SPARKLE ROLL GROUP LIMITED

耀萊集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

RESULTS

The Board of directors (the "**Board**" or "**Directors**") of Sparkle Roll Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 31 March 2018, together with the comparative figures for the last corresponding year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	**2,893,052**	2,781,222
Cost of sales		**(2,494,027)**	(2,450,338)
Gross profit		**399,025**	330,884
Other income and net gains	6	**83,576**	69,500
Selling and distribution costs		**(295,534)**	(233,983)
Administrative expenses		**(60,716)**	(60,270)
Other expenses		**(12,976)**	–
Operating profit	7	**113,375**	106,131
Finance costs	8	**(16,234)**	(15,725)
Gain on deemed disposal of investment in an assoicate	11	**585,588**	–
Share of (loss)/profit of an associate		**(12,779)**	507
Profit before income tax		**669,950**	90,913
Income tax expenses	9	**(2,834)**	(1,162)
Profit for the year		**667,116**	89,751
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**68,425**	(33,647)
Change in fair value of available-for-sale investment recognised during the year		**64,243**	–
Share of other comprehensive income of an associate		**(5,270)**	(85)
Reclassification adjustments for amounts transferred to profit or loss:			
– deemed disposal of investment in an associate		**(521)**	–
Other comprehensive income for the year, net of tax		**126,877**	(33,732)
Total comprehensive income for the year		**793,993**	56,019

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**664,565**	87,845
Non-controlling interests		**2,551**	1,906
		667,116	89,751
Total comprehensive income attributable to:			
Owners of the Company		**791,326**	55,674
Non-controlling interests		**2,667**	345
		793,993	56,019
Earnings per share attributable to owners of the Company			
Basic and diluted	*10*	**HK14.9 cents**	HK2.6 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**92,527**	91,355
Goodwill		**206,171**	206,171
Other intangible asset		**393**	472
Investment in an associate	*11*	**–**	660,075
Available-for-sale investment	*11*	**1,291,321**	–
Deposits paid to a related party			
– deposits paid for acquisition of a property holding company		**135,802**	–
– rental deposits		**15,812**	15,101
		1,742,026	973,174
Current assets			
Inventories		**1,061,407**	923,554
Investment in debt securities		**440,000**	–
Trade receivables	*12*	**5,342**	6,654
Loan receivables	*13*	**127,376**	–
Deposits, prepayments and other receivables		**269,995**	176,807
Amounts due from related parties		**8,576**	15,622
Pledged deposits		**91,357**	72,240
Restricted bank balance		**5,304**	6,180
Cast at banks and in hand		**155,650**	192,103
		2,165,007	1,393,160
Current liabilities			
Trade payables	*14*	**(14,501)**	(19,931)
Receipt in advance, accrued charges and other payables		**(288,370)**	(154,680)
Amounts due to non-controlling interests		**(4,538)**	(1,578)
Amounts due to related parties		**(2,424)**	(1,085)
Provision for taxation		**(5,386)**	(3,768)
Borrowings		**(567,652)**	(396,377)
		(882,871)	(577,419)

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Net current assets		**1,282,136**	815,741
Total assets less current liabilities		**3,024,162**	1,788,915
Non-current liabilities			
Other payables		**(304)**	(258)
Deferred tax liabilities		**(678)**	(830)
		(982)	(1,088)
NET ASSETS		**3,023,180**	1,787,827
EQUITY			
Equity attributable to owners of the Company			
Share capital		**9,882**	8,282
Reserves		**2,996,268**	1,765,712
		3,006,150	1,773,994
Non-controlling interests		**17,030**	13,833
TOTAL EQUITY		**3,023,180**	1,787,827

NOTES

1. GENERAL INFORMATION

Sparkle Roll Group Limited (the "**Company**") is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is in Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The principal activities of the Company and its subsidiaries (together the "**Group**") are distributorships of luxury goods. The Group's operations are mainly based in Hong Kong, Mainland China and Malaysia.

In the opinion of the directors, the immediate holding company and ultimate holding company of the Company is Sparkle Roll Holdings Limited ("**SRHL**"), which is incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The financial statements have been prepared on the historical cost basis except for certain financial assets, which are measured at fair value.

The financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

3. ADOPTION OF NEW OR REVISED HKFRSs

(a) Adoption of new or revised HKFRSs effective on 1 April 2017

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 7 *Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the financial statements.

Amendments to HKAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on the financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

(b) New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statement have been issued but are not yet effective and have not been early adopted by the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments [1]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKAS 2	Classification and Measurement of Share-based Payment Transaction[1]
Amendments to HKFRS 9	Payment Features with Negative Compensation[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

The Group anticipates that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Except for HKFRS 9, HKFRS 15 and related amendments and HKFRS 16, the new or revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's financial statements upon application.

4. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with internal reporting provided to executive directors of the Company who are responsible for allocating resources and assessing performance of the operating segments.

