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 2018

HIGHLIGHTS

- Revenue reached HK$7.9 billion, representing an increase of 25.1% as compared with the same period last year
- SSSG* for the Hong Kong and Macau market and the Mainland China market was +21.4% and +0.7% respectively
- Gross profit increased by 13.1% to HK$1.9 billion
- Operating profit increased by 29.8% to HK$838 million
- Profit attributable to equity holders amounted to HK$665 million, an increase of 27.9%
- Basic earnings per share were HK$1.13, increased by 27.0%
- Proposed interim dividend of HK$0.55 per share, representing 48.5% dividend payout ratio
- Net addition of 94 Lukfook shops during the period with a total of 1,725 Lukfook shops globally at period end

* *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.*

FINANCIAL PERFORMANCE

	For the six months ended 30 September 2018 *HK$'000*	For the six months ended 30 September 2017 *HK$'000*	Y-o-Y Change
Revenue	**7,859,454**	6,283,454	+25.1%
Gross Profit	**1,863,633**	1,647,260	+13.1%
Operating Profit	**837,982**	645,359	+29.8%
Profit for the period	**669,955**	521,396	+28.5%
Profit Attributable to Equity Holders	**665,423**	520,364	+27.9%
Basic Earnings per Share	**HK$1.13**	HK$0.89	+27.0%
Interim Dividend per Share	**HK$0.55**	HK$0.35	+57.1%
Special Dividend per Share	**–**	HK$0.20	N/A
Dividend Payout Ratio	**48.5%**	62.1%	-13.6p.p.
Gross Margin	**23.7%**	26.2%	-2.5p.p.
Operating Margin	**10.7%**	10.3%	+0.4p.p.
Net Margin	**8.5%**	8.3%	+0.2p.p.
EBITDA	**887,679**	683,147	+29.9%
EBITDA Margin	**11.3%**	10.9%	+0.4p.p.
Total Operating Expenses to Revenue Ratio	**15.3%**	17.1%	-1.8p.p.
Effective Tax Rate	**20.1%**	17.4%	+2.7p.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 2018 together with comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2018

		Unaudited for the six months ended 30 September	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*5*	**7,859,454**	6,283,454
Cost of sales		**(5,995,821)**	(4,636,194)
Gross profit		**1,863,633**	1,647,260
Other income	*7*	**164,790**	76,523
Selling and distribution costs		**(1,102,625)**	(996,955)
Administrative expenses		**(103,118)**	(75,145)
Other gains/(losses), net	*8*	**15,302**	(6,324)
Operating profit	*6*	**837,982**	645,359
Finance income		**19,592**	12,821
Finance costs		**(12,772)**	(2,615)
Finance income, net		**6,820**	10,206
Share of results of associates	*12*	**(5,988)**	(24,540)
Profit before income tax		**838,814**	631,025
Income tax expenses	*9*	**(168,859)**	(109,629)
Profit for the period		**669,955**	521,396
Profit attributable to:			
Equity holders of the Company		**665,423**	520,364
Non-controlling interests		**4,532**	1,032
		669,955	521,396
Earnings per share for profit attributable to equity holders of the Company during the period	*10*		
– Basic		**HK$1.13**	HK$0.89
– Diluted		**HK$1.13**	HK$0.89

Details of dividends to equity holders of the Company are set out in Note 11.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Unaudited for the six months ended 30 September 2018 *HK$'000*	2017 *HK$'000*
Profit for the period	**669,955**	521,396
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences		
– Group	**(426,897)**	145,392
– Associates	**(3,260)**	6,581
Revaluation of available-for-sale financial assets	**–**	(1,077)
Items that will not be reclassified to profit or loss		
Revaluation of financial assets at fair value through other comprehensive income	**(2,134)**	–
Other comprehensive income for the period, net of tax	**(432,291)**	150,896
Total comprehensive income for the period	**237,664**	672,292
Attributable to:		
– Equity holders of the Company	**237,311**	667,382
– Non-controlling interests	**353**	4,910
Total comprehensive income for the period	**237,664**	672,292

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2018

	Note	**Unaudited As at 30 September 2018 *HK$'000***	Audited As at 31 March 2018 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,093,953**	547,659
Land use rights		**243,553**	273,019
Investment properties		**55,538**	35,810
Interests in associates	*12*	**58,345**	67,593
Loan to an associate		**97,056**	94,927
Derivative financial instrument		**–**	50,782
Available-for-sale financial assets		**–**	6,075
Financial assets at fair value through other comprehensive income		**3,941**	–
Trading license		**1,080**	1,080
Rental deposits and prepayments		**438,368**	212,167
Deferred income tax assets		**31,581**	47,114
		2,023,415	1,336,226
Current assets			
Inventories		**8,839,243**	7,991,727
Right of return assets		**96,477**	–
Trade receivables	*13*	**341,366**	359,796
Deposits, prepayments and other receivables		**463,495**	364,765
Derivative financial instruments		**56,833**	–
Amount due from an associate	*12*	**9,630**	13,173
Loan to an associate		**–**	43,190
Income tax recoverable		**11,348**	8,134
Cash and bank balances		**1,640,261**	2,097,867
		11,458,653	10,878,652
Total assets		**13,482,068**	12,214,878
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		**7,346,418**	7,482,019
		9,899,168	10,034,769
Non-controlling interests		**45,321**	44,968
Total equity		**9,944,489**	10,079,737

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 September 2018

	Note	**Unaudited As at 30 September 2018** *HK$'000*	Audited As at 31 March 2018 *HK$'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**112,242**	100,714
Employee benefit obligations		**8,237**	8,237
		120,479	108,951
Current liabilities			
Trade payables, other payables and accruals	*14*	**1,172,016**	1,125,453
Contract liabilities		**106,914**	–
Refund liabilities		**155,874**	–
Amount due to an associate	*12*	**3,362**	3,555
Bank borrowings	*15*	**1,350,156**	415,000
Gold loans		**412,334**	311,283
Current income tax liabilities		**216,444**	170,899
		3,417,100	2,026,190
Total liabilities		**3,537,579**	2,135,141
Total equity and liabilities		**13,482,068**	12,214,878

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Reserves** *HK$'000*	**Subtotal** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
For the period ended 30 September 2018						
As at 31 March 2018	**58,710**	**2,494,040**	**7,482,019**	**10,034,769**	**44,968**	**10,079,737**
Change in accounting policies *(Note 3)*	**–**	**–**	**(50,003)**	**(50,003)**	**–**	**(50,003)**
Restated total equity as at 1 April 2018	**58,710**	**2,494,040**	**7,423,016**	**9,984,766**	**44,968**	**10,029,734**
Comprehensive income						
Profit for the period	**–**	**–**	**665,423**	**665,423**	**4,532**	**669,955**
Other comprehensive income						
Currency translation differences						
– Group	**–**	**–**	**(422,718)**	**(422,718)**	**(4,179)**	**(426,897)**
– Associates	**–**	**–**	**(3,260)**	**(3,260)**	**–**	**(3,260)**
Revaluation of financial assets at fair value through other comprehensive income	**–**	**–**	**(2,134)**	**(2,134)**	**–**	**(2,134)**
Total comprehensive income	**–**	**–**	**237,311**	**237,311**	**353**	**237,664**
Transaction with owners						
Dividends paid	**–**	**–**	**(322,909)**	**(322,909)**	**–**	**(322,909)**
As at 30 September 2018	**58,710**	**2,494,040**	**7,346,418**	**9,899,168**	**45,321**	**9,944,489**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2017

