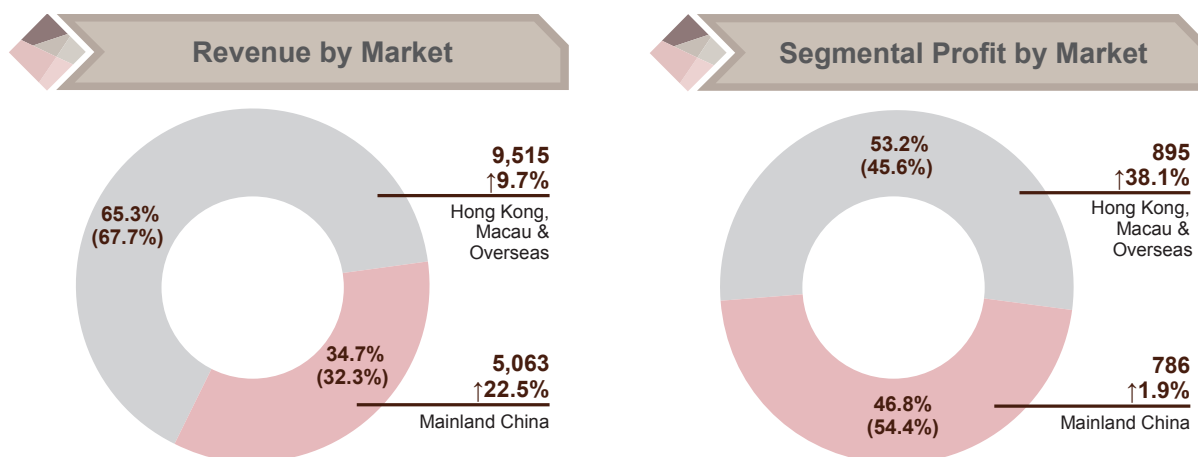
Gold products remained the most favourite item. Sales of gold and platinum products increased by 10.2% to HK\$7,725,533,000 (2017: HK\$7,012,528,000), accounting for 55.5% (2017: 57.1%) of the overall sales (Group revenue minus licensing income). As gross margin of gold products stayed flat at around 15.0% (2017: 15.2%), gross profit of gold and platinum products therefore increased by 8.8% to HK\$1,191,303,000 (2017: HK\$1,094,924,000), accounting for 36.2% (2017: 36.9%) of the overall gross profit (consolidated gross profit of the Group minus gross profit of licensing income). On the other hand, sales of gem-set jewellery products rose by 17.4% to HK\$6,199,674,000 (2017: HK\$5,278,608,000), accounting for 44.5% (2017: 42.9%) of the overall sales. Because of reduction in gross margin in Mainland China's wholesale business, gem-set jewellery products' gross margin decreased by 1.7 p.p. to 33.8% (2017: 35.5%), while its gross profit, as a result, only increased by 11.9% to HK\$2,096,130,000 (2017: HK\$1,873,848,000), accounting for 63.8% (2017: 63.1%) of the overall gross profit.

During the Year under review, the overall same store sales growth* of the Group, after three consecutive years of decline, turned to a positive growth of +9.2% (2017: -18.3%). SSSG for the Hong Kong and Macau market was +9.4% (2017: -19.5%) and that for the Mainland China market was +4.6% (2017: -4.8%). SSSG for gold and platinum products was +6.6% (2017: -24.6%) and that for gem-set jewellery products was +13.3% (2017: -6.3%).

* Same store sales growth ("SSSG") 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.

The Group has been striving to diversify its product mix to offer customers with more choices. Since 2010, the Group has been engaging in the mid- to high-end watch business. As at 31 March 2018, the Group was the authorised dealer of 24 watch brands, including BALL and its BALL for BMW series, BALMAIN, BULOVA, CERTINA, COINWATCH, DOXA, EMILE CHOURIET, ENICAR, ERNEST BOREL, ETERNA, HAMILTON, H. MOSER & CIE, LONGINES, LOUIS ERARD, LUDOVIC BALLOUARD, MIDO, OMEGA, RADO, ROMAGO SWISS, TISSOT, URWERK, VICTORINOX SWISS ARMY, WENGER, and BIJOU MONTRE. For the Year under review, the revenue of watch business decreased by 14.8% to HK\$179,988,000 (2017: HK\$211,182,000) when compared with last year, accounting for 1.2% (2017: 1.6%) of the Group's total revenue.