In prior years, the executive directors have identified the reportable and operating segments by major product and service lines. During the year ended 31 March 2018, the Group reorganised its internal reporting structure by simplifying the segmental classification based on revenue contribution from its product and service lines so as to enhance operational efficiency. Accordingly, the comparative segment information has been re-presented to conform to current year's presentation. The Group's reportable and operating segments for financial reporting purposes have been reorganised as follows:

The executive directors have identified the following reportable operating segments:

(i) Auto dealership – this segment includes distribution of branded automobiles, namely Bentley, Lamborghini and Rolls-Royce and provision of related after-sales services.

(ii) Non-auto dealership – this segment includes distribution of branded watches, namely Richard Mille, DeWitt, Parmigiani, DeLaCour and Buben & Zorweg, distribution of branded jewelleries, namely Boucheron and Royal Asscher, distribution of certain brands of fine wines, audio equipment, menswear apparels and accessories and cigars and smoker's accessories.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. Inter-segment transactions, if any, are priced with reference to prices charged to external parties for similar transaction.

	2018		
	Auto dealership	**Non-auto dealership**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from external customers	2,569,576	323,476	2,893,052
Other income and net gains	58,330	5,762	64,092
Reportable segment revenue	2,627,906	329,238	2,957,144
Reportable segment results	160,225	(24,415)	135,810

	2017		
	Auto dealership	Non-auto dealership (Re-presented)	Total
	HK$'000	*HK$'000*	*HK$'000*
Revenue from external customers	2,519,181	262,041	2,781,222
Other income and net gains	60,467	6,278	66,745
Reportable segment revenue	2,579,648	268,319	2,847,967
Reportable segment results	165,722	(20,488)	145,234

Unallocated corporate income mainly comprised certain incomes from advertising, exhibitions and other services, administrative fee income and gain on disposals of property, plant and equipment. Unallocated corporate expenses mainly comprised certain employee benefits expenses (including directors' emoluments), certain operating lease expenses, auditors' remuneration and other centralised administrative costs of the Group's headquarter which are not directly attributable to the business activities of any operating segment.

A reconciliation between the reportable segment results and the Group's profit before income tax is as follows:

	2018	2017 (Re-presented)
	HK$'000	*HK$'000*
Reportable segment results	**135,810**	145,234
Bank interest income	**1,216**	586
Interest income from investments, debt securities and loan receivables	**13,835**	–
Unallocated corporate income	**4,433**	2,169
Unallocated corporate expenses	**(41,919)**	(41,858)
Share of (loss)/profit of an associate	**(12,779)**	507
Gain on deemed disposal of investment in an associate	**585,588**	–
Finance costs	**(16,234)**	(15,725)
Profit before income tax	**669,950**	90,913

5. REVENUE

The Group's principal activities are sale of automobiles and other merchandised goods and provision of automobile related after-sales services. Revenue from the Group's principal activities recognised during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
Sales of automobiles	**2,469,539**	2,395,631
Sales of other merchandised goods	**323,477**	262,041
Income from provision of after-sales services	**100,036**	123,550
	2,893,052	2,781,222

6. OTHER INCOME AND NET GAINS

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**1,216**	586
Interest income from investments, debt securities and loan receivables	**13,835**	–
Bonus from suppliers	**10,045**	14,281
Gain on disposals of property, plant and equipment	**2,128**	1,514
Income from advertising, exhibitions and other services	**7,820**	7,044
Income from insurance brokerage	**44,893**	41,617
Management fee income	**1,135**	1,160
Administrative fee income	**618**	357
Others	**1,886**	2,941
	83,576	69,500

7. OPERATING PROFIT

Operating profit is arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Amortisation of other intangible asset[#]	**79**	78
Cost of inventories recognised as expense, including	**2,287,412**	2,411,756
– Write-down of inventories	**6,238**	5,784
– Reversal of write-down of inventories	**–**	(2,627)
Depreciation of property, plant and equipment[##]	**21,995**	21,948
Gain on disposals of property, plant and equipment	**(2,128)**	(1,514)
Operating lease payments in respect of rented premises	**98,025**	91,813
Employee benefit expense	**44,426**	45,603
Provision for litigation and claims[###]	**12,976**	–

[#] Amortisation of other intangible asset has been included in administrative expenses.

[##] Depreciation of approximately HK$20,526,000 and HK$1,469,000 (2017: HK$20,455,000 and HK$1,493,000) have been included in selling and distribution costs and administrative expenses respectively.

[###] Provision for litigation and claims has been included in other expenses.

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**14,187**	11,327
Interest on other loans	**2,047**	4,398
	16,234	15,725

9. 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.

The Group's subsidiaries in Mainland China are subject to income tax at the rate of 25% except that a subsidiary is entitled to tax exemption for the years ended 31 March 2018 and 2017.

Income tax of certain subsidiaries of the Company in Malaysia is charged at 3% on the assessable profit for the year or a fixed amount of Malaysian Ringgit 20,000, whichever is lower.

