CHOW TAI FOOK JEWELLERY GROUP LIMITED

周大福珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1929

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

- Revenue recorded a robust growth of 20.0% year-on-year backed by the buoyant consumer demand
- Same Store Sales[(1)] ("SSS") in Mainland China and Hong Kong and Macau registered an increase of 4.9% and 24.4%, respectively
- Core operating profit[(2)] surged by 24.7% thanks to the strong sales momentum and operating leverage
- Retail network expanded to 2,822 POS as at 30 September 2018, with a net addition of 237 POS in 1HFY2019
- Growth momentum is expected to be moderated in 2HFY2019 in light of escalating base and macro headwinds
- Faithful execution of "Smart+ 2020" strategic framework to strive for excellence in customer experience

FINANCIAL HIGHLIGHTS

For the six months ended 30 September	**2018** ***HK$ million***	2017 *HK$ million*	YoY change
Revenue	**29,703**	24,754	+20.0%
Gross profit	**8,529**	7,166	+19.0%
Gross profit margin	***28.7%***	*28.9%*	
Adjusted gross profit margin[(3)]	***28.1%***	*28.7%*	
Core operating profit[(2)]	**2,989**	2,396	+24.7%
Core operating profit margin[(2)]	***10.1%***	*9.7%*	
Profit attributable to shareholders of the Company	**1,936**	1,779	+8.8%
Earnings per share — Basic (HK$)	**0.19**	0.18	+8.8%
Interim dividend per share[(4)] (HK$)	**0.15**	0.12	

(1) "Same Store Sales" for 1HFY2019 is the revenue from the self-operated points of sale ("POS") existing as at 30 September 2018 and which have been opened prior to 1 April 2017, measured at constant exchange rates. Revenue from wholesale and other channels are excluded

(2) Core operating profit and the corresponding margin, a non-IFRS measure, being the aggregate of gross profit and other income, less selling and distribution costs, general and administrative expenses and unrealised loss (gain) on gold loans, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its core businesses

(3) Adjusted gross profit margin, a non-IFRS measure, eliminates the effect of unrealised loss (gain) on gold loans, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its businesses

(4) The dividend payout ratio for 1HFY2019 is approximately 77.5%

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

The board of directors (the "Board" or "Directors") of Chow Tai Fook Jewellery Group Limited (the "Company", "we" or "Chow Tai Fook") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2018 ("1HFY2019"), together with comparative figures for the six months ended 30 September 2017 ("1HFY2018") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Notes	**Six months ended 30 September 2018** *HK$ million* **(unaudited)**	2017 *HK$ million* (unaudited)
Revenue	*2*	**29,702.9**	24,754.3
Cost of goods sold		**(21,174.4)**	(17,588.6)
Gross profit		**8,528.5**	7,165.7
Other income		**167.2**	186.1
Selling and distribution costs		**(4,111.0)**	(3,683.1)
General and administrative expenses		**(1,405.9)**	(1,203.9)
Other gains and losses		**(333.7)**	111.0
Other expenses		**(28.0)**	(24.2)
Interest income		**58.7**	43.9
Finance costs		**(153.9)**	(91.6)
Profit before taxation	*3*	**2,721.9**	2,503.9
Taxation	*4*	**(728.1)**	(674.7)
Profit for the period		**1,993.8**	1,829.2
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**(1,707.7)**	768.3
Other comprehensive (expense) income for the period		**(1,707.7)**	768.3
Total comprehensive income for the period		**286.1**	2,597.5

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)
For the six months ended 30 September 2018

	Note	Six months ended 30 September 2018 HK$ million (unaudited)	2017 HK$ million (unaudited)
Profit for the period attributable to:			
Shareholders of the Company		**1,936.3**	1,779.1
Non-controlling interests		**57.5**	50.1
		1,993.8	1,829.2
Total comprehensive income for the period attributable to:			
Shareholders of the Company		**290.7**	2,510.5
Non-controlling interests		**(4.6)**	87.0
		286.1	2,597.5
Earnings per share — Basic and Diluted	*5*	**HK19.4 cents**	HK17.8 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	Note	At 30 September 2018 HK$ million (unaudited)	At 31 March 2018 HK$ million (audited)
Non-current assets			
Property, plant and equipment		**5,009.2**	5,340.7
Land use rights		**179.5**	189.8
Investment properties		**226.4**	233.5
Goodwill		**257.8**	257.8
Other intangible assets		**278.7**	306.4
Jewellery collectibles		**1,520.1**	1,520.1
Deposits paid for acquisition of property, plant and equipment		**61.6**	27.6
Financial assets at fair value through profit or loss		**11.1**	–
Interests in associates		**–**	–
Amounts due from associates		**59.7**	62.2
Loan receivables		**25.6**	26.9
Deferred tax assets		**332.8**	293.1
		7,962.5	8,258.1
Current assets			
Inventories	7	**38,483.8**	34,929.4
Trade and other receivables		**6,651.0**	6,410.0
Loan receivables		**11.7**	28.4
Bank balances and cash		**4,830.9**	7,944.0
		49,977.4	49,311.8
Current liabilities			
Trade and other payables		**9,309.9**	8,358.6
Amounts due to non-controlling shareholders of subsidiaries		**114.7**	100.5
Taxation payable		**1,308.9**	1,101.5
Bank borrowings		**8,283.0**	5,823.0
Gold loans		**7,006.0**	5,335.4
		26,022.5	20,719.0
Net current assets		**23,954.9**	28,592.8
Total assets less current liabilities		**31,917.4**	36,850.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
At 30 September 2018

	At 30 September 2018 *HK$ million* **(unaudited)**	At 31 March 2018 *HK$ million* (audited)
Non-current liabilities		
Bank borrowings	**1,500.0**	2,100.0
Retirement benefit obligations	**227.7**	232.2
Deferred tax liabilities	**295.2**	421.1
Other liabilities	**71.6**	–
	2,094.5	2,753.3
Net assets	**29,822.9**	34,097.6
Share capital	**10,000.0**	10,000.0
Reserves	**19,214.1**	23,423.4
Equity attributable to shareholders of the Company	**29,214.1**	33,423.4
Non-controlling interests	**608.8**	674.2
	29,822.9	34,097.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except that certain financial instruments and liabilities, which are measured at fair values, and in accordance with the International Financial Reporting Standards ("IFRSs").