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital	Share premium	Reserves	Subtotal	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the period ended 30 September 2017						
As at 1 April 2017	58,710	2,494,040	6,320,600	8,873,350	106,590	8,979,940
Comprehensive income						
Profit for the period	–	–	520,364	520,364	1,032	521,396
Other comprehensive income						
Currency translation differences						
– Group	–	–	141,514	141,514	3,878	145,392
– Associates	–	–	6,581	6,581	–	6,581
Revaluation of available-for-sale financial assets	–	–	(1,077)	(1,077)	–	(1,077)
Total comprehensive income	–	–	667,382	667,382	4,910	672,292
Transaction with owners						
Dividends paid	–	–	(322,909)	(322,909)	–	(322,909)
As at 30 September 2017	58,710	2,494,040	6,665,073	9,217,823	111,500	9,329,323

NOTES:

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2018 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 2018, which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2 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 2018, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New standards and amendments to existing standards that are effective for the first time for the financial year beginning 1 April 2018 and are relevant to the Group's operations:

Amendments to HKFRS 1 and HKAS 28	Annual improvements 2014-2016 cycle
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
Amendments to HKFRS 15	Clarifications to HKFRS 15
Amendments to HKAS 40	Transfer of investment property
HK (IFRIC) Int-22	Foreign currency transactions and advance consideration

The impact of the adoption of HKFRS 9, "Financial Instruments" and HKFRS 15, "Revenue from Contracts with Customers" are disclosed in Note 3 below.

Apart from aforementioned HKFRS 9 and HKFRS 15, there are no other new standards or amendments to existing standards that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

(b) Certain new standards and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2019, which the Group has not early adopted, are as follows:

Amendments to HKAS 28	Long-term interests in an associate or joint venture[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[1]
Amendments to HKFRSs	Annual improvements 2015–2017 cycle[1]
Amendments to HKAS 19	Employee benefits: plan amendment, curtailment or settlement[1]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over income tax treatments[1]
HKFRS 17	Insurance contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]

(1) Effective for annual period beginning on or after 1 January 2019
(2) Effective for annual period beginning on or after 1 January 2021
(3) To be announced by HKICPA

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the condensed consolidated 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$1,076,500,000. The Group is currently carrying out an assessment on the impact of adoption of HKFRS 16 and has yet to be in a position to conclude what extent of 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.

Some of these commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

Date of adoption by Group

The standard is mandatory for financial year commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Apart from aforementioned HKFRS 16, the directors of the Company are in the process of assessing the financial impact of the adoption of other new standards, amendments to existing standards and interpretation. The directors of the Company will adopt the new standards, amendments to existing standards and interpretation when they become effective.

3 CHANGES IN ACCOUNTING POLICIES

The following explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior periods.

The Group elected to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the condensed consolidated balance sheet as at 31 March 2018, but are recognised in the opening condensed consolidated balance sheet on 1 April 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more details by standard below.

Condensed consolidated balance sheet (extract)	**31 March 2018 As originally presented** *HK$'000*	**Effect of adoption of HKFRS 9** *HK$'000*	**Effect of adoption of HKFRS 15** *HK$'000*	**1 April 2018 Restated** *HK$'000*
Non-current assets				
Available-for-sale financial assets	6,075	(6,075)	–	–
Financial assets at fair value through other comprehensive income	–	6,075	–	6,075
Current assets				
Trade receivables	359,796	(2,244)	–	357,552
Right of return assets	–	–	86,551	86,551
Current liabilities				
Trade payables, other payables and accruals	1,125,453	–	(110,519)	1,014,934
Contract liabilities	–	–	105,037	105,037
Refund liabilities	–	–	139,792	139,792
Equity				
Reserves	7,482,019	(2,244)	(47,759)	7,432,016

(a) HKFRS 9 "Financial Instruments" – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The total impact on the Group's retained earnings due to classification and measurement of financial instruments as at 1 April 2018 is as follows:

At 1 April 2018	*Notes*	*HK$'000*
Opening retained earnings – after HKAS 39		7,482,019
Reclassify investments from available-for-sale financial assets to financial assets at fair value through other comprehensive income	*(i)*	–
Increase in loss allowance for impairment of trade receivables	*(ii)*	(2,244)
Adjustment to retained profits from adoption of HKFRS9		(2,244)
Opening retained earnings – after HKFRS 9		7,479,775

(i) Classification and measurements of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). The classification of financial assets under HKFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

On 1 April 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial instruments held by the Group into the appropriate HKFRS 9 categories.

The impact of the reclassification on the condensed consolidated balance sheet is as follows:

At 1 April 2018	**Available-for-sale financial assets** *HK$'000*	**Financial assets at fair value through other comprehensive income** *HK$'000*
Opening balance – HKAS 39	6,075	–
Reclassify investments from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(6,075)	6,075
Opening balance – after HKFRS 9	–	6,075

At 1 April 2018	Available -for-sale financial assets revaluation reserve	Financial assets at fair value through other comprehensive income revaluation reserve
	HK$'000	*HK$'000*
Opening balance – HKAS 39	(5,949)	–
Reclassify investments from available-for-sale financial assets to financial assets at fair value through other comprehensive income	5,949	(5,949)
Opening balance – after HKFRS 9	–	(5,949)

The Group makes an election to designate its investment in equity securities as financial assets at FVOCI such that subsequent changes in fair value are recognised in other comprehensive income without subsequent reclassification to profit or loss. Such elections are made on an instrument-by-instrument basis. Where such an election is made, the amount accumulated in other comprehensive income remains in the financial assets at FVOCI revaluation reserve until the investment is disposed of. At the time of disposal, the amount accumulated in the financial assets at FVOCI revaluation reserve is transferred to retained earnings. Dividends from an investment in equity securities are recognised in profit or loss.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model. Under HKFRS 9, the losses allowances are measured on either using the 12-month ECLs model: the ECLs that result from possible default events within the 12 months after the reporting date; or the lifetime ECLs model: ECLs that would result from all possible default events over the expected life of a financial instrument.

The Group has three types of financial assets as at 1 April 2018 that are subject to HKFRS 9's new expected credit loss model:

- Amount due from and loan to an associate
- Other receivables
- Trade receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of financial assets. The Group makes estimates and assumptions concerning the future which are discussed below:

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past settlement pattern, existing market conditions as well as forward looking estimates at the end of each reporting period.

While cash and cash equivalents, short term bank deposits and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss by the directors of the Company was determined to be immaterial.

The Group has applied the general approach and recorded 12-month expected credit losses on its other receivables, amount due from and loan to an associate based on the estimated loss of possible default events within the next 12 months. The directors of the Group has considered that the allowance on impairment loss is immaterial upon the initial adoption of the standard.

Trade receivables

The Group applies the simplified approach to provide for the expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

By using the lifetime ECLs model, an additional provision for trade receivables of HK$2,244,000 was recognised as at 1 April 2018.

The provision for impairment of trade receivables as at 31 March 2018 reconcile to the opening provision on 1 April 2018 as follows:

	HK$'000
At 31 December 2017 – HKAS 39	–
Amounts additionally provided on adoption of HKFRS 9	2,244
Opening provision as at 1 April 2018 – after HKFRS 9 restatement	2,244

(b) HKFRS 9 "Financial Instruments" – Accounting policies

(i) Classification

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the profit or loss and presented in "other gains/(loss), net", together with foreign exchange gains and losses.