	2018	2017
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**1,146**	322
– Income tax of other jurisdictions	**1,840**	1,046
Total current tax	**2,986**	1,368
Deferred tax	**(152)**	(206)
Total	**2,834**	1,162

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately HK$664,565,000 (2017: approximately HK$87,845,000) by the weighted average of 4,445,894,981 (2017: 3,317,114,634) ordinary shares in issue during the year ended 31 March 2018.

Diluted earnings per share are the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during both years.

11. INVESTMENT IN AN ASSOCIATE AND AVAILABLE-FOR-SALE INVESTMENT

The Group completed its acquisition of approximately 15.09% shareholding in Bang & Olufsen A/S ("**B&O**") on 16 December 2016. Last year, with the Group's presence on the board of directors of B&O and participation in the financial and operating policies decisions of B&O, the Directors considered that the Group could exercise significant influence over B&O and accordingly the investment was accounted for as an associate. During current year, the Group ceased to have significant influence over B&O as a result of loss of representation by the Group in the board of directors of B&O due to the resignation of Mr. Tong Kai Lap as the chairman and executive director of the Company (who holds the position of director and audit committee member of B&O) (the "Resignation") which was effective from 1 January 2018. The directors of the Company announced on 15 January 2018 that in accordance with Hong Kong Accounting Standard 28, as a result of the loss of significant influence over B&O due to the change of circumstances including the Resignation, the consequential loss of representation by the Group in the board of directors of B&O and that the Group has no intention to recommend any person to the board of directors and senior management of B&O, B&O ceased to be an associate of the Group and thus the Group discontinued the use of the equity method on its investment in B&O, and accordingly, the investment in B&O at the date when significant influence is lost was recognised at fair value and this amount was regarded as the fair value on initial recognition of available-for-sale investment.

The Group's 2018 results included B&O's results for the 9 months ended 30 November 2017 and any significant events or transactions for the period from 1 December 2017 to 31 December 2017 (date of loss of significant influence). B&O's most recently available and published financial information were drawn up to 30 November 2017 (2017: 28 February 2017). The Group has taken advantage of the provision contained in HKAS 28 "Investments in Associates" whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period end where the difference must be no greater than three months. The Group's share of the results of B&O included in the Group's consolidated financial statements for the year ended 31 March 2018 amounted to a loss of approximately HK$12,779,000.

Immediately after the loss of significant influence over B&O, it was accounted for as a deemed disposal of the entire interest in B&O, with a resulting gain of approximately HK$585,588,000 on deemed disposal of investment in the associate being recognised in profit or loss during the year ended 31 March 2018.

12. TRADE RECEIVABLES

The Group's trading terms with its retail customers are mainly receipts in advance from customers or cash on delivery, except for certain transactions with creditworthy customers where the credit period is extendable up to 3 months, whereas the trading terms with wholesale customers are generally one to two months. In addition, the Group generally provides a credit term of two to three months to automobile manufacturers for the in-warranty after-sales services. The Group seeks to maintain strict control over its outstanding trade receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by the management.

An ageing analysis of trade receivables at the end of the reporting period, based on the invoice dates, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**5,075**	1,161
31 – 120 days	**267**	100
Over 120 days	**–**	5,393
	5,342	6,654

13. LOAN RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Loans to independent third parties facilitated through internet finance platform	(i)	**86,420**	–
Other loan receivable	(ii)	**40,956**	–
		127,376	–

Notes:

(i) Amounts represented loans to independent third parties which were facilitated through the internet finance platform of independent financial services companies and are unsecured. The principal of these loans (with maturity due within 30 to 90 days) and the related interest (bearing interest at a range of 6.00% to 6.80% per annum) are insured by an independent insurance company based in Mainland China.

(ii) The loan receivable is made to an independent third party and is unsecured, bears interest rate of 7.36% per annum and is repayable within one year.

14. TRADE PAYABLES

The following is an ageing analysis of trade payables which based on the invoice dates as at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
0 – 30 days	**10,194**	13,199
31 – 60 days	**462**	2,739
61 – 90 days	**2,290**	2,477
Over 90 days	**1,555**	1,516
	14,501	19,931

Included in the trade payables is an amount due to an associate of HK$10,847,000 as at 31 March 2017.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As stated in the audited consolidated financial statements of the Group for the year ended 31 March 2018, Bang & Olufsen A/S ("B&O"), a Denmark listed entity, was acquired as an associate in last year and accounted for by the equity method, and during the current year, the Group ceased to have significant influence over B&O as a result of loss of representation by the Group in the board of directors of B&O due to the resignation of Mr. Tong Kai Lap as the chairman and executive director of the Company (who also holds the position of director and audit committee member of B&O).

In applying the equity method to prepare the consolidated financial statements, the Group has used the financial information of B&O as contained in B&O's published financial report ("B&O's Financial Information").

In accordance with Hong Kong Standard on Auditing 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors), B&O was identified as a significant component of the Group due to its individual financial significance to the Group. Accordingly, as part of our audit, we shall perform an audit on the financial information of B&O which is included in the consolidated financial statements.