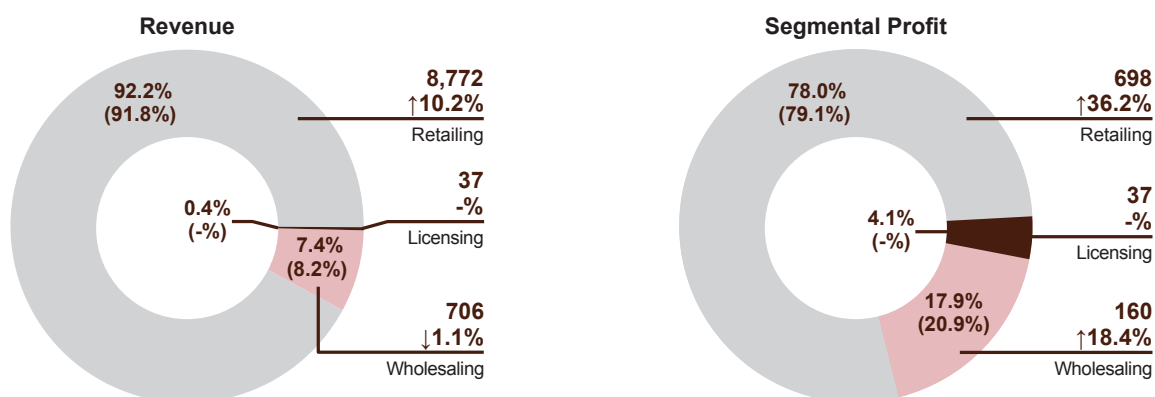
BUSINESS REVIEW



Remarks: Comparative figures for FY2017 are shown in brackets

	Segmental Profit Margin	Y-o-Y Change
Hong Kong, Macau and Overseas	9.4%	+1.9 p.p
Mainland China	15.5%	-3.2 p.p
Overall	11.5%	+0.4 p.p

Hong Kong, Macau and Overseas



Remarks: Comparative figures for FY2017 are shown in brackets

Segmental Profit Margin		
	Hong Kong, Macau and Overseas	Y-o-Y Change
Retailing	8.0%	+1.6 p.p
Licensing	99.8%	N/A
Wholesaling	22.7%	+3.8 p.p
Overall	9.4%	+1.9 p.p

Hong Kong, Macau and Overseas

Hong Kong

The Hong Kong market was the key source of revenue for the Group. Visitors from Mainland China had been the major driver for the retail business growth in Hong Kong for the past few years. Despite the impact of the slowdown in economic growth in Mainland China and the changes to the Individual Visit Scheme, there was gradual improvement in consumption expenditure per capita and spending power of consumers recently, contributed by the local policy focus of promoting tourism. According to the statistics on visitor arrivals to Hong Kong published by the Hong Kong Tourism Board in January 2018, visitor arrivals from Mainland China in 2017 rose by 3.9% year-on-year to approximately 44.45 million. According to the visitor arrival statistics published in April 2018, Mainland Chinese visitors from January to March 2018 increased by 12.6% year-on-year to approximately 12.18 million. In respect of tourist spending, the value of sales of jewellery, watches and clocks, and valuable gifts in 2017 increased by 5.2% when compared to 2016, according to the figures on retail sales released by the Census and Statistics Department of Hong Kong in May 2018. The sales value of jewellery, watches and clocks, and valuable gifts from January to March 2018 rose by 21.7% over the corresponding period last year. It indicated the recovery of the retail market and a positive market sentiment. Therefore, the Group's retail revenue in the Hong Kong market increased by 7.0% to HK\$6,664,827,000 (2017: HK\$6,227,060,000) during the Year under review. As at 31 March 2018, the Group operated a total of 48 self-operated shops (2017: 47 shops) in Hong Kong.