Except as described below, the principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended 31 March 2018.

The Group has adopted, for the first time, the following new standards and amendments to existing standards that are mandatorily effective for accounting periods beginning on or after 1 April 2018.

Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IFRS 4	Insurance contracts
Amendments to IAS 40	Transfers of investment property
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRIC 22	Foreign currency transactions and advance consideration
Amendments to IFRSs	Annual improvements 2014–2016 cycle: IFRS 1 and IAS 28

IFRS 9 Financial instruments

IFRS 9 replaces the provisions of IAS 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 adoption of IFRS 9 Financial Instruments from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The Group has reviewed its financial assets and liabilities and there is no significant impact on the classification, measurement and derecognition. Since the Group does not have any hedge relationships currently, the application of IFRS 9 does not have any impact on the Group's financial statements.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. At 1 April 2018 and 30 September 2018, the Group assessed the impact of loss allowance under the application of IFRS 9 is immaterial.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 replaces the existing revenue standards. The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts of revenue recognised in the condensed consolidated financial statements. The Group adopted a modified retrospective approach for transition in the condensed consolidated financial statements for the six months ended 30 September 2018, which allows the Group to recognise the cumulative effects of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 April 2018, while prior period comparative figures were not restated. The Group chose to apply IFRS 15 for its contracts at 1 April 2018.

Customer loyalty program

Under the Group's customer loyalty program, the customers are granted cash coupons or points upon certain purchases, which provides a material right to the customers and gives rise to a separate performance obligation. Under IFRS 15, portion of the transaction price needs to be allocated to such option with such an amount being recognised as revenue when the additional goods or services are transferred to the customer, or when the option expires. The Group assessed the impact of application of IFRS 15 is immaterial.

The adoption had no impact on the retained earnings of the Group at 1 April 2018.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold less returns and net of trade discounts.

For the purposes of resource allocation and performance assessment, information reported to the chief operating decision maker (the "CODM"), which comprises executive directors of the Company, mainly focuses on the location of management. Revenue derived from each location of management is further analysed into those from retail and wholesale markets when reviewed by CODM. The Group's reportable and operating segments for the six months ended 30 September 2018 and 2017 included two segments, namely (i) business in the Mainland China and (ii) business in Hong Kong, Macau and other markets.

2. **REVENUE AND SEGMENT INFORMATION (Continued)**

(a) Analysis of the Group's revenue and results by reportable segment

For the six months ended 30 September (unaudited)

	Mainland China		**Hong Kong, Macau and other markets**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Revenue						
External sales *(note i)*						
— Retail	13,094.4	11,496.7	11,070.4	8,959.3	24,164.8	20,456.0
— Wholesale *(note ii)*	4,927.3	3,447.3	610.8	851.0	5,538.1	4,298.3
Segment/group revenue	18,021.7	14,944.0	11,681.2	9,810.3	29,702.9	24,754.3
Inter-segment sales *(note iii)*	–	25.4	1,887.2	1,351.9	1,887.2	1,377.3
	18,021.7	14,969.4	13,568.4	11,162.2	31,590.1	26,131.6
Adjusted gross profit (before elimination)	5,356.7	4,594.0	3,149.9	2,650.5	8,506.6	7,244.5
Inter-segment eliminations	1.3	(1.3)	(169.7)	(146.6)	(168.4)	(147.9)
Adjusted gross profit *(note i)*	5,358.0	4,592.7	2,980.2	2,503.9	8,338.2	7,096.6
Other income	102.1	131.4	65.1	54.7	167.2	186.1
Selling and distribution costs and general and administrative expenses	(3,397.7)	(2,871.5)	(2,119.2)	(2,015.5)	(5,516.9)	(4,887.0)
Core operating profit (segment result)	2,062.4	1,852.6	926.1	543.1	2,988.5	2,395.7
Unrealised gain on gold					190.3	69.1
Others *(note iv)*					(361.7)	86.8
Interest income					58.7	43.9
Finance costs					(153.9)	(91.6)
Profit before taxation					2,721.9	2,503.9
Other segment information included in measurement of core operating profit (segment result):						
Concessionaire fees	852.6	801.3	7.2	7.9	859.8	809.2
Operating lease payments in respect of rented premises	166.8	124.2	602.3	692.5	769.1	816.7
Staff costs	1,255.5	1,094.3	779.0	675.3	2,034.5	1,769.6

Notes:

(i) Included in the external sales and adjusted gross profit HK$336.0 million (2017: HK$295.2 million) and HK$123.1 million (2017: HK$126.7 million) are generated from Hearts On Fire Company, LLC, respectively.

(ii) Wholesale revenue represents revenue from jewellery trading, sales to franchisees and retailers and provision of services to franchisees.

(iii) Inter-segment sales are charged at a price mutually agreed by both parties.