During the course of our audit, we were denied access to the systems, books and records, management, and the auditors of B&O because such access is restricted by certain rules and regulations in Denmark relating to disclosure of inside information. As there were no other satisfactory audit procedures that we could adopt, we were unable to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investment in B&O as at 31 March 2017, the Group's share of B&O's results for the period from 1 April 2017 to the date of deemed disposal of B&O and a gain on deemed disposal of B&O as included in the Group's consolidated financial statements were fairly stated. Also, due to this limitation on our scope of work, we have not obtained sufficient audit evidence relating to the disclosures about B&O's financial information. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

CHAIRMAN'S STATEMENT

China reported a growth of approximately 6.9 percent in 2017, while the global economy is foreseen to maintain relatively stable in 2018. However, the Brexit negotiations monetary policies of global fund flows and Sino-US trade frictions will be the threats to the steady global economy. According to the National Bureau of Statistics of China, for 2018, the Chinese government targets growth at around 6.5 percent amid efforts to deleverage, contain debt and financial risks. China's quarterly GDP growth experienced the weakest growth since the first quarter of 2016 – the Chinese economy grew by 1.4 percent quarter-on-quarter in the three months to March of 2018, compared with an advance of 1.6 percent in the previous period and slightly below market expectations of 1.5 percent.

During the financial year under review, the Group's revenue increased from HK$2.781 billion to HK$2.893 billion. Gross profit for the financial year increased from HK$330.9 million to HK$399.0 million. The auto business was still a major income driver, accounting for approximately 88.8% of our business. Net profit attributable to owners of HK$664.6 million was recorded in this financial year compared with a net profit of HK$87.8 million in the last financial year.

Due to the change in accounting treatment on the Group's investment in B&O as a result of loss of significant influence over B&O, it led to an increase of approximately HK$585.6 millon (which is non-cash in nature) in the consolidated net profit of the Group for the year ended 31 March 2018. The Board had issued a positive profit alert announcement on 15 January 2018 in respect of this one-off gain.

China's Luxury Goods and Automobiles Markets

There are quite a few ongoing updates and research reports from reputable authorities, investment banks and global research houses mentioning the comeback of China's luxury goods market. According to the "Bain & Company's 2017 China Luxury Report" issued by Bain & Company on 17 January 2018, after three years of de-celeration, China's spending on personal luxury goods started to bounce back in Q3 2016 and showed strong growth in 2017, with the domestic market out-numbering overseas purchases and reaching 20% growth. Category rebalancing continues with female categories, such as cosmetics, women's wear and jewelry, surpassing other categories growth. The report found that new consumers – particularly millennials (aged at 20-34) – were major contributors to the luxury market growth last year. "Chinese millennials helped to accelerate luxury spending here, particularly in the last year," said Bruno Lannes, partner in Bain's Greater China office and author of the report. "Many luxury brands recognize that more and more Chinese consumers are setting the trends in luxury. To start with, they represent 32% of the global luxury consumption. In addition, we also see an emerging qualitative editorial authority in China on luxury, through key opinion leaders and media. And China is ahead of all other markets when it comes to digital marketing and digital consumer engagement" added Lannes.

According to the fifth edition of an annual study titled “True-Luxury Global Consumer Insight” published by The Boston Consulting Group (BCG), a global management consulting firm and the world’s leading advisor on business strategy, and Altagamma, which gathers high-end Italian cultural and creative companies. On 20 February 2018, it released their latest survey on luxury goods, which covered more than 12,000 millennials and Chinese consumers of luxury goods across ten countries. The report found out that millennials are the generation that will contribute the most to the market growth of some 130% and will account for 50% of the market share in 2024. Chinese consumers represent the nationality driving the most growth: about 70% and will account for approximately 40% of the market share in 2024. The overall luxury goods industry, including products and services, is worth approximately €915 billion today and will reach about €1,260 billion in 2024. Additionally, social media, online and mobile are gaining prominence that 55% of luxury consumers buying online use their mobile phones versus personal computers. Social media and influences are gaining power. For the first time, social media is the first source of information and the channel of primary impact used by true-luxury consumers, followed by magazines and brand websites.

For the global luxury car market, China is still the most important market. According to an article titled “Chinese buyers spur rise in global luxury car sales” issued by Kosei Fukao, Nikkei Asian Review staff writer on 18 February 2018, it mentioned that China accounted for almost 90% of the sales growth at leading luxury automakers in 2017. China made up 27% of overall sales, three percentage points more than that in 2016. The number of luxury automakers sold in the country rose 17%, compared with a paltry 1% growth in the rest of the world. In other words, China accounted for 360,000 of the 420,000 additional automakers the nine makers sold last year. Other high-end automakers are taking note of this trend. Companies such as Maserati, a unit of Fiat Chrysler Automobiles, and Britain’s Aston Martin are expanding their dealer networks in China, suggesting competition for wealthy Chinese motorists’ attention will only intensify.