Macau

According to the tourism statistics published by the Statistics and Census Service of the Macau Special Administrative Region on 30 April 2018, visitor arrivals to Macau in 2017 increased by 5.4% over last year to 32.61 million; while the number of visitor arrivals from January to March 2018 rose by 8.6% year-on-year. With the better retail sentiment in Macau than in Hong Kong, the Group's revenue generated from the Macau market increased by 18.4% to HK\$1,833,983,000 (2017: HK\$1,549,409,000) during the Year under review. As at 31 March 2018, the Group had a total of 10 self-operated shops (2017: 10 shops) in Macau.

Overseas

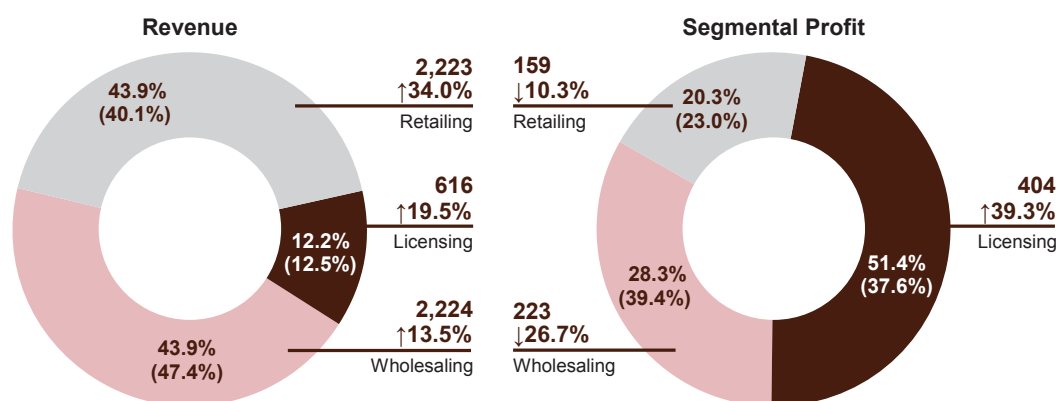
Adhering to its motto "Brand of Hong Kong, Sparkling the World", the Group has been seeking new opportunities around the world in recent years. During the Year under review, the Group added 1 Lukfook self-operated shop in San Francisco, the United States and the first Lukfook licensed shop in Cambodia. As at 31 March 2018, the Group operated a total of 12 overseas shops (2017: 10 shops), including self-operated shops of 1 in Singapore, 2 in Malaysia, 4 in the United States, 2 in Canada and 1 in Australia, as well as 1 licensed shop in both Korea and Cambodia.

Retail revenue from the Hong Kong, Macau and overseas markets increased by 10.2% to HK\$8,771,979,000 (2017: HK\$7,959,286,000), accounting for 60.2% (2017: 62.1%) of the Group's total revenue. Its segmental profit rose by 36.2% to HK\$697,739,000 (2017: HK\$512,408,000) as a result of the increase in sales mix of gem-set jewellery products and the benefits of operating leverage, which accounted for 41.5% (2017: 36.1%) of the total. Its segmental profit margin was 8.0% (2017: 6.4%). Its wholesale business revenue slightly decreased by 1.1% to HK\$706,194,000 (2017: HK\$713,900,000), accounting for 4.8% (2017: 5.6%) of the Group's total revenue. Its segmental profit increased by 18.4% to HK\$160,148,000 (2017: HK\$135,229,000) because of the increase in centralised purchases, accounting for 9.5% (2017: 9.5%) of the total, while its segmental profit margin increased to 22.7% (2017: 18.9%). Benefited from the new consultancy services income from certain authorised suppliers, Hong Kong's licensing income was HK\$36,563,000, accounting for 0.3% of the Group's total revenue. Its segmental profit was HK\$36,496,000, which accounted for 2.2% of the total.

Overall speaking, total revenue from the Hong Kong, Macau and overseas markets increased by 9.7% to HK\$9,514,736,000 (2017: HK\$8,673,186,000) during the Year under review, accounting for 65.3% (2017: 67.7%) of the Group's total revenue. Its segmental profit increased by 38.1% to HK\$894,383,000 (2017: HK\$647,637,000), accounting for 53.2% (2017: 45.6%) of the total, while its segmental profit margin was 9.4% (2017: 7.5%).