Equity instruments

The Group subsequently measures all equity investments at fair values. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in condensed consolidated income statement as "other income" when the Group's right to receive payments is established.

(iii) Impairment

From 1 April 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(c) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

HKFRS 15 replaces the provisions of HKAS 18, which resulted in changes in accounting policies that relate to revenue recognition, contract costs and presentation of contract assets and liabilities.

The impact on the Group's retained earnings as at 1 April 2018 is as follows:

At 1 April 2018	*HK$'000*
Retained earnings – after HKFRS 9 restatement	7,479,775
Increase in refund liabilities with the adoption of HKFRS 15	(47,759)
Retained earnings – after HKFRS 9 and HKFRS 15 restatement	7,432,016

Adoption of HKFRS 15 – Refund liabilities

It is the Group's policy to sale of jewellery products to its retail and wholesale customers with a right of returns in a designated time period at certain agreed discounts on the original selling price. Also, the Group allows its licensees to have credit refunds of royalty and service income when certain credit refund criteria are met. Prior to the adoption of HKFRS 15, the Group recognised revenue from the sale of jewellery products to retail and wholesale customers at fair values of consideration received/receivables, net of returns and trade discounts, and royalty and service income on an accrual basis in accordance with the substance of the relevant agreement.

Upon the adoption of HKFRS 15, the rights of returns or credit refund are considered as variable consideration. The Group uses expected value method to estimate the return or credit refund that best predicts the amount of variable consideration on the above revenue streams. As such, the Group presents a refund liability and an asset for the right to recover products from a customer upon return or refund separately in the condensed consolidated balance sheet and an aggregated amount of HK$47,759,000 opening adjustment was recognised in the retained earnings as at 1 April 2018 to reflect the adoption of the new standard.

Adoption of HKFRS 15 – Reclassification of contract liabilities

The Group has established a customer loyalty program in which 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. Upon adoption of 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. The deferred revenue related to this loyalty programme of approximately HK$5,435,000 previously classified as "trade payables, other payables and accruals" are reclassified to "contract liabilities" upon the adoption of the new standard.

Also, the Group reclassified the receipt in advance from customers and licensees of approximately HK$99,602,000 previously classified as "trade payables, other payables and accruals" to "contract liabilities" as at 1 April 2018 upon the initial adoption of HKFRS 15.

(d) HKFRS 15 “Revenue from Contracts with Customers” – Accounting policies

Accounting for sales of goods – retail

The Group operates a chain of retail stores selling a variety of gold and platinum jewellery and gem-set jewellery products. Revenue from the sale of goods is recognised when a group entity sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the gold and platinum jewellery and gem-set jewellery products. It is the Group’s policy to sell its products to the end customer with a right of return within one year at an agreed discount on the original selling price. A refund liability and an asset for the right of return goods are recognised in the condensed consolidated balance sheet. The Group uses the expected value method to estimate the refund or return which best predicts the amount of reliable consideration to which the Group entitled.

Accounting for sales of goods – wholesale

The Group manufactures and sells a range of gold jewellery and gem-set of jewellery products to its customers. Sales of goods are recognised when a Group entity has delivered products to the customers, retains neither continuing managerial involvement to the degree usually associates with ownership nor control over the goods sold, and there is no unfulfilled obligation that could affect the acceptance of the products. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A refund liability and an asset for the right to the returned goods are recognised in the condensed consolidated balance sheet. The Group uses the expected value method to estimate the credit refund or return which best predicts the amount of reliable consideration to which the Group entitled.

Accounting for royalties and services income

Royalty and service income in respect of the use of the Group’s trademarks is recognised on an accrual basis in accordance with the substance of the relevant agreements. The refund of credit to licensees when certain credit refund criteria are met is considered as variable consideration. The Group uses expected value method to estimate the credit refund which best predicts the amount of variable consideration to which the Group entitled.

4 ESTIMATES

The preparation of condensed consolidated 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 2018.

5 SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified 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, income tax recoverable and corporate assets, all of which are managed centrally. 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. These form part of the reconciliation to total assets and liabilities on 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 condensed consolidated balance sheet.

	For the six months ended 30 September 2018						
	Retailing – Hong Kong, Macau and overseas	Retailing – Mainland China	Wholesaling – Hong Kong	Wholesaling – Mainland China	Licensing	Inter-segment elimination	Reportable segments Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue							
Sales to external customers	4,853,922	1,153,768	30,691	1,423,082	–	–	7,461,463
Sales of scrap platinum	–	–	16,872	–	–	–	16,872
	4,853,922	1,153,768	47,563	1,423,082	–	–	7,478,335
Inter-segment sales	48,534	325	1,157,507	383,569	–	(1,589,935)	–
Sales of merchandises	4,902,456	1,154,093	1,205,070	1,806,651	–	(1,589,935)	7,478,335
Royalty and service income	–	–	–	–	346,024	–	346,024
Consultancy fee income	–	–	–	–	35,095	–	35,095
Total	4,902,456	1,154,093	1,205,070	1,806,651	381,119	(1,589,935)	7,859,454
Results of reportable segments	335,443	60,956	57,727	122,778	273,281	–	850,185
A reconciliation of results of reportable segments to profit for the period is as follows:							
Results of reportable segments							850,185
Unallocated income							37,758
Unallocated expenses							(49,961)
Operating profit							837,982
Finance income							19,592
Finance costs							(12,772)
Share of results of associates							(5,988)
Profit before income tax							838,814
Income tax expenses							(168,859)
Profit for the period							669,955
Less: Profit attributable to non-controlling interests							(4,532)
Profit attributable to equity holders of the Company							665,423

	As at 30 September 2018						
	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$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment assets	**4,946,964**	**1,718,187**	**1,389,476**	**3,134,204**	**483,142**		**11,671,973**
Interests in associates						**58,345**	**58,345**
Land and buildings						**844,438**	**844,438**
Investment properties						**55,538**	**55,538**
Deferred income tax assets						**31,581**	**31,581**
Income tax recoverable						**11,348**	**11,348**
Other unallocated assets						**808,845**	**808,845**
Total assets							**13,482,068**
Segment liabilities	**(408,367)**	**(36,647)**	**(205,058)**	**(260,366)**	**(438,284)**		**(1,348,722)**
Deferred income tax liabilities						**(112,242)**	**(112,242)**
Current income tax liabilities						**(216,444)**	**(216,444)**
Bank borrowings						**(1,350,156)**	**(1,350,156)**
Gold loans						**(412,334)**	**(412,334)**
Other unallocated liabilities						**(97,681)**	**(97,681)**
Total liabilities							**(3,537,579)**

	For the six months ended 30 September 2017						
	Retailing – Hong Kong, Macau and overseas	Retailing – Mainland China	Wholesaling – Hong Kong	Wholesaling – Mainland China	Licensing	Inter-segment elimination	Reportable segments Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue							
Sales to external customers	3,795,063	924,547	35,842	965,053	–	–	5,720,505
Sales of scrap gold and platinum	–	–	291,023	–	–	–	291,023
	3,795,063	924,547	326,865	965,053	–	–	6,011,528
Inter-segment sales	101,113	130	1,075,987	212,171	–	(1,389,401)	–
Sales of merchandises	3,896,176	924,677	1,402,852	1,177,224	–	(1,389,401)	6,011,528
Royalty and service income	–	–	–	–	259,323	–	259,323
Consultancy fee income	–	–	–	–	12,603	–	12,603
Total	3,896,176	924,677	1,402,852	1,177,224	271,926	(1,389,401)	6,283,454
Results of reportable segments	259,019	73,416	81,412	119,887	175,480	–	709,214