Luxury car market continues to rise based on an article titled “Consumer upgrades drive China’s luxury car market” issued on 13 February 2018 by Asia Times, a Hong Kong-based English news website covering politics, economics, business and culture from an Asian perspective. The luxury car market is expected to continue its more than 10% annual growth of sales in the following years, according to a report released by Essence International. In 2017, sales of luxury cars increased 18% from a year earlier, compared with only 1.4% growth of overall car sales based on the China Passenger Car Association. The sales data released by automobile makers shows that the first tier of luxury cars, including Audi, BMW and Mercedes, have witnessed a year-on-year rise of approximately 1.1%, 1.5% and 25.9% respectively over last year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Auto Dealerships

During the year, revenue of the ultra-luxury automobile distributorships of Bentley, Lamborghini and Rolls-Royce recorded an approximately 3.1% increase to approximately HK$2.470 billion, as compared with that of approximately HK$2.396 billion in the previous financial year. Among our 3 brands, Rolls-Royce recorded sales growth while Bentley and Lamborghini recorded sales drop. Rolls-Royce had performed the best among the Group's other brands with total sales of approximately HK$1.046 billion, representing a 25.4% increase in sales compared with HK$833.1 million during the previous financial year. A total of 169 units of Rolls-Royce were sold, representing an increase of approximately 13.4% compared with 149 units in the previous financial year previously. Among all models of Rolls-Royce sold during the current financial year, Ghost performed the best in terms of revenue and gross profit contribution.

According to the article titled "Rolls-Royce motor cars deliver outstanding result in 2017" under Rolls-Royce official website issued on 12 January 2018, the brand announced a highly successful 2017, with a total of 3,362 cars commissioned by customers in almost 50 countries around the world. Such result was achieved despite the absence of Phantom from the market and unsettled market conditions in the important Middle East market. New Phantom was unveiled in July to unprecedented worldwide acclaimed by media and prospective customers alike and has a strong order book. China returns to form with sales up 40% compared with those recorded in 2016.

Bentley recorded an approximately 7.6% decrease in sales to approximately HK$1.294 billion during this financial year, as compared with that of approximately HK$1.4 billion in the previous financial year. At the same time, a total of 314 units of Bentley were sold, representing a decrease of 18.4% compared with 385 in the previous financial year. Among all models on sale of Bentley during this financial year, Flying Spur recorded the most in units sold, while the new SUV model, Bentayga performed the best in terms of revenue and gross profit contribution.

Lamborghini recorded a decline in sales during this financial year with a total of approximately HK$129.6 million, representing an approximately 20.3% drop compared with that of approximately HK$162.6 million recorded in the previous financial year. A total of 29 units of Lamborghini were sold, representing a decrease of approximately 31% compared with 42 in the previous financial year. Among all models on sale of Lamborghini during the current financial year, Huracan performed the best in terms of revenue and gross profit contribution.

Gross profit margins of sale of Bentley, Lamborghini and Rolls-Royce improved significantly, while the Group continued enjoying bonus from the brands.

Revenue of after-sales services recorded a decline of approximately 19.0% during this financial year as compared with that of the previous financial year. Accordingly, the gross profit margin decreased from approximately 52.2% in the previous financial year to approximately 45.4% in this financial year.

Non-auto Dealerships

During the year, the sales of our non-auto division recorded an increase in revenue of approximately 23.5% to approximately HK$323.5 million as compared with that of approximately HK$262 million in the previous financial year. The growth was mainly driven by sales of audio equipment and menswear apparel and accessories, but partly offset by the decrease in sales of watch and jewelry.

Gross profit margin of our non-auto division increased during the current financial year from approximately 26.5% in the last financial year to approximately 35% in the current financial year. Such increase was mainly due to the improvement in sale of audio equipment.

Among all non-auto division during the current financial year, B&O PLAY performed the best in terms of revenue contribution.

The revenue and gross profit of audio equipment, menswear apparel and accessories and tobacco products increased by approximately 85.2% and approximately 121.3% respectively.

Investment, Debt Securities and Loan Receivables

In order to make use of the idle cash of the Group and enhance the capital return, the Group had allocated certain resources on various types of investments, debt securities and loan receivables in the past two financial years. Although the income generated from the investments was relatively insignificant as compared with the gross profit generated from the operating divisions, the total amount employed represented approximately 47.6% of the total assets of the Group as at 31 March 2018. During this financial year, these contributed approximately HK$13.8 million of gross income to the Group.

The status of the Group's portfolio was set out as below:

	Balance at book value	
	As at 31 March 2018	**As at 31 May 2018**
	Approximately (HK$)	*Approximately (HK$)*
Bang & Olusen ("B&O" shares)	1,291 million	1,090 million
P2P financing portfolios	86 million	–
Senior note	440 million	330 million
Other loan receivables	41 million	41 million
Total	1,858 million	1,461 million

On 15 January 2018, the Company announced that the Group's investment in B&O had been reclassified from investment in an associate to available-for-sale investment with effect from 1 January 2018. During this financial year, the Group recorded a share of loss of B&O of approximately HK$12.8 million. Since the date of reclassification up to the year ended 31 March 2018, the share price of B&O was traded in a range of DKK150 to DKK188.2 per share. At the end of this financial year, the share price of B&O closed at DKK152.6 per share.