(iv) Others represent other gains and losses and other expenses.

2. **REVENUE AND SEGMENT INFORMATION (Continued)**

(a) Analysis of the Group's revenue and results by reportable segment (Continued)

Adjusted gross profit represents the gross profit generated from each segment without allocation of unrealised gain on gold. Core operating profit represents the profit generated from each segment without allocation of unrealised gain on gold, other gains and losses, other expenses, interest income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

(b) Analysis of the Group's property, plant and equipment, investment properties, jewellery collectibles and inventories by reportable segment:

	Mainland China		**Hong Kong, Macau and other markets**		**Total**	
	30.9.2018	31.3.2018	**30.9.2018**	31.3.2018	**30.9.2018**	31.3.2018
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
Property, plant and equipment	3,467.8	3,958.4	1,541.4	1,382.3	5,009.2	5,340.7
Investment properties	–	–	226.4	233.5	226.4	233.5
Jewellery collectibles	–	–	1,520.1	1,520.1	1,520.1	1,520.1
Inventories	19,538.5	18,387.8	18,945.3	16,541.6	38,483.8	34,929.4

(c) An analysis of the Group's revenue is as follows:

	Six months ended 30 September	
	2018	2017
	HK$ million	*HK$ million*
	(unaudited)	(unaudited)
Retail sales of		
— Gem-set jewellery	**5,608.7**	4,965.0
— Gold products	**14,358.0**	11,515.3
— Platinum/karat gold products	**2,556.0**	2,356.5
— Watches	**1,642.1**	1,619.2
	24,164.8	20,456.0
Wholesale to franchisees/retailers	**5,143.9**	3,670.5
Jewellery trading	**309.3**	572.3
Service income from franchisees	**84.9**	55.5
	29,702.9	24,754.3

3. PROFIT BEFORE TAXATION

	Six months ended 30 September 2018 HK$ million (unaudited)	2017 HK$ million (unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Staff costs	**2,034.5**	1,769.6
Concessionaire fees	**859.8**	809.2
Operating lease payments in respect of rented premises	**769.1**	816.7
Depreciation of property, plant and equipment	**419.6**	383.4
Depreciation of investment properties	**7.1**	7.1
Amortisation of land use rights	**7.2**	6.8
Amortisation of other intangible assets	**27.7**	24.9
(Reversal of) allowance on inventories (included in cost of goods sold)	**(153.2)**	4.8
(Reversal of) allowance for doubtful debts	**(1.3)**	4.7
Fair value gain on gold loans (included in cost of goods sold)	**(205.9)**	(10.3)

4. TAXATION

	Six months ended 30 September 2018 HK$ million (unaudited)	2017 HK$ million (unaudited)
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax in Mainland China	**455.8**	359.4
Hong Kong Profits Tax	**247.6**	190.2
Macau complementary tax	**23.0**	17.1
Taxation in other jurisdictions	**2.4**	0.2
	728.8	566.9
Deferred tax (credit) charge	**(9.3)**	95.2
Withholding tax[1]	**8.6**	12.6
	728.1	674.7

[1] Withholding tax mainly represents withholding tax on intra-group licence income and interest income from Mainland China.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Enterprise Income Tax Law (the "EIT Law") of the People's Republic of China and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in Mainland China is 25.0% for both periods.

For certain subsidiaries of the Company in Mainland China, they are entitled to the tax incentives in connection with the development of the western part of Mainland China. The applicable tax rate is 15.0% for both periods.

Macau complementary tax is calculated at the maximum progressive rate of 12.0% on the estimated assessable profit for both periods.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the consolidated profit attributable to shareholders of the Company for the period and on the 10,000,000,000 (six months ended 30 September 2017: 10,000,000,000) shares in issue during the period.

Diluted earnings per share is the same as basic earnings per share as there was no potential ordinary share dilution during both periods.

6. DIVIDENDS

	Six months ended 30 September			
	2018		2017	
	HK cents per share	***HK$ million***	*HK cents per share*	*HK$ million*
Dividends paid and recognised as distribution during the period:				
For prior year:				
— Final dividends	**15.0**	**1,500.0**	10.0	1,000.0
— Special dividends	**30.0**	**3,000.0**	20.0	2,000.0
		4,500.0		3,000.0

On 29 November 2018, the directors of the Company have determined to declare an interim dividend of HK15.0 cents per share, totalling HK$1,500.0 million for the six months ended 30 September 2018.

7. INVENTORIES

	At 30 September 2018 ***HK$ million*** **(unaudited)**	At 31 March 2018 *HK$ million* (audited)
Raw materials for:		
Gem-set jewellery	**6,115.6**	5,064.2
Gold products	**1,631.1**	1,187.1
Platinum/karat gold products	**381.6**	308.4
	8,128.3	6,559.7
Finished goods:		
Gem-set jewellery	**14,342.8**	13,114.4
Gold products	**11,570.9**	10,632.2
Platinum/karat gold products	**2,513.0**	2,414.6
Watches	**1,801.2**	2,096.7
	30,227.9	28,257.9
Packing materials	**127.6**	111.8
	38,483.8	34,929.4

The inventory balances as at 30 September 2018 included an impairment of HK$118.2 million (31 March 2018: HK$277.1 million).