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

Results of reportable segments	709,214
Unallocated income	25,429
Unallocated expenses	(89,284)
Operating profit	645,359
Finance income	12,821
Finance costs	(2,615)
Share of results of associates	(24,540)
Profit before income tax	631,025
Income tax expenses	(109,629)
Profit for the period	521,396
Less: Profit attributable to non-controlling interests	(1,032)
Profit attributable to equity holders of the Company	520,364

	As at 31 March 2018						
	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$'000*	Unallocated *HK$'000*	Total *HK$'000*
Segment assets	5,050,651	1,963,530	766,839	2,976,945	485,622		11,243,587
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							12,214,878
Segment liabilities	(247,842)	(46,198)	(180,403)	(196,307)	(381,331)		(1,052,081)
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							(2,135,141)

6 OPERATING PROFIT

Operating profit is stated after charging the following:

	For the six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
Cost of sales		
– Cost of inventories sold *(Note)*	**5,893,319**	4,544,752
– Cost of licensing business *(Note)*	**102,502**	91,442
Staff costs (including directors' emoluments)	**447,517**	379,578
Operating lease		
– Minimum lease payments	**301,998**	320,593
– Contingent rents	**95,621**	78,464
Commission expenses to credit card companies	**51,720**	44,026
Depreciation of investment properties	**587**	610
Depreciation of property, plant and equipment	**50,240**	57,035
Amortisation of land use rights	**4,858**	4,683
Provision for impairment of trade receivables	**21,601**	–
Loss on disposal of property, plant and equipment	**1,078**	1,657

Note: Staff costs (including directors' emoluments) of HK$195,663,000 (2017: HK$149,455,000) are included in cost of sales.

7 OTHER INCOME

	For the six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
Government subsidies		
– Valued-added tax refund *(Note i)*	**128,081**	45,032
– Other subsidies *(Note ii)*	**22,635**	17,619
Rental income	**2,738**	4,085
Others	**11,336**	9,787
	164,790	76,523

Notes:

(i) This represents refunds from the tax authority in Mainland China. The amount of refund is based on 12% 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 GAINS/(LOSSES), NET

	For the six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
Net realised gains/(losses) on derivative financial instruments *(Note)*	**25,320**	(16,240)
Fair value gains on the convertible bond	**3,471**	328
Net realised gains on foreign exchange forward contracts	**5,059**	–
Net unrealised gains on foreign exchange forward contracts	**2,580**	–
Net realised gains on gold loans	**21,974**	2,099
Net unrealised gains on gold loans	**15,253**	–
Net exchange (losses)/gains	**(58,355)**	7,498
Realised fair value losses on CGS Share Option	**–**	(9)
	15,302	(6,324)

Note: Derivative financial instruments mainly represent gold contracts and gold future contracts. These derivative financial instruments are not qualified for hedge accounting.

9 INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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	
	2018	2017
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	**41,108**	31,662
– Overseas taxation	**100,690**	76,064
Deferred taxation	**27,061**	1,903
	168,859	109,629

10 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$665,423,000 (2017: HK$520,364,000) and the weighted average number of 587,107,850 (2017: 587,107,850) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 September 2018 and 2017 are the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period.

11 DIVIDENDS

At a meeting held on 27 June 2018, the directors recommended the payment of a final dividend of HK$0.55 per ordinary share, amounting to a total dividend of HK$322,909,000 for the year ended 31 March 2018. Such dividend was approved by the shareholders at the Annual General Meeting of the Company on 15 August 2018 and has been reflected as an appropriation of retained earnings for the period.

At a meeting held on 28 November 2018, the directors declared the payment of an interim dividend of HK$0.55 per ordinary share, amounting to a total dividend of HK$322,909,000 for the year ending 31 March 2019. 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 2019.

12 INTERESTS IN ASSOCIATES

	As at 30 September 2018 HK$'000	As at 31 March 2018 HK$'000
Interests in associates	**58,345**	67,593
Amount due from an associate *(Note i)*	**9,630**	13,173
Amount due to an associate *(Note i)*	**(3,362)**	(3,555)

	For the six months ended 30 September 2018 HK$'000	2017 HK$'000
Beginning of the period as at 1 April	**67,593**	85,012
Share of results of associates for the period *(Note ii)*	**(5,988)**	(24,540)
Share of reserve movement of associates for the period	**(3,260)**	6,581
End of the period as at 30 September	**58,345**	67,053

Notes:

(i) Amount due from/(to) an associate are trade in nature. Amount due from/(to) an associate 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 6 months ended 30 June 2018. 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 commitments as at 30 September 2018 and 31 March 2018.

13 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 by invoice date is as follows:

	As at 30 September 2018 HK$'000	As at 31 March 2018 HK$'000
0–30 days	**254,047**	244,820
31–60 days	**34,291**	76,925
61–90 days	**8,274**	20,170
91–120 days	**10,637**	8,769
Over 120 days	**57,962**	9,112
	365,211	359,796
Less: Provision for impairment of trade receivables	**(23,845)**	–
Trade receivables, net	**341,366**	359,796

The carrying amounts of trade receivables approximate their fair values. The trade receivables aged over 120 days is mainly attributable to a customer in which HK$22,172,000 provision of impairment has been recognised by management for the estimated credit loss.

14 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in trade payables, other payables and accruals are trade payables of HK$486,158,000 (As at 31 March 2018: HK$380,134,000) and the ageing is as follows:

	As at 30 September 2018	As at 31 March 2018
	HK$'000	*HK$'000*
0–30 days	**405,772**	276,949
31–60 days	**71,896**	79,244
61–90 days	**4,440**	19,596
91–120 days	**2,355**	4,345
Over 120 days	**1,695**	–
	486,158	380,134

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

15 BANK BORROWINGS

	As at 30 September 2018	As at 31 March 2018
	HK$'000	*HK$'000*
Bank borrowings, secured	**900,156**	–
Bank borrowings, unsecured	**450,000**	415,000
	1,350,156	415,000

As at 30 September 2018, bank borrowings of HK$900,156,000 (as at 31 March 2018:Nil) was secured by property, plant and equipment with carrying amount of HK$603,070,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Revenue
HK$7,859M
+25.1%

Operating Profit
HK$838M
+29.8%

Profit Attributable to Equity Holders
HK$665M
+27.9%

Mainland China E-commerce Business Performance
Revenue: +87.2% Y-o-Y Change
Contribution to Mainland China Retail Revenue*:
22.0% (1HFY2018: 14.7%)

* *Sales of self-operated shops and e-commerce business*

Basic Earnings per Share
HK$1.13
+27.0%

Proposed Dividend per Share
HK55 Cents
Interim Dividend per Share: HK55 Cents
Dividend Payout Ratio: 48.5%

Overall Net Shop Addition
Lukfook: +94
Mainland China: +90
Hong Kong, Macau & Overseas: +4