The SSSG for gold and platinum products in the Hong Kong, Macau and overseas markets was +5.6% (2017: -26.1%), while that for gem-set jewellery products improved to +14.6% (2017: -6.8%).

Mainland China



Remarks: Comparative figures for FY2017 are shown in brackets

Segmental Profit Margin		
	Mainland China	Y-o-Y Change
Retailing	7.2%	-3.5 p.p
Licensing	65.6%	+9.3 p.p
Wholesaling	10.0%	-5.5 p.p
Overall	15.5%	-3.2 p.p

Mainland China

During the Year under review, because of the improvement in the retail environment and the increase in the number of self-operated shops, retail revenue from the Mainland China market grew substantially by 34.0% to HK\$2,223,114,000 (2017: HK\$1,659,391,000), accounting for 15.2% (2017: 13.0%) of the Group's total revenue. As the gross margin of gold products returned to a more normal level, its segmental profit decreased by 10.3% to HK\$159,353,000 (2017: HK\$177,613,000), accounting for 9.5% (2017: 12.5%) of the total profit. Its segmental profit margin was 7.2% (2017: 10.7%). The SSSG for gold and platinum products in Mainland China was +6.8% (2017: -8.2%) and that for gem-set jewellery products was -0.7% (2017: +4.7%).

Due to the increase in the number of new licensed shops, revenue of the wholesale business in the Mainland China market rose by 13.5% to HK\$2,223,920,000 (2017: HK\$1,958,559,000), which accounted for 15.3% (2017: 15.3%) of the Group's total revenue. With the declined gross margin as a result of reduction in wholesale price of gem-set jewellery products for enhancing market competitiveness, plus its realised profit on inter-segmental transactions going back to a more normal level, its segmental profit decreased by 26.7% to HK\$222,460,000 (2017: HK\$303,662,000), accounting for 13.2% (2017: 21.4%) of the total. Its segmental profit margin was 10.0% (2017: 15.5%).

Licensing income increased by 19.5% to HK\$616,639,000 (2017:HK\$516,141,000) due to the increase in the number of licensed shops as well, accounting for 4.2% (2017: 4.0%) of the Group's total revenue. Its segmental profit margin increased substantially to 65.6% (2017: 56.3%) because of high fixed cost proportion in its cost structure, offsetting the impact of wholesale gross margin decline of gem-set jewellery products. The segmental profit of licensing increased significantly by 39.3% to HK\$404,419,000 (2017: HK\$290,384,000), which accounted for 24.1% (2017: 20.5%) of the total.

As at 31 March 2018, the Group had a total of 1,561 shops (2017: 1,429 shops) under the "Lukfook" brandname in Mainland China, including 157 self-operated shops (2017: 133 shops) and 1,404 licensed shops (2017: 1,296 shops). During the Year under review, the Group reported a net increase of 108 Lukfook licensed shops (2017: 36 shops) and 24 Lukfook self-operated shops (2017: 28 shops) in Mainland China. 17 (2017: 23 shops) of the new self-operated shops were opened by a joint venture (in which the Group held a 51% equity interest) established with a licensee. Together with 11 3D-GOLD self-operated shops, the Group operated a total of 1,572 shops in Mainland China.

FY2018 Mainland China E-Commerce Business Performance

- ◆ **Revenue**
+88.7% YoY Change
- ◆ **Contribution to Mainland China Retail Revenue**
15.5% (FY2017: 11.0%)
- ◆ **Contribution to Group's Retail Revenue**
3.1% (FY2017: 1.9%)

◆ **Average Selling Price**
(value-added tax (VAT) included)
RMB1,050 (+31.3% YoY Change)


◆ **FY2019 Revenue Growth Target**
30%

Remarks: Comparative figures for FY2017 are shown in brackets

In light of the rapid development of e-commerce, revenue of e-commerce business from Mainland China increased by 88.7% to HK\$343,875,000 (2017: HK\$182,198,000) during the Year under review, accounting for 15.5% (2017: 11.0%) of the retail revenue in Mainland China and 3.1% (2017: 1.9%) of the Group's retail revenue. Sales of gold and platinum products accounted for 77.3% (2017: 75.5%) of its sales mix while sales of gem-set jewellery products accounted for 22.7% (2017: 24.5%).