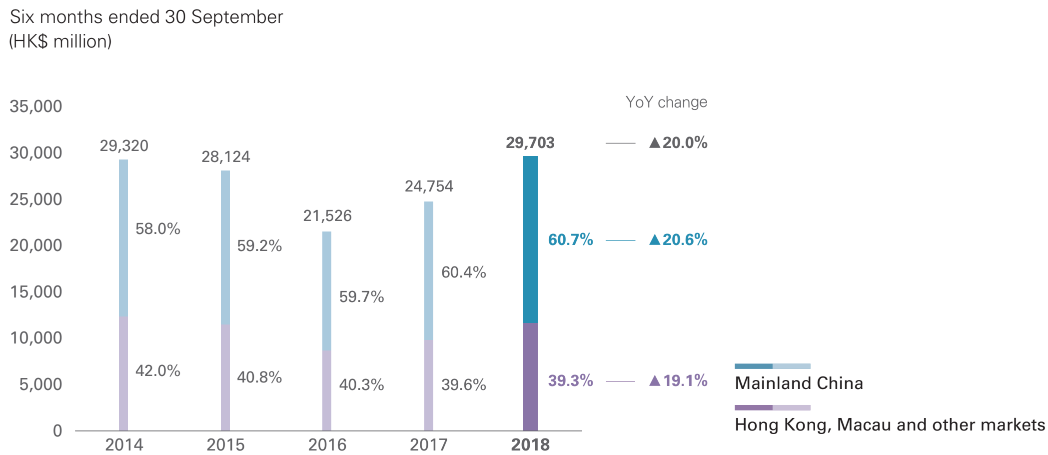
BUSINESS REVIEW

Our operations maintained its strength and continued to thrive in 1HFY2019, despite the macro-economic uncertainties and an escalating comparison base.

Revenue Breakdown

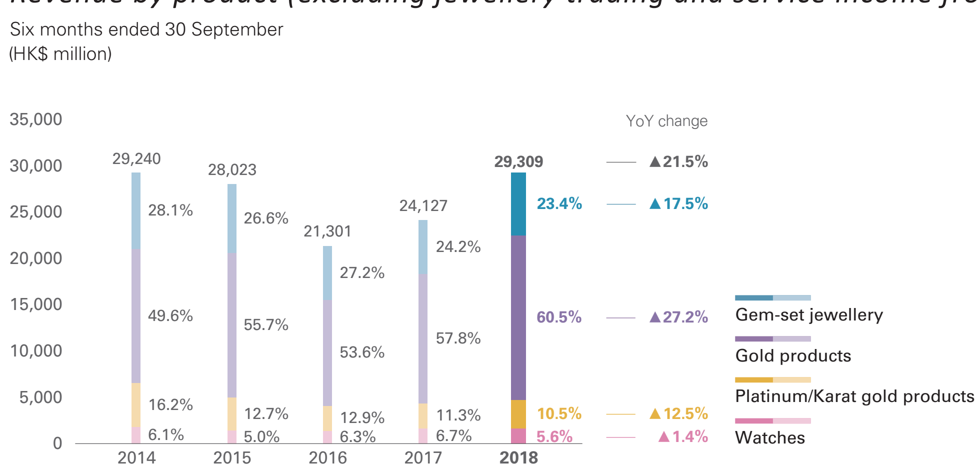
Group

Revenue by reportable segment



- Revenue from Mainland China went up by 20.6% in 1HFY2019, mainly due to more POS openings, especially franchised POS. Its contribution to the Group's revenue edged higher to 60.7%.
- Revenue from Hong Kong, Macau and other markets registered a growth of 19.1% during the period, supported by strong SSSG.

Revenue by product (excluding jewellery trading and service income from franchisees)

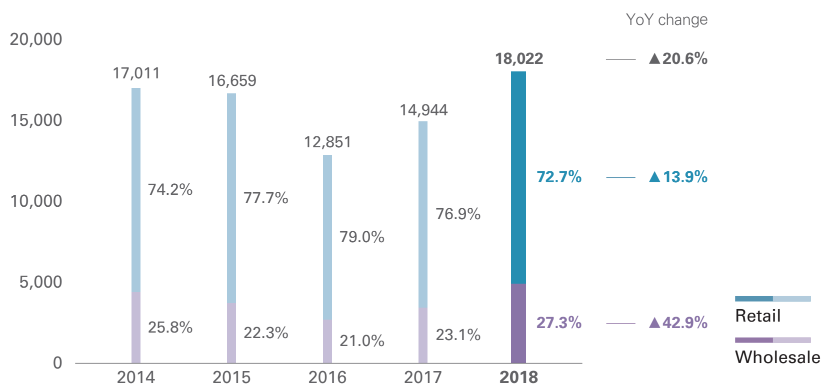


- Performance of gold products was relatively stronger due to robust customer demand triggered by short-term gold price movement. As a result, revenue contribution from gold products was expanded by 270 basis points year-on-year to 60.5% during the period.
- Revenue growth of gem-set jewellery and platinum/karat gold products also expedited to double-digit level backed by resilient performance in Hong Kong and Macau during the period.
- Watches related revenue growth moderated in 1HFY2019 due to the tightness of stock.

Mainland China

Revenue by operation model

Six months ended 30 September
(HK$ million)

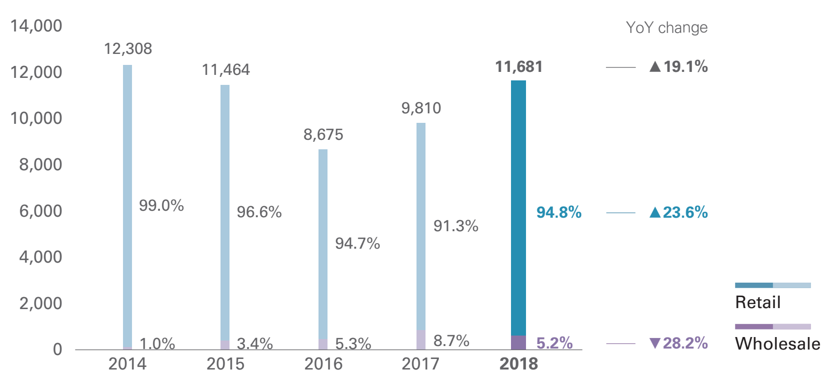


- In Mainland China, our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees and provision of services to franchisees under the inventory ownership unification programme.
- Revenue in Mainland China grew 20.6% in 1HFY2019. On a constant exchange rate basis, revenue rose by 16.8% during the period.
- Wholesale revenue leaped 42.9% as more franchised POS were opened during 1HFY2019.