As at 31 March 2018, the Group owned approximately 15.09% of the total shareholding in B&O. The Group sold 64,454 shares in B&O and hence realized approximately HK$12.4 million in May 2018. As at 31 May 2018, the Group held approximately 14.94% of the shareholding in B&O.

All the products in the P2P financing portfolios of the Group at the financial year ended 31 March 2018 had been matured in May 2018. The relevant principals and interests had been received. As at 31 May 2018, no new P2P financing portfolio was subscribed by the Group.

On 31 May 2018, the Group had agreed to dispose of the 6% senior note in the principal amount of HK$330,000,000 due on 3 June 2018 issued by Shanghai Huaxin Group (Hong Kong) Limited held by the Group to a third party, at a consideration of HK$334,840,000 in accordance with the terms and conditions of the note. Completion of the disposal will take place on the date of the receipt of the full principal amount of the note. Further details were set out in the Company's announcements dated 4 December 2017, 2 March 2018 and 31 May 2018 respectively.

RECENT DEVELOPMENT AND PROSPECT

China is on track to be the largest luxury cars market in a few years. Super brands including Porsche, Mercedes Benz and Audi had recorded brilliant sales in China during 2017 based on an article named "2017 (Full Year) China and Worldwide German Luxury Car Sales" reported by Best-selling Cars.com dated 16 January 2018. China was again the largest single-country market for Porsche and with a 10% increases in sales and also the fastest growing major market. In 2017, China was again the largest and fastest growth region for Mercedes Benz with sales increased to 587,868 cars – the second consecutive year – that Mercedes Benz sales in China had grown by over a quarter. A strong recovery during the second half of 2017 allowed Audi to stay just ahead of BMW and Mercedes Benz in China with sales increased by approximately 1.1% to 597,866 cars.

Lamborghini, one of our automobile brands, will be delivering its newly released SUV, Urus, to our customers in the upcoming financial year. The Group is confident that such new model of ultra-luxury automobiles will be able to stimulate sales of our automobile division. Hence, the Group relocated the brand's after-sales services centre in Beijing to a more spacious and cozy location during the financial year. On the other hand, we also plan to relocate an existing after-sales services center for Bentley in Beijing in the upcoming financial year, hoping to cope with the demands of the brand.

In view of the significant investment in B&O and the satisfactory performance of the B&O Play dealership business in the PRC, audio equipment business is still one of the focuses to the Group in the upcoming financial years. As the investment in B&O represented approximately 33% of the Group's total assets as at 31 March 2018, the Group will continue monitoring such significant investment.

The Group continues destocking of other non-auto inventories especially in watch and jewellery.

In addition, the Group's results are strongly correlated to the ups and downs of the China economy and its luxury automobile market. In order to minimize the effects to the Group from these two core factors, we are taking steps to diversify the business risk and stabilize the healthy cash flow of the Group. An announcement will be made if any such opportunities are finalised.

FINANCIAL REVIEW

Revenue

The revenue of the Group for the year ended 31 March 2018 was approximately HK$2,893.1 million, representing an increase of approximately 4.0% as compared with approximately HK$2,781.2 million recorded in the last year. Such increase was mainly due to the increase in sales of Rolls-Royce, audio products and menswear apparel products. The table below sets out the Group's revenue for the year indicated:

	FY2018		FY2017		Changes	
		Contribution		Contribution		
Revenue Source	***HK$'000***	***(%)***	*HK$'000*	*(%)*	*HK$'000*	*(%)*
Sales of automobiles	**2,469,539**	**85.3%**	2,395,631	86.1%	73,908	3.1%
Income from provision of after-sales services	**100,036**	**3.5%**	123,550	4.5%	(23,514)	(19.0%)
Sub-total	**2,569,575**	**88.8%**	2,519,181	90.6%	50,394	2.0%
Non-auto Dealerships	**323,477**	**11.2%**	262,041	9.4%	61,436	23.4%
TOTAL	**2,893,052**	**100%**	2,781,222	100%	111,830	4.0%

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year ended 31 March 2018 increased by approximately 20.6% to approximately HK$399.0 million (31 March 2017: approximately HK$330.9 million). The increase was mainly due to the increase in gross profit from sales of automobiles resulted from the substantial increase in the sales of Rolls-Royce, audio equipment and menswear apparel products in this financial year. The gross profit of the automobiles segment increased from approximately HK$196.9 million in the last financial year to approximately HK$240.4 million for the year ended 31 March 2018. However, the gross profit of the provision of after-sales services for the year ended 31 March 2018 decreased by approximately 29.6% to approximately HK$45.4 million (31 March 2017: approximately HK$64.5 million), mainly due to reduction in the after-sales services income resulting from the keen competition.

Other Income

Other income was approximately HK$83.6 million for the year ended 31 March 2018, representing approximately 20.3% increase from approximately HK$69.5 million in the last financial year. The increase was mainly due to income from investments subscribed during the year.