Overall speaking, during the Year under review, revenue from the Mainland China market increased by 22.5% to HK\$5,063,673,000 (2017: HK\$4,134,091,000), accounting for 34.7% (2017: 32.3%) of the Group's total revenue. Its segmental profit increased by 1.9% to HK\$786,232,000 (2017: HK\$771,659,000), accounting for 46.8% (2017: 54.4%) of the total; and its segmental profit margin was 15.5% (2017: 18.7%).

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

 Profit/(Loss)			
HK\$M	FY2018	FY2017	Y-o-Y Change
50% Share of Profit/(Loss) of Associate	(30)	(54)	24
Valuation Gain/(Loss) on Convertible Bond	2	3	(1)
Wholesale Gross Profit	6	9	(3)
Interest Income on Working Capital Loan	4	4	–
Interest Income on Convertible Bond	2	2	–
Total	(16)	(36)	20

The loss on investments and operating activities in HKRH and its subsidiaries substantially reduced by 55.6% to approximately HK\$16,000,000 (2017: loss of HK\$36,000,000) during the Year under review.

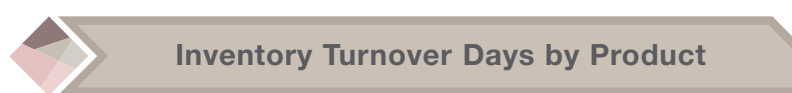
[#] *HKRH represents Hong Kong Resources Holdings Company Limited (Stock Code: 2882) which conducts jewellery retail and franchise businesses under the brandname of “3D-GOLD” in Hong Kong, Macau and Mainland China.*

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 March 2018, the Group's cash and bank balances amounted to approximately HK\$2,098,000,000 (2017: approximately HK\$1,862,000,000). The Group's net gearing ratio at the year-end was 0% (2017: 0%), which was calculated by using the ratio of total bank borrowings and gold loans of approximately HK\$726,000,000 (2017: approximately HK\$437,000,000) less cash and bank balances against total shareholders' equity of approximately HK\$10,035,000,000 (2017: approximately HK\$8,873,000,000). Net cash was approximately HK\$1,372,000,000 (2017: approximately HK\$1,425,000,000). The debt-to-equity ratio was 21.3% (2017: 19.1%), being the ratio of total liabilities of approximately HK\$2,135,000,000 (2017: approximately HK\$1,699,000,000) against total shareholders' equity of approximately HK\$10,035,000,000 (2017: approximately HK\$8,873,000,000). The Group's income and expenditure streams are mainly denominated in Hong Kong dollars.

Inventory



The chart is a horizontal bar chart titled "Inventory Turnover Days by Product". It compares the inventory turnover days for Gold, Gem-set, and Overall products for FY2018 and FY2017. The bars for FY2018 are dark brown, and the bars for FY2017 are light grey. The values are: Gold (156 vs 152), Gem-set (405 vs 436), and Overall (257 vs 261).

	FY2018	FY2017
Gold	156	152
Gem-set	405	436
Overall	257	261

As at 31 March 2018, the Group's inventory increased by 14.6% to approximately HK\$7,992,000,000 (2017: approximately HK\$6,973,000,000) due to an increase in the number of self-operated shops. The average number of inventory turnover days was 257 days (2017: 261 days) with the inventory turnover days of gold products being 156 days (2017: 152 days) and that of gem-set jewellery products being 405 days (2017: 436 days).

Capital Expenditure

During the Year under review, the Group's capital expenditures amounted to approximately HK\$213,000,000 (2017: approximately HK\$168,000,000), including the costs of properties, leasehold lands, land use rights, leasehold improvements, furniture, fixtures and equipment.

Capital Commitments

As at 31 March 2018, the Group's total capital commitments amounted to approximately HK\$489,000,000 (2017: approximately HK\$13,000,000).

Contingent Liabilities

As at 31 March 2018, the Group had outstanding financial guarantees amounting to approximately HK\$899,000,000 (2017: approximately HK\$764,000,000) issued in favour of several banks in respect of banking facilities granted to an associate.