Hong Kong, Macau and other markets

Revenue by operation model

Six months ended 30 September
(HK$ million)

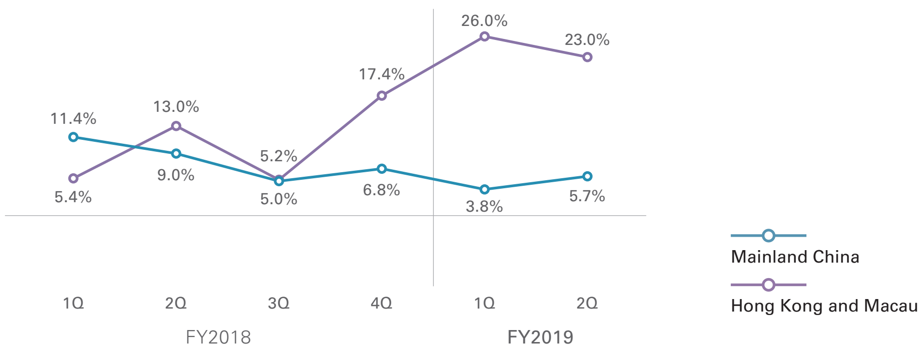


- In Hong Kong, Macau and other markets, our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees, sales to retailers and sales from jewellery trading.
- Retail revenue rose 23.6% in 1HFY2019, thanks to buoyant consumer spending and reviving Mainland visitation.
- Wholesale revenue, on the contrary, slumped by 28.2% year-on-year amid the reduction of sales from jewellery trading during the period, resulting in a reduction in revenue contribution by 350 basis points.

SSSG

Group

SSSG by major market

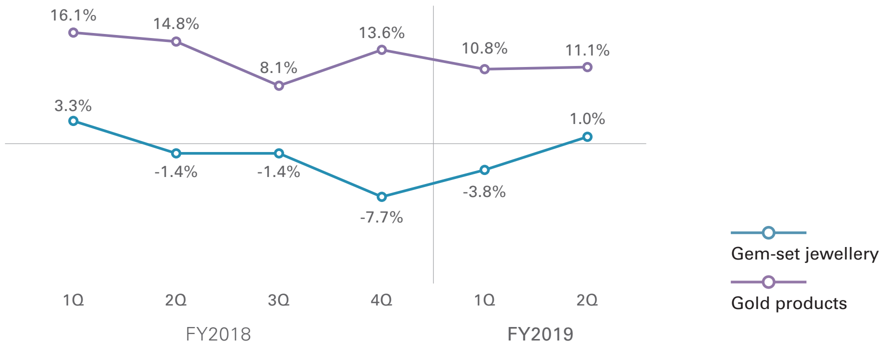


	1HFY2018 SSSG	1HFY2019 SSSG	1HFY2019 SSS volume growth
Mainland China	▲ 10.3%	▲ 4.9%	▼ 0.8%
Hong Kong and Macau	▲ 9.5%	▲ 24.4%	▲ 13.1%

- Vitality in the SSS momentum in both Mainland China and Hong Kong and Macau extended from FY2018 to 1HFY2019.
- SSS in Mainland China rose by 4.9% in 1HFY2019, primarily driven by ASP increase. Including our e-commerce business, Mainland China SSSG would be 5.4%, with a SSS volume growth of 2.1%.
- Thanks to the positive consumer sentiment and a recovery in Mainland visitation, SSSG of Hong Kong and Macau has outgrown that of Mainland China since 2QFY2018 and accelerated to 24.4% during 1HFY2019, bolstered by both vibrant ASP and volume growth.

Mainland China

SSSG of major products



	1HFY2019 SSSG	1HFY2019 SSS volume growth	1HFY2019 Same store ASP	1HFY2018 Same store ASP[(1)]
Gem-set jewellery	▼ 1.2%	▼ 5.2%	HK$6,700	HK$6,400
Gold products	▲ 11.1%	▲ 0.6%	HK$4,100	HK$3,700
Platinum/Karat gold products	▼ 5.6%	▼ 0.7%	HK$1,800	HK$1,900
Watches	▲ 2.1%	▼ 4.5%	HK$15,400	HK$14,400
Overall	▲ 4.9%	▼ 0.8%		

(1) *Same store ASP on 1HFY2019 Same Store basis*

- In Mainland China, consumer demand in gold products remained solid and led to a promising SSSG of 11.1% in 1HFY2019, boosting the overall SSS performance in the market.
- Gold products ASP was lifted by 10.5% largely due to an increase in the average weight per gold product sold in 1HFY2019. The average international gold price depreciated slightly by 0.7% year-on-year during the period.
- Gem-set jewellery SSS declined by 1.2% in 1HFY2019 and showed sequential improvement when compared to 2HFY2018. Its respective RSV grew by 7.4%. Moreover, gem-set jewellery same store ASP also exhibited the uptick trend and reached HK$6,700 during the period, up 4.2% year-on-year.