3D-GOLD: -6
Mainland China: -6

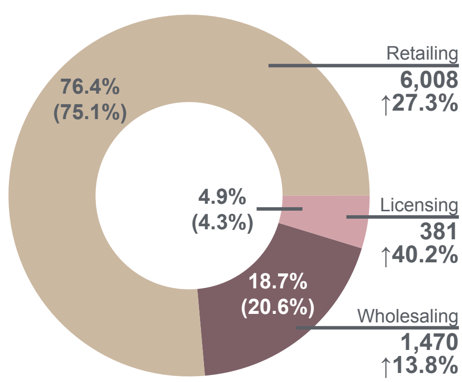
Results

Benefitting from the positive market sentiment and lower gold price, Luk Fook Holdings (International) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") recorded revenue growth of 25.1% to HK$7,859,454,000 (2017: HK$6,283,454,000) for the six months ended 30 September 2018 (the "Period under review"). However, with the decrease in overall gross margin by 2.5 p.p. to 23.7% (2017: 26.2%), gross profit only rose by 13.1% to HK$1,863,633,000 (2017: HK$1,647,260,000). On the other hand, although the increase in sales led to an increase in total operating expenses by 12.5%; because of a faster increase in revenue, its ratio to revenue decreased by 1.8 p.p. to 15.3% (2017: 17.1%). Therefore, operating profit improved substantially by 29.8% to HK$837,982,000 (2017: HK$645,359,000); operating margin was 10.7% (2017: 10.3%), while net margin was 8.5% (2017: 8.3%). Profit attributable to equity holders thus increased by 27.9% to HK$665,423,000 (2017: HK$520,364,000) and basic earnings per share increased by 27.0% to HK$1.13 (2017: HK$0.89).

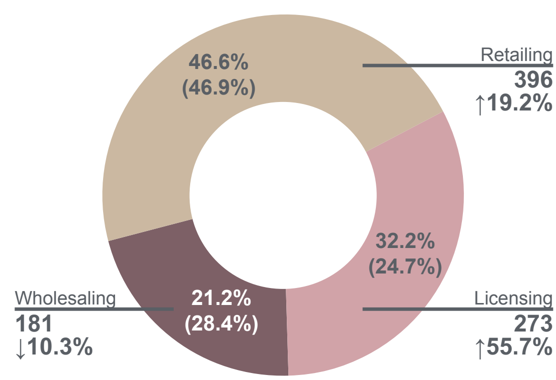
Overview

During the Period under review, the Group added a net total of 94 new Lukfook shops worldwide, including a net addition of 2 self-operated shops in Hong Kong, 1 self-operated shop in Macau, 90 shops in Mainland China (including a net addition of 96 licensed shops and a net reduction of 6 self-operated shops), 1 self-operated shop in Malaysia and 1 licensed shop in the Philippines, as well as closure of 1 licensed shop in Korea. As at 30 September 2018, the Group had a global network of 1,725 Lukfook shops (2017: 1,542 shops), with business spanning across Hong Kong, Macau, Mainland China, Singapore, Malaysia, Cambodia, the Philippines, the United States, Canada and Australia, and operated 5 3D-GOLD shops (2017: 10 shops) in Mainland China.

REVENUE BY BUSINESS



SEGMENTAL PROFIT BY BUSINESS



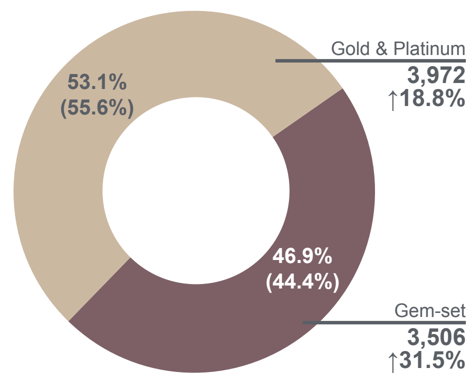
Remarks: Comparative figures for 1HFY2018 are shown in brackets

The retail business was the Group's primary source of revenue. Its revenue increased by 27.3% year-on-year to HK$6,007,690,000 (2017: HK$4,719,610,000), accounting for 76.4% (2017: 75.1%) of the Group's total revenue. Segmental profit of the retail business rose by 19.2% to HK$396,399,000 (2017: HK$332,435,000), accounting for 46.6% (2017: 46.9%) of the total; and its segmental profit margin was 6.6% (2017: 7.0%).

Attributable to the increase in the number of licensed shops, the wholesale business revenue rose by 13.8% over the corresponding period last year to HK$1,470,645,000 (2017: HK$1,291,918,000), accounting for 18.7% (2017: 20.6%) of the Group's total revenue. However, with the decrease in gross margin of gem-set jewellery products, its segmental profit decreased by 10.3% to HK$180,505,000 (2017: HK$201,299,000), accounting for 21.2% (2017: 28.4%) of the total. Its segmental profit margin was 12.3% (2017: 15.6%).

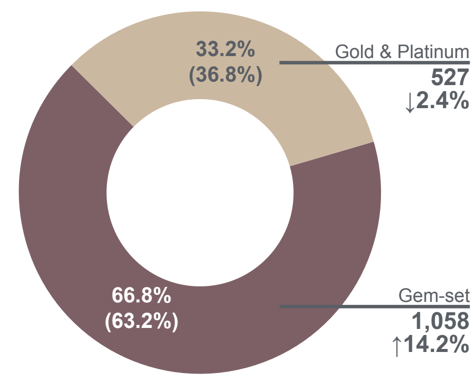
Licensing income, which accounted for 4.9% (2017: 4.3%) of the Group's total revenue, increased substantially by 40.2% to HK$381,119,000 (2017: HK$271,926,000) due to an increase in the number of licensed shops as well. Its segmental profit margin improved to 71.7% (2017: 64.5%) because of high fixed cost proportion in its cost structure. Its segmental profit substantially increased by 55.7% to HK$273,281,000 (2017: HK$175,480,000), accounting for 32.2% (2017: 24.7%) of the total.

SALES[1] BY PRODUCT



[1] Sales = Revenue – Licensing Income

GROSS PROFIT[2] BY PRODUCT



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

Remarks: Comparative figures for 1HFY2018 are shown in brackets

Lower gold price led to strong sales of gold products. Sales of gold and platinum products increased by 18.8% to HK$3,972,193,000 (2017: HK$3,344,300,000), accounting for 53.1% (2017: 55.6%) of the overall sales (Group revenue excluding licensing income). Gross margin, due to the drop in gold price, decreased by 2.8 p.p. to 13.3% (2017: 16.1%). Gross profit of gold and platinum products therefore decreased by 2.4% to HK$526,511,000 (2017: HK$539,724,000), accounting for 33.2% (2017: 36.8%) of the overall gross profit (consolidated gross profit of the Group excluding gross profit of licensing income). On the other hand, sales of gem-set jewellery products rose by 31.5% to HK$3,506,142,000 (2017: HK$2,667,229,000), accounting for 46.9% (2017: 44.4%) of the overall sales. Gross margin of gem-set jewellery products decreased by 4.6 p.p. to 30.2% (2017: 34.8%) because of the drop in gross margin of wholesale business. Its gross profit therefore only increased by 14.2% to HK$1,058,505,000 (2017: HK$927,053,000), accounting for 66.8% (2017: 63.2%) of the overall gross profit.