Human Capital Policy

As at 31 March 2018, the number of employees of the Group was approximately 7,500 (2017: approximately 7,400). The management reviews and examines the remuneration policies on a regular basis to ensure that fair rewards and compensation are provided to our employees. Remuneration packages are structured by reference to comparable market rates while bonuses and other rewards are linked to the performances of the Group and the employees. This policy aims to motivate employees with monetary incentives to work together to enhance the Group's business performance.

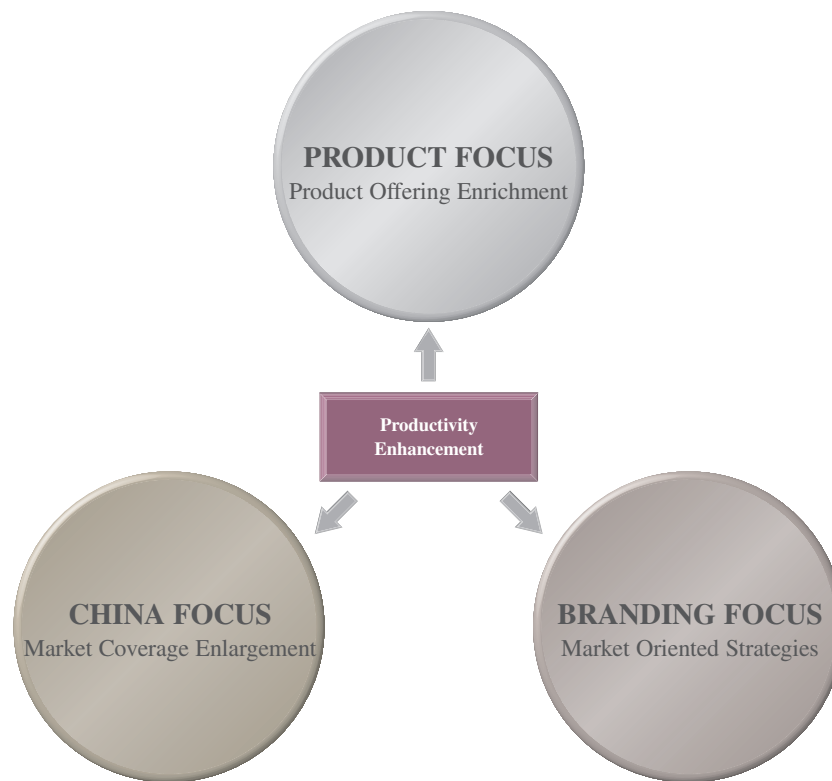
BRANDING

In order to align with the branding theme of “Love is Beauty”, the Group has been building a welcoming and warm-hearted brand image, and strengthening customers' emotional attachment to the brand through outstanding marketing campaigns and excellent customer service programmes. Targeting the mid- to high-end markets in Mainland China, Hong Kong, Macau and overseas, the Group has implemented comprehensive marketing strategies, and launched diversified product offerings with exquisite designs to seize the business opportunities in the middle-class, wedding and kids markets.

The Group capitalized on different promotional channels, such as public relations activities, advertising and various kinds of sponsorships, to further enhance its brand awareness. The Group also captured the rapid growth of online marketing by placing advertisements on major social media platforms, portals, video platforms and search engines, and promoted its products via live broadcast platforms, influential we-media accounts, Internet celebrities and other popular new media platforms. In addition to sponsoring medals for marathons and launching joint promotions with travel, movie and beauty related brands to reach out to the middle-class customers, the Group participated in wedding expos and a series of promotional activities to seize the business opportunities in the wedding market. Furthermore, in view of the growing impact of e-sports, the Group sponsored the champion ring for Tencent's famous online game “Honour of Kings” in order to attract young customers and increase brand exposure.

The Group's tireless efforts in brand building have been well received by the industry and the market. The Group has received numerous awards in recognition of its outstanding achievements in branding, corporate management, customer service, community welfare and environmental protection.