Hong Kong and Macau

SSSG of major products

	1HFY2019 SSSG	1HFY2019 SSS volume growth	1HFY2019 Same store ASP	1HFY2018 Same store ASP[1]
Gem-set jewellery	▲11.1%	▲15.1%	HK$10,400	HK$10,800
Gold products	▲36.1%	▲18.5%	HK$8,200	HK$7,100
Platinum/Karat gold products	▲11.1%	▲4.6%	HK$1,900	HK$1,800
Watches	▼1.7%	▲4.9%	HK$54,100	HK$57,700
Overall	▲24.4%	▲13.1%		

(1) Same store ASP on 1HFY2019 Same Store basis

- The stellar SSSG in Hong Kong and Macau was driven by gold products, gem-set jewellery and platinum/karat gold products.
- Gold products delivered a robust SSSG of 36.1% in 1HFY2019, propelled by both volume and ASP rise. Volume exhibited a 18.5% growth year-on-year, while ASP increased by 14.9% mainly attributable to a gain in average weight per gold product sold during the period.
- Gem-set jewellery in Hong Kong and Macau demonstrated a healthy SSS volume growth of 15.1% in 1HFY2019. Yet, same store ASP was dragged by the relatively stronger high-end luxury jewellery sales recorded during the same period last year.

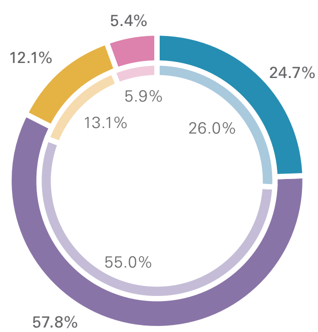
Mainland China Business

POS movement by store brand[(1)] — Mainland China

As at	31.3.2017	31.3.2018	During 1HFY2019			30.9.2018
	Total	Total	Addition	Reduction	Net	Total
CHOW TAI FOOK JEWELLERY	2,118	2,317	268	(48)	220	2,537
CTF WATCH	117	106	4	(3)	1	107
T MARK	–	–	1	–	1	1
HEARTS ON FIRE	8	6	1	(1)	–	6
SOINLOVE	–	9	6	–	6	15
MONOLOGUE	3	11	6	(1)	5	16

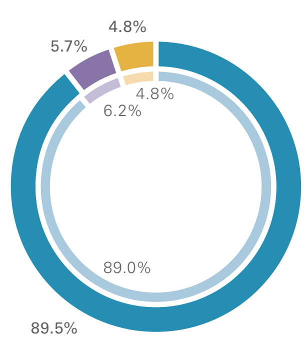
(1) *Shop-in-Shop ("SIS") and Counter-in-Shop ("CIS") excluded*

RSV by product



1HFY2018	1HFY2019		RSV YoY change
		Gem-set jewellery	▲7.4%
		Gold products	▲19.1%
		Platinum/Karat gold products	▲5.3%
		Watches	▲2.9%
		Overall	▲13.3%

RSV by channel



1HFY2018	1HFY2019		RSV YoY change
		CHOW TAI FOOK JEWELLERY	▲13.9%
		Other store brands[(2)]	▲4.2%
		E-commerce[(3)]	▲13.0%
		Overall	▲13.3%

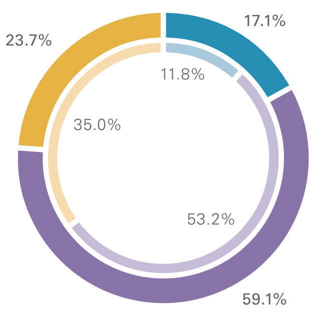
(2) *CTF WATCH, T MARK, HEARTS ON FIRE, SOINLOVE and MONOLOGUE included*

(3) *Major platforms included Chow Tai Fook e-shop, Tmall, JD.com, Vipshop; Online order distribution excluded (i.e. routing online orders to POS for delivery service)*

The following analyses would focus on CHOW TAI FOOK JEWELLERY POS which contributed approximately 90% of the RSV in Mainland China:

CHOW TAI FOOK JEWELLERY POS

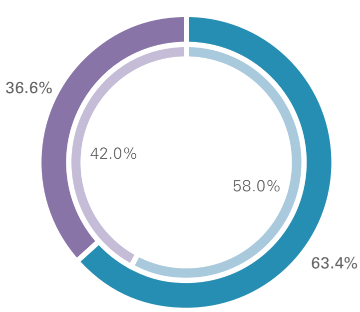
RSV and POS by tier of cities



% of POS	% of RSV		RSV YoY change	1HFY2019 net POS movement
		Tier I cities	▲13.7%	▲34
		Tier II cities	▲13.3%	▲95
		Tier III cities and others	▲15.7%	▲91

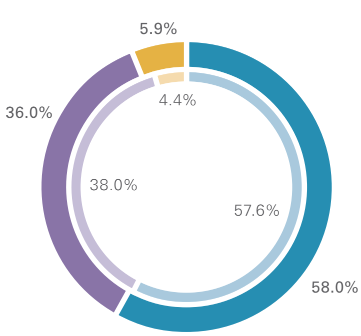
- With stabilising fundamentals helped by progressive urbanisation and infrastructural development, POS expansion during the period has been accelerated in Tier III and lower tier cities with 91 net openings.
- As such, RSV performance of Tier III cities and others exceeded that of Tier I and II cities in 1HFY2019.