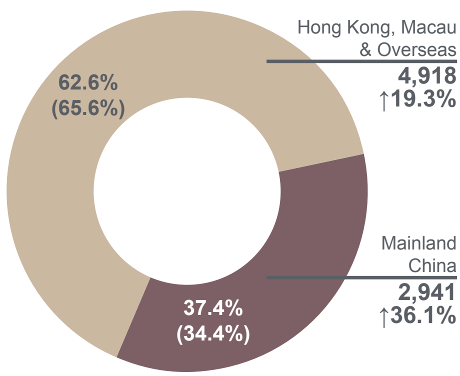
During the Period under review, the overall same store sales growth* ("SSSG") of the Group further improved to +17.7% (2017: +11.2%). SSSG for the Hong Kong and Macau market and that for the Mainland China market were +21.4% (2017: +10.5%) and +0.7% (2017: +16.7%) respectively. SSSG for gold and platinum products was +22.3% (2017: +10.3%) and that for gem-set jewellery products was +11.3% (2017: +12.6%).

* *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.*

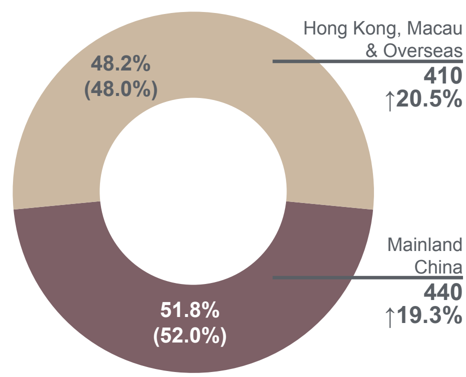
The Group has been striving to diversify its product mix to offer customers more choices. Since 2010, the Group has been engaging in the mid- to high-end watch business. As at 30 September 2018, the Group was the authorised dealer of 15 watch brands, including BALMAIN, BULOVA, CERTINA, COINWATCH, DOXA, ENICAR, HAMILTON, LONGINES, MIDO, OMEGA, RADO, ROMAGO SWISS, TISSOT, VICTORINOX SWISS ARMY and BIJOUMONTRE. For the Period under review, the watch business contributed revenue of HK$79,430,000 (2017: HK$85,589,000), accounting for 1.0% (2017: 1.4%) of the Group's total revenue with 7.2% decrease when compared with the same period last year.

BUSINESS REVIEW

REVENUE BY MARKET



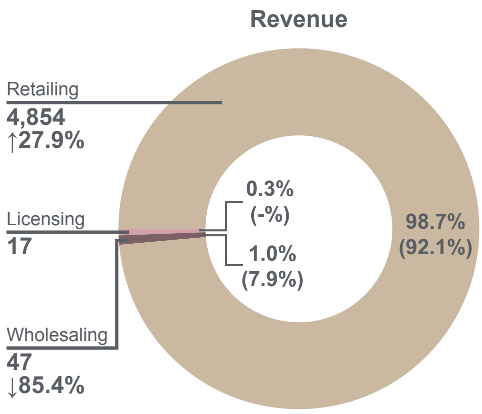
SEGMENTAL PROFIT BY MARKET

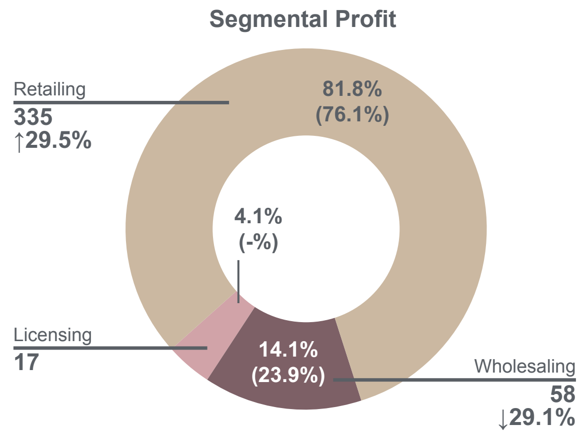


Remarks: Comparative figures for 1HFY2018 are shown in brackets

	Segmental Profit Margin	Y-o-Y Change
Hong Kong, Macau and Overseas	8.3%	0.0 p.p.
Mainland China	15.0%	-2.1 p.p.
Overall	**10.8%**	**-0.5 p.p.**

HONG KONG, MACAU AND OVERSEAS





Remarks: Comparative figures for 1HFY2018 are shown in brackets

Segmental Profit Margin		
	Hong Kong, Macau and Overseas	Y-o-Y Change
Retailing	6.9%	+0.1 p.p.
Wholesaling	121.4%	+96.5 p.p
• Adjusted Wholesaling[1]	4.8%	+1.0 p.p
Licensing	101.9%	N/A
Overall	**8.3%**	**0.0 p.p.**

[1] *Adjusted Wholesaling Segmental Profit Margin = Segmental Profit of Wholesale Business ÷ (Revenue of Wholesale Business + Intersegmental Wholesale Revenue of HK$1.158B)*

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 in the past. Given the continually improving retail sentiment and increasing visitor arrivals during the Period under review, consumption expenditure per capita rose with the improved macroeconomic conditions and spending power. According to the statistics on visitor arrivals to Hong Kong published by the Hong Kong Tourism Board in October 2018, visitor arrivals from Mainland China from January to September 2018 rose by 12.7% year-on-year to approximately 36.63 million. In respect of tourist spending, the value of sales of jewellery, watches and clocks, and valuable gifts from January to September 2018 totalled approximately HK$64.3 billion, representing an increase of around 20.1% year-on-year, according to the figures released by the Census and Statistics Department of Hong Kong. Coupled with successful product strategy, the Group's retail revenue in the Hong Kong market substantially increased by 31.2% to HK$3,757,424,000 (2017: HK$2,863,629,000). As at 30 September 2018, the number of self-operated shops of the Group in Hong Kong increased to 50 shops (2017: 45 shops).

Macau

According to the tourism statistics published by the Statistics and Census Service of the Macau Special Administrative Region, visitor arrivals to Macau from January to September 2018 increased by 8.3% over last year, and GDP of Macau for the first half of 2018 also increased by 7.6% over last year. Total spending (excluding gaming expenses) of visitors to Macau in the second quarter of 2018 grew by 20.0% year-on-year to MOP16.50 billion. Therefore, the Group's revenue generated from the Macau market increased by 19.9% to HK$948,105,000 (2017: HK$790,794,000) during the Period under review. As at 30 September 2018, the number of self-operated shops of the Group in Macau increased to 11 (2017: 10 shops).

Overseas

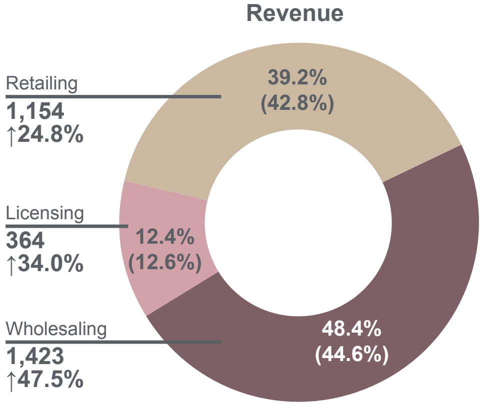
Adhering to its motto "Brand of Hong Kong, Sparkling the World", the Group has been seeking new opportunities around the world in recent years. During the Period under review, the Group added 1 self-operated shop in Malaysia and 1 licensed shop in the Philippines, and closed 1 licensed shop in Korea. As at 30 September 2018, the Group operated a total of 13 overseas shops (2017: 11 shops), including self-operated shops of 1 in Singapore, 3 in Malaysia, 4 in the United States, 2 in Canada and 1 in Australia, as well as 1 licensed shop in both Cambodia and the Philippines.