OUTLOOK



During the Year under review, with the improved overall economic environment and increased visitor arrivals in Hong Kong and Macau, despite a higher base in the second half of the financial year than the first half, the business performance in the second half of the year was even better than expectation. Moreover, stepping into the new financial year, since April 2018, the market sentiment remained positive, especially for the Hong Kong and Macau market with SSSG of more than +20%, and the same store sales of gem-set jewellery products in the Mainland market also restored to a growth track. However, under the influence of US-China trade war and geopolitics, there are still quite many uncertainties around. Therefore, the Group remains prudently optimistic about its business development in the coming year and expects to have continuing growth in its business. Moreover, with the anticipated considerable growth of the middle-class population in Mainland China, the Group also remains optimistic about the mid- to long-term business prospects. The Group will focus on product offering enrichment, market coverage enlargement in Mainland China and market oriented strategies to penetrate into the mass market, covering middle-class as well as kids.

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 (2017–2020) 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 aspects. Therefore, the per capita disposable income of all national residents and urban residents are both increasing. In addition, the recent tax reform of the individual income tax will also help to enhance people's spending power. All these factors, together with the stable annual number of weddings in Mainland China and the implementation of second child policy, would foster the long-term development of the mass luxury sector. The demand for luxury products for kids will also increase gradually. Accordingly, the Group will offer more fashionable yet affordable products to target at the mass market covering middle-class customers as well as kids.

China Focus

With improvement in the operating environment, the number of net shop additions in Mainland China reached 134 during the Year under review, while the target for net addition of shops in the coming year is at least 120 shops. The Group is also committed to further developing its e-commerce business and strengthening cooperation with e-commerce platforms in Mainland China. During the Year under review, the Group had a total of 10 online sales platforms in Mainland China, including Tmall.com, JD.com and VIP.com. In light of the enormous spending potential of young consumers on online sales platforms, the Group will step up its efforts to promote the sales of affordable luxury and good-value-for-money jewellery products to expand its footprint in the young consumer market. The Group targets to grow e-commerce revenue by 30% in the coming year.

Branding Focus

By understanding customers' spending habits, the Group will adopt holistic approach to penetrate into the markets for the middle-class, wedding couples and kids. It will also continue to attract customers and encourage local consumption by visual merchandising enhancement, cross-selling boosting and VIP promotional activities, so as to improve sales and profits. Given the importance of social media in product promotion, the Group will continue to showcase and promote its products on mobile applications and social media platforms such as Facebook and WeChat, etc.

Productivity Enhancement

Apart from accelerating sales growth, the Group will also strive to enhance its operational efficiency and control costs in every operational aspect, including the improvement of service quality control, enhancement of support to licensees, promotion of continuous improvement culture and full automation of operational processes in the hope of delivering better results to its shareholders.

In the long run, the Group is optimistic about its business prospects. Driven by the unique geographic and tax advantages of Hong Kong and Macau, the Group's cumulative brand awareness and extensive retail network, the management's diversified sales strategies and cost-effectiveness enhancement measures, the strict quality control, the increasing per capita income in Mainland China, as well as the solid customer demand for jewellery products, the outlook for the jewellery industry remains positive, which will be conducive to the sustainable development of the Group.

FINAL DIVIDEND

The directors proposed a final dividend of HK\$0.55 per ordinary share for the year ended 31 March 2018 (2017: HK\$0.55 per share) to shareholders whose names appear on the register of members of the Company on 21 August 2018. 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\$645,818,000 for the year (2017: HK\$1.10 per ordinary share, totalling HK\$645,818,000). Subject to the approval of the shareholders at the forthcoming annual general meeting (the “AGM”) of the Company to be held on 15 August 2018, the final dividend will be paid on or around 30 August 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company for the AGM will be closed from 10 August 2018 to 15 August 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance at the AGM to be held on 15 August 2018, 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, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 9 August 2018.

The register of members of the Company for the final dividend will also be closed on 21 August 2018 and no transfer of shares will be registered on that day. In order to qualify for the final 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, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 20 August 2018.

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 2018 (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.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the financial statements of the Company for the year ended 31 March 2018. 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 2018 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 2017/18

This annual results announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (the “HKEx”) (www.hkexnews.hk) and the Company (lukfook.com). The Annual Report 2017/18 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 heartfelt 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, 27 June 2018

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, BBS, 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.