RSV and POS by operation model



% of POS	% of RSV		RSV YoY change	1HFY2019 net POS movement
		Self-operated	▲9.1%	▲78
		Franchised	▲23.4%	▲142

RSV and POS by self-operated model

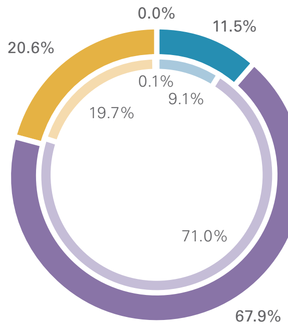


% of POS	% of RSV		RSV YoY change	1HFY2019 net POS movement
		Self-operated (Department store)	▲2.0%	▲1
		Self-operated (Shopping mall)	▲27.0%	▲79
		Self-operated (Standalone store)	▼6.4%	▼2

- During 1HFY2019, our self-operated POS at shopping mall continued to outpace the other operation models and demonstrated a 27.0% RSV growth in light of better customer traffic.
- Substantial openings of our self-operated POS in 1HFY2019 were located in shopping malls.

E-commerce business

RSV by product



1HFY2018	1HFY2019	
		Gem-set jewellery
		Gold products
		Platinum/Karat gold products
		Watches

	1HFY2019 RSV YoY change	1HFY2019 ASP	1HFY2018 ASP
Gem-set jewellery	▲ 41.7%	HK$1,600	HK$1,500
Gold products	▲ 7.8%	HK$1,600	HK$1,600
Platinum/Karat gold products	▲ 17.6%	HK$800	HK$900

E-commerce business performance

1HFY2019

RSV

▲ 12.7%
YoY change

ASP

HK$1,300
1HFY2018: HK$1,400

of respective RSV

5.4%
1HFY2018

5.1%
1HFY2019

of respective retail sales volume

13.4%
1HFY2018

14.0%
1HFY2019

E-commerce platforms

50+

Unique daily visitors(1)

405,000

Number of followers(2)

4,889,000+

(1) *Source: Chow Tai Fook e-shop, Tmall and JD.com*
(2) *Source: Official Sina Weibo, Tencent Weibo and WeChat accounts*

- Our e-commerce business recorded a RSV growth of 12.7% in 1HFY2019. Its contribution to the RSV in Mainland China decreased slightly to 5.1% during the period.
- In terms of retail sales volume, its share in Mainland China expanded to 14.0% in 1HFY2019, with 13.2% and 0.8% of the contribution coming from e-commerce platforms and online order distribution, respectively.

Hong Kong, Macau and Other Markets Business

POS movement by store brand[1] — Hong Kong, Macau and other markets

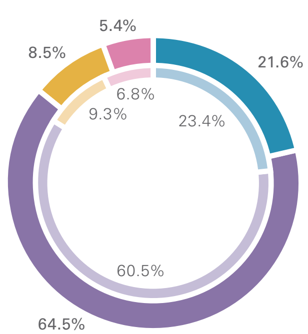
As at	31.3.2017	31.3.2018	During 1HFY2019			30.9.2018
	Total	Total	Addition	Reduction	Net	Total
CHOW TAI FOOK JEWELLERY	118	119	5	(1)	4	123
Hong Kong	80	78	1	(1)	–	78
Macau	18	18	–	–	–	18
Other markets	20	23	4	–	4	27
CTF WATCH	4	3	–	(2)	(2)	1
T MARK	–	–	1	–	1	1
HEARTS ON FIRE	13	14	1	–	1	15

(1) SIS and CIS excluded

- In Hong Kong and Macau, number of POS stayed at 99 during 1HFY2019. For CHOW TAI FOOK JEWELLERY, locations of our stores were slightly adjusted with no change in the total number of POS.
- To further unfold our multi-brand strategy in the market, our debut T MARK specialty store was opened in Tuen Mun in April this year. We also launched our first HEARTS ON FIRE POS in Hong Kong during the period.

Hong Kong and Macau business

RSV by product



1HFY2018	1HFY2019		RSV YoY change
		Gem-set jewellery	▲13.3%
		Gold products	▲31.1%
		Platinum/Karat gold products	▲12.5%
		Watches	▼2.1%
		Overall	▲23.0%

Hong Kong and Macau industry performance

1HFY2019

Retail sales of jewellery industry in Hong Kong[1]

▲ 19.0%

YoY change

Number of Mainland visitors[2]

▲ 12.8%

Hong Kong

YoY change

▲ 13.2%

Macau

YoY change

Our Hong Kong and Macau performance

1HFY2019

Customer traffic at POS

▲ 10.4%

YoY change

RSV settled by China UnionPay, Alipay, WeChat Pay or RMB

42.6%

1HFY2018

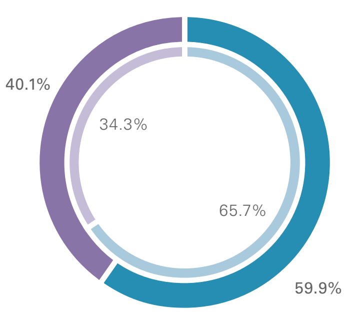
45.4%

1HFY2019

(1) *Value of retail sales of jewellery, watches and clocks, and valuable gifts in Hong Kong according to Census and Statistics Department of the HKSAR Government*

(2) *Source: Commerce and Economic Development Bureau of the HKSAR Government and Macao Statistics and Census Service*

RSV and POS by area



% of POS	% of RSV		RSV YoY change	1HFY2019 net POS movement
■	■	Touristic area[3]	▲ 20.4%	▼ 1
■	■	Other area	▲ 26.5%	▲ 1

(3) *Touristic area includes Causeway Bay, Tsim Sha Tsui, Mong Kok, Yau Ma Tei, Shatin, Sheung Shui, Hong Kong International Airport, Hong Kong Disneyland and Macau*

- Customer traffic rebounded to a positive growth of 10.4% in 1HFY2019, which was mainly attributable to buoyant consumer sentiment among local customers and Mainland tourists, coupled with the positive impact brought by POS optimisation in recent years.
- Both touristic and other areas fared well during the period and RSV increased by 20.4% and 26.5%, respectively.
- The percentage of RSV settled by China UnionPay, Alipay, WeChat Pay or RMB to the total RSV of Hong Kong and Macau market, a proxy for sales contribution from Mainland tourists, lifted from 42.6% to 45.4% during 1HFY2019.