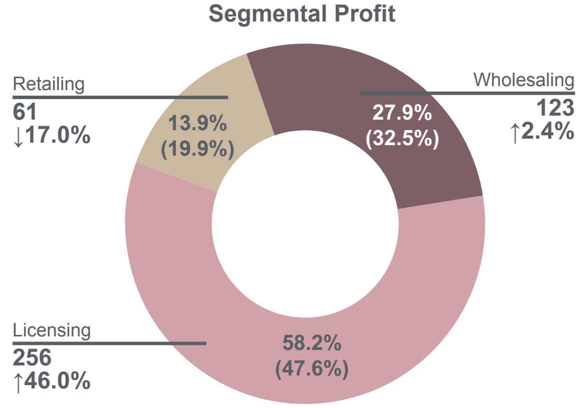
During the Period under review, retail revenue from the Hong Kong, Macau and overseas markets increased by 27.9% to HK$4,853,922,000 (2017: HK$3,795,063,000), accounting for 61.8% (2017: 60.4%) of the Group's total revenue. Its segmental profit rose by 29.5% to HK$335,443,000 (2017: HK$259,019,000), which accounted for 39.5% (2017: 36.5%) of the total. Its segmental profit margin was 6.9% (2017: 6.8%). As scrap gold received from customers no longer adopted the mode of sales but used the mode of processing into raw materials instead, its wholesale business revenue substantially decreased by 85.4% to HK$47,563,000 (2017: HK$326,865,000), accounting for 0.6% (2017: 5.2%) of the Group's total revenue. Together with the gross margin decline of gem-set jewellery products in wholesale business due to changes in product mix and pricing strategy, its segmental profit decreased by 29.1% to HK$57,727,000 (2017: HK$81,412,000), accounting for 6.8% (2017: 11.5%) of the total. On the other hand, its segmental profit margin, because of significantly increased centralised purchases, increased to 121.4% (2017: 24.9%). As the segmental profit of wholesale business included the profit of intersegmental sales to self-operated shops, if including intersegmental sales in the denominator, the segmental profit margin would stand at a much more stable level of 4.8% (2017: 5.8%). Apart from that, benefitting from the new designated supplier consultancy services revenue in the second half of last year, Hong Kong licensing business income was HK$16,691,000, accounting for 0.2% of the Group's total revenue. Because of other incomes recorded, its segmental profit was higher than revenue, reaching HK$17,005,000, accounting for 2.0% of the total, and resulting in its segmental profit margin of 101.9%.

Overall speaking, revenue from the Hong Kong, Macau and overseas markets increased by 19.3% to HK$4,918,176,000 (2017: HK$4,121,928,000) during the Period under review, accounting for 62.6% (2017: 65.6%) of the Group's total revenue. Its segmental profit increased by 20.5% to HK$410,175,000 (2017: HK$340,431,000), accounting for 48.2% (2017: 48.0%) of the total, while its segmental profit margin was maintained at a stable level of 8.3% (2017: 8.3%).

The SSSG for gold and platinum products in the Hong Kong, Macau and overseas markets was +27.8% (2017: +8.4%), while that for gem-set jewellery products was +10.7% (2017: +13.8%).

MAINLAND CHINA





Remarks: Comparative figures for 1HFY2018 are shown in brackets

Segmental Profit Margin		
	Mainland China	Y-o-Y Change
Retailing	5.3%	-2.6 p.p.
Wholesaling	8.6%	-3.8 p.p.
Adjusted wholesaling[1]	6.8%	-3.4 p.p
Licensing	70.3%	+5.8 p.p.
Overall	**15.0%**	**-2.1 p.p.**

[1] *Adjusted Wholesaling Segmental Profit Margin = Segmental Profit of Wholesale Business ÷ (Revenue of Wholesale Business + Intersegmental Wholesale Revenue of HK$384M)*

Mainland China

During the Period under review, because of the high increase in the number of self-operated shops in the second and third quarters in last financial year, retail revenue from the Mainland China market grew by 24.8% to HK$1,153,768,000 (2017: HK$924,547,000), accounting for 14.7% (2017: 14.7%) of the Group's total revenue. Its segmental profit however decreased by 17.0% to HK$60,956,000 (2017: HK$73,416,000), accounting for 7.2% (2017: 10.4%) of the total because of decrease in gross margin due to gold price drop. Its segmental profit margin was 5.3% (2017: 7.9%). The SSSG for gold and platinum products in Mainland China was -4.8% (2017: +22.7%) and that for gem-set jewellery products was +14.1% (2017: +3.6%).

Due to the increase in the number of new licensed shops, revenue of the wholesale business in the Mainland China market rose substantially by 47.5% to HK$1,423,082,000 (2017: HK$965,053,000), which accounted for 18.1% (2017: 15.4%) of the Group's total revenue, while its segmental profit increased by 2.4% only to HK$122,778,000 (2017: HK$119,887,000) because of the decline in gross margin of gem-set jewellery products in view of the changes in product mix and pricing strategy, accounting for 14.4% (2017: 16.9%) of the total. Its segmental profit margin was 8.6% (2017: 12.4%). As the segmental profit of wholesale business included the profit of intersegmental sales to self-operated shops, if including intersegmental sales in the denominator, the segmental profit margin of wholesale business would be 6.8% (2017: 10.2%).

Licensing income increased substantially by 34.0% to HK$364,428,000 (2017: HK$271,926,000) due to the increase in the number of new licensed shops as well, accounting for 4.6% (2017: 4.3%) of the Group's total revenue. Its segmental profit rose by 46.0% to HK$256,276,000 (2017: HK$175,480,000), which accounted for 30.2% (2017: 24.7%) of the total. Its segmental profit margin increased to 70.3% (2017: 64.5%) because of higher fixed cost proportion in its cost structure.

As at 30 September 2018, the Group had a total of 1,651 shops (2017: 1,476 shops) under the "Lukfook" brand name in Mainland China, including 151 self-operated shops (2017: 151 shops) and 1,500 licensed shops (2017: 1,325 shops). During the Period under review, the Group reported a net increase of 96 Lukfook licensed shops (2017: 29 shops) and net reduction of 6 self-operated shops (2017: net addition of 18 shops) in Mainland China. Moreover, the Group operated 5 3D-GOLD self-operated shops (2017: 10 shops) in Mainland China.

During the Period under review, the overall same store sales of Lukfook licensed shops in Mainland China recorded a single-digit growth. That for gold products and gem-set jewellery products recorded a single-digit growth and a double-digit growth respectively.