Selling and Administrative Expenses

The selling and distribution costs increased by approximately 26.3% and the administrative expenses slightly increased by approximately 0.7% respectively. The changes were mainly due to the increase in marketing expenses and the surcharges arising from additional levy of consumption tax.

Other Expenses

The Group recorded other expenses of approximately HK$13.0 million represented the provision made for the possible liquidated damages for the litigations for the current financial year (31 March 2017: nil).

Finance Costs

Finance costs increased slightly by approximately 3.2% from approximately HK$15.7 million in the last financial year to approximately HK$16.2 million in the current financial year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total assets as at 31 March 2018 were approximately HK$3,907.0 million (31 March 2017: approximately HK$2,366.3 million) which were mainly financed by the total equity and total liabilities of approximately HK$3,023.2 million (31 March 2017: approximately HK$1,787.8 million) and HK$883.9 million (31 March 2017: approximately HK$578.5 million) respectively.

Cash Flow

The Group's cash at banks and in hand as of 31 March 2018 were approximately HK$155.7 million (31 March 2017: approximately HK$192.1 million) which were mainly denominated in HK$ and Renminbi ("**RMB**").

The Group's primary uses of cash are to repay the Group's borrowings, to pay for purchases of inventories and to fund the Group's working capital and normal operating costs. Such decrease was mainly attributable to subscription of the financial assets during the current financial year.

The Directors consider that the Group will have sufficient working capital for its existing operations and financial resources for financing future business expansion and capital expenditures.

Borrowings

The Group's borrowings as at 31 March 2018 were approximately HK$567.7 million, representing an increase of approximately 43.2% from approximately HK$396.4 million as at 31 March 2017. The increase was mainly due to purchase of automobiles inventories at the end of the current financial year.

Gearing Ratio

The Group's gearing ratio computed as total borrowings over total equity decreased to approximately 18.8% as at 31 March 2018 (31 March 2017: approximately 22.2%).

Inventories

As at 31 March 2018, the Group's inventories increased by approximately 14.9% from approximately HK$923.6 million as at 31 March 2017 to approximately HK$1,061.4 million, primarily due to the increase in automobile inventories which comprised approximately 59.8% of the inventories of the Group.

The Group's average inventory turnover days slightly increased from 143 days in the year ended 31 March 2017 to 145 days in the year ended 31 March 2018.

The average inventory turnover days mentioned above was defined as average inventory over cost of sales multiplied by 365 days, and the average inventory was the median value of the inventories as at the year end of the current and previous financial years.

Exposure to Foreign Exchange Risk

The revenue and expenses of the Group are mainly denominated in RMB and HK$ while the production cost and purchases are denominated in RMB, HK$, Euro ("**EUR**"), US$ and Swiss Franc ("**CHF**").

The Group did not enter into any foreign currency forward contract for this financial year under review. As at 31 March 2018 and 2017, the Group did not have any foreign currency forward contracts.

Contingent Liabilities and Capital Commitment

The board of Directors of the Company considered that other than the possible obligations arising from the litigations as mentioned in the section headed "Litigations Updates" below, the Group had no material contingent liabilities as at 31 March 2018 (31 March 2017: nil). The board of Directors of the Company considered that other than the commitment arising from the transaction as mentioned in the section headed "Major and connected transaction – acquisition of a property holding company" below, the Group had no material capital commitment as at 31 March 2018 (31 March 2017: nil).

Charges on Assets

As at 31 March 2018, pledged deposits and inventories of the Group with aggregate carrying amounts of approximately HK$91.4 million (31 March 2017: HK$72.2 million) and approximately HK$484.1 million (31 March 2017: approximately HK$335.6 million) respectively were pledged to secure general banking facilities and other facilities granted to the Group.

Human Resources

As at 31 March 2018, the Group had 474 (31 March 2017: 493) employees. Staff costs (including directors' emoluments) charged to profit or loss amounted to approximately HK$44.4 million for the year (31 March 2017: approximately HK$45.6 million).

The Group provided benefits, which included basic salary, commission, discretionary bonus, medical insurance and retirement funds, for employees to sustain competitiveness of the Group. The package was reviewed on an annual basis based on the Group's performance and employees' performance appraisal. The Group also provided training to the employees for their future advancement.

Litigations Updates

References were made to the Company's announcement dated 3 October 2017, 17 November 2017, 19 December 2017 and 3 April 2018 in relation to the first litigation against Tianjin Xin Chang Tai Fu Trading Development Limited* (天津信昌泰富貿易發展有限公司) ("TJXC") (the "First Litigation") and 12 October 2017, 17 November 2017 and 29 December 2017 in relation to the second and third litigations against TJXC (the "Second and Third Litigations").

In respect of the First Litigation, after the retrial of the First Litigation, the Jinghai District People's Court of Tianjin City* (天津市靜海區人民法院) handed down a judgment on 19 March 2018 (the "Appeal Judgment"), which reinstated the judgment of the First Litigation. On 30 March 2018, TJXC filed an appeal application to the First Intermediate People's Court of Tianjin City* (天津市第一中級人民法院) against the Appeal Judgment. As at 31 May 2018, the relevant appeal application was still in progress.

In respect of the Second Litigation, TJXC and the plaintiff had participated a mediation under the supervision of the Second Intermediate People's Court of Tianjin City* (天津市第二中級人民法院) in December 2017.

In respect of the Third Litigation, TJXC had received a judgment handed down by the Jinnan District People's Court of Tianjin City* (天津市津南區人民法院) dated 28 September 2017. On 12 October 2017, TJXC filed an appeal application to the Second Intermediate People's Court of Tianjin City* (天津市第二中級人民法院) against the judgment of the Third Litigation. As at 31 May 2018, the relevant appeal application was still in progress.

Based on the legal opinion obtained from the Group's PRC legal adviser, the Group had made a provision of approximately HK$13 million in aggregate for the possible liquidated damages for the First and Third Litigation. The Group recorded such provision in other expenses for the year ended 31 March 2018.

The Group will make further announcement(s) to inform its Shareholders and potential investors of development of these two cases as and when appropriate.

Placing of shares under general mandate completed in November 2017 and use of proceeds from placing

On 24 October 2017, the Company entered into a placing agreement with KGI Asia Limited (the "Placing Agent") under which the Placing Agent agreed to place up to a total of 800,000,000 new ordinary shares of HK$0.002 each (with a total nominal value of HK$1,600,000) in the Company ("Placing Shares") to independent third parties on a best effort basis at a price of HK$0.5681 per Placing Share. The placing of all 800,000,000 Placing Shares to not less than six independent placees was completed on 13 November 2017 and raised net proceeds, after deducting related placing commission, professional fees and all related expenses, of approximately HK$440.7 million (with a net price of approximately HK$0.55 per share) which were intended to be used for repayment of borrowings, expansion of the audio business of the Group and as general working capital purposes. As at 31 May 2018, approximately HK$108 million has been utilised for repayment of borrowings and approximately HK$40.5 million has been utilised for expansion of audio business. The remaining balance of approximately HK$38.2 million is kept in bank accounts of the Group and approximately HK$254 million is used for short term investment. The closing price as quoted on the Stock Exchange on 24 October 2017, being the date of the placing agreement was HK$0.69 per share.

Further details of the above placing are set out in the announcements of the Company dated 24 October 2017 and 13 November 2017 respectively.

MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF A PROPERTY HOLDING COMPANY

On 6 March 2018, the Group entered into an acquisition agreement with Mr. Qi Jian Hong and 北京文福恒業科技發展有限公司 (Beijing Wenfu Hengye Technology Development Co., Ltd.*) ("Wenfu"), pursuant to which the Group had conditionally agreed to purchase the entire equity interest of Wenfu (the "Sale Interest"). The consideration for the Sale Interest was RMB652 million (subject to adjustment) which would be settled by way of cash. For the details of the transactions please refer to the announcement dated 6 March 2018 and the circular dated 24 April 2018.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2018 (31 March 2017: nil) while no interim dividend (2017: nil) had been distributed during the year as the Group would like to reserve more capital to capture opportunities as mentioned in "Recent Development and Prospect".

CORPORATE GOVERNANCE

The Group is committed to maintaining a high standard of corporate governance practices and procedures that are consistent with the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. The Board agrees that corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure that all practices compling with legal and statutory requirements. Throughout the financial year ended 31 March 2018, the Group has complied with the code provisions as set out in the CG Code.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at 4:30 p.m. on 31 August 2018 (Friday) at Regus Conference Centre, 35/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 August 2018 (Tuesday) to 31 August 2018 (Friday) (both days inclusive) during which period, no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all share transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 27 August 2018 (Monday).

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed the consolidated financial statements and annual results announcement of the Company for the year ended 31 March 2018 and is of the opinion that the preparation of such results is complied with applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF CROWE (HK) CPA LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2018 as set out in this announcement have been agreed by the Company's auditor, Crowe (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe (HK) CPA Limited 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 Crowe (HK) CPA Limited on this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year ended 31 March 2018.

MODEL CODE OF CONDUCT FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules to govern securities transactions by the Directors. After having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code during the year and up to the date of this announcement.

The Company also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.hk970.com.

The annual report of the Company for the year ended 31 March 2018 containing all the information required by the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange and the Company's website in due course.

By Order of the Board
Zheng Hao Jiang
Chairman

Hong Kong, 22 June 2018

As at the date of this announcement, the Company has three executive Directors, three non-executive Directors and three independent non-executive Directors. The executive Directors are Mr. Zheng Hao Jiang, Mr. Zhu Lei and Mr. Cheung Man Kit. The non-executive Directors are Mr. Gao Yu, Mr. Qi Jian Wei and Mr. Tang Sung Wai. The independent non-executive Directors are Mr. Choy Sze Chung, Jojo, Mr. Lam Kwok Cheong and Mr. Lee Thomas Kang Bor.

* *For identification purposes only*