1HFY2019 MAINLAND CHINA E-COMMERCE BUSINESS PERFORMANCE

Revenue
+87.2% Y-o-Y Change

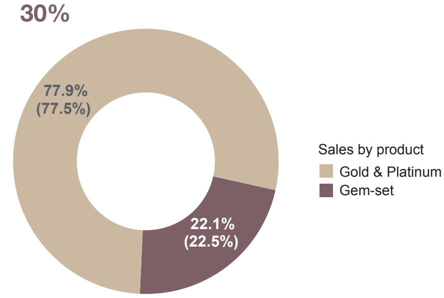
Contribution to Mainland China Retail Revenue*
22.0% (1HFY2018: 14.7%)

Contribution to Group's Retail Revenue*
4.2% (1HFY2018: 2.9%)

* *Sales of self-operated shops and e-commence business*

Average Selling Price
(value-added tax (VAT) included)
RMB1,200 (+14.3% Y-o-Y Change)

FY2019 Revenue Growth Target
30%



Remarks: Comparative figures for 1HFY2018 are shown in brackets

In light of the rapid development of e-commerce, revenue of e-commerce business from Mainland China increased by 87.2% to HK$254,191,000 (2017: HK$135,752,000) during the Period under review, accounting for 22.0% (2017: 14.7%) of the retail revenue in Mainland China. Sales of gold and platinum products accounted for 77.9% (2017: 77.5%) of its sales mix while sales of gem-set jewellery products accounted for 22.1% (2017: 22.5%).

Overall speaking, during the Period under review, revenue from the Mainland China market increased by 36.1% to HK$2,941,278,000 (2017: HK$2,161,526,000), accounting for 37.4% (2017: 34.4%) of the Group's total revenue. Its segmental profit increased by 19.3% to HK$440,010,000 (2017: HK$368,783,000), accounting for 51.8% (2017: 52.0%) of the total; and its segmental profit margin was 15.0% (2017: 17.1%).

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

Profit /(Loss)			
HK$M	**1HFY2019**	1HFY2018	Y-o-Y Change
50% Share of Profit/(Loss) of Associate	**(7)**	(24)	17
Valuation Gain/(Loss) on Convertible Bond	**3**	–	3
Wholesale Gross Profit	**1**	4	(3)
Interest Income on Working Capital Loan	**2**	2	–
Interest on Convertible Bond	**1**	1	–
Total	**0**	**(17)**	**17**

The loss on investments and operating activities in HKRH and its subsidiaries substantially improved to breakeven (2017: loss of approximately HK$17,000,000) during the Period under review.

HKRH represents Hong Kong Resources Holdings Company Limited (Stock Code: 2882) which conducts jewellery retail and franchise businesses under the brand name of "3D-GOLD" in Hong Kong, Macau and Mainland China.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 September 2018, the Group's cash and bank balances amounted to approximately HK$1,640,000,000 (31 March 2018: approximately HK$2,098,000,000). The Group's net gearing ratio at the period-end was 1.2% (31 March 2018: 0%), which was calculated by using the ratio of total bank borrowings and gold loans of HK$1,762,000,000 (31 March 2018: approximately HK$726,000,000) less cash and bank balances against total shareholders' equity of approximately HK$9,899,000,000 (31 March 2018: approximately HK$10,035,000,000). Net borrowing was approximately HK$122,000,000 (31 March 2018: net cash of approximately HK$1,372,000,000). The debt-to-equity ratio was 35.7% (31 March 2018: 21.3%), being the ratio of total liabilities of approximately HK$3,538,000,000 (31 March 2018: approximately HK$2,135,000,000) against total shareholders' equity of approximately HK$9,899,000,000 (31 March 2018: approximately HK$10,035,000,000). The Group's income and expenditure streams are mainly denominated in Hong Kong dollars.

Inventory

INVENTORY TURNOVER DAYS BY PRODUCT

	1HFY2019	1HFY2018	FY2018
Gold	**157**	177	156
Gem-set	**400**	454	405
Overall	**261**	**287**	**257**

As at 30 September 2018, the Group's inventory increased by 10.6% to approximately HK$8,839,000,000 (31 March 2018: approximately HK$7,992,000,000) due to the growth in the number of shops. The average inventory turnover days were 261 days (2017: 287 days) with the average inventory turnover days of gold products being 157 days (2017: 177 days) and that of gem-set jewellery products being 400 days (2017: 454 days).

Capital Expenditure

During the Period under review, the Group's capital expenditures amounted to approximately HK$840,000,000 (2017: approximately HK$38,000,000), including the costs of properties, leasehold lands, land use rights, leasehold improvements, furniture, fixtures and equipment.

Capital Commitments

As at 30 September 2018, the Group's total capital commitments amounted to approximately HK$72,000,000 (31 March 2018: approximately HK$489,000,000).

Contingent Liabilities

As at 30 September 2018, the Group had outstanding financial guarantees amounting to approximately HK$1,075,000,000 (31 March 2018: approximately HK$899,000,000) issued in favour of several banks in respect of banking facilities granted to an associate.

Human Capital Policy

As at 30 September 2018, the number of employees of the Group was approximately 7,800 (31 March 2018: approximately 7,500). 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 determined with 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 adopted 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 and search engines. Moreover, the Group was again appointed as the official partner for Tencent's famous online mobile game "King Pro League" Spring Season Champion Ring, with a view to increasing brand exposure. As for the anniversary promotions this year, the Group launched the "Share Love and Fun" Challenge on the popular short-form video platform Douyin and cooperated with KOLs, so as to raise Lukfook's brand awareness among young consumers. The event recorded a total of over 2 billion views. The Group also launched joint promotions with sports and travel related brands to reach out to the middle-class customers. Furthermore, the Group participated in wedding expos and a series of promotional activities to seize the business opportunities in the wedding market.

The Group's tireless efforts in brand building have been recognised with numerous awards from the industry and market for its outstanding achievements in branding, corporate management, customer service, community welfare and environmental protection.

OUTLOOK

During the Period under review, visitor arrivals in Hong Kong and Macau increased under the improved overall economic environment. However, the market sentiment was adversely impacted by the recent US-China trade war as well as the depreciation of Renminbi. The SSSG in the Hong Kong and Macau markets of the Group started to see a decline since the second half of October 2018 and recorded a single-digit drop for the period from October to first 3 weeks of November 2018, while that for Mainland China was a double-digit drop. Therefore, the Group remains prudent about its business development in the second half of the financial year. Nevertheless, with the anticipated considerable growth of the middle-class population in Mainland China, the Group remains optimistic about the mid- to long-term business prospects. In the coming year, 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 the middle-class, wedding couples as well as kids.

The Group's target for net shop addition in Mainland China for this financial year will maintain at not less than 120 shops. The Group is also committed to further developing its e-commerce business and strengthening cooperation with e-commerce platforms in Mainland China. 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 jewellery products to expand its footprint in the young consumer market.

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.

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.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.55 per ordinary share (2017: HK$0.55 per share, including a special dividend of HK$0.20 per ordinary share) for the six months ended 30 September 2018, to shareholders whose names appear on the register of members of the Company as at 13 December 2018. The interim dividend will be paid on or around 24 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company for the interim dividend will be closed on 13 December 2018 and no transfer of shares will be registered on that day. In order to qualify for the interim 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 12 December 2018.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintaining good corporate governance practices and procedures. The corporate governance principles of the Company place emphasis on a quality Board, sound internal controls as well as 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 2018, 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 Group's business growth being driven by 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 conducting future business negotiations. Moreover, members of the Board also consist of qualified professionals and other prominent and experienced individuals from the community. The Board is of the view that the existing Board's composition, with the assistance of the Board Committees and two Deputy Chairmen, can ensure a balance of power and authority. The Board will nevertheless review this structure from time to time and will consider segregation of the two roles if and when appropriate.

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 2018. 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 2018/19

This interim 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 Interim Report 2018/19 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, 28 November 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.