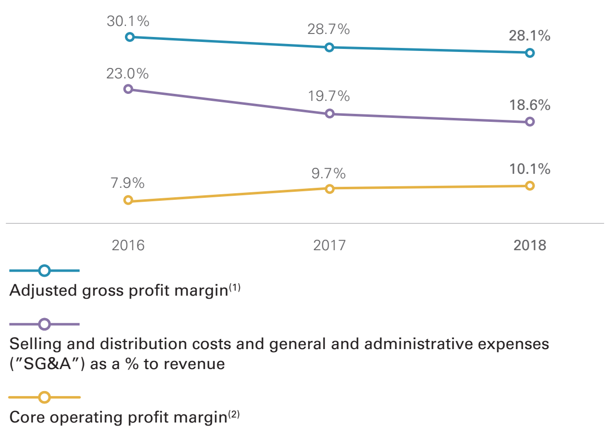
FINANCIALS

Benefitting from a robust sales growth and an improvement in operations, our profitability demonstrated continuous improvement over the first half of the past three financial years.

Profitability

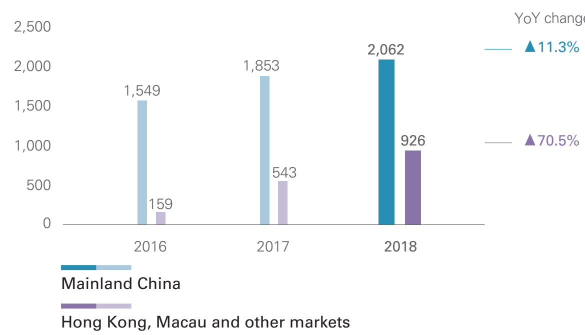
Overall

Six months ended 30 September



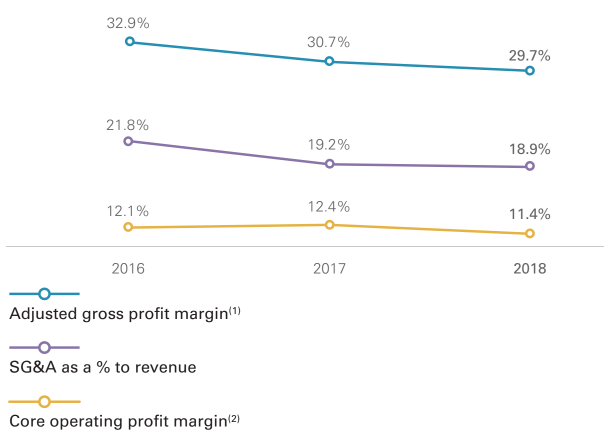
Core operating profit[2] by reportable segments

Six months ended 30 September
(HK$ million)



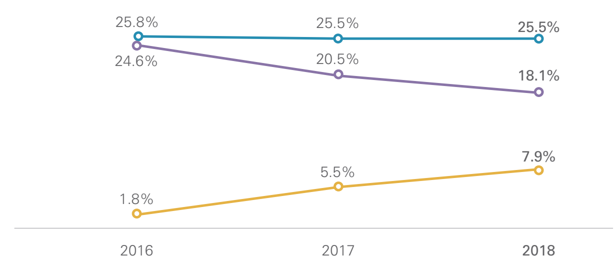
Mainland China

Six months ended 30 September



Hong Kong, Macau and other markets

Six months ended 30 September



(1) Adjusted gross profit and the corresponding margin, a non-IFRS measure, eliminates the effect of unrealised loss (gain) on gold loans, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its businesses

(2) Core operating profit and the corresponding margin, a non-IFRS measure, being the aggregate of adjusted gross profit and other income, less SG&A, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its core business

Group

- As a result of the increasing sales contribution from gold products and wholesale business, adjusted gross profit margin declined slightly over the first half of the past three financial years, yet core operating profit margin demonstrated continuous improvement and increased gradually.

- Mainland China continued to be our main profit contributor and accounted for around 70% of the Group's core operating profit in 1HFY2019, while Hong Kong, Macau and other markets continued to register a relatively stronger growth in core operating profit.

Mainland China

- Core operating profit grew by 11.3% in 1HFY2019 and its corresponding margin was lowered by 100 basis points.

- Adjusted gross profit margin contracted by 100 basis points in 1HFY2019 as gold products sales contribution at retail level and wholesale revenue contribution were higher when compared to same period last year, leading to the decline in core operating profit margin.

Hong Kong, Macau and other markets

- Core operating profit grew strongly by 70.5% in 1HFY2019 and its corresponding margin improved by 240 basis points to 7.9%.

- Adjusted gross profit margin stayed at 25.5%. Despite gold products sales contribution at retail level increased, a reversal of HK$153 million on inventory impairment provision made in previous financial year offset the impact.

- SG&A ratio improved by 240 basis points to 18.1% as operating leverage kicked in.

Gross profit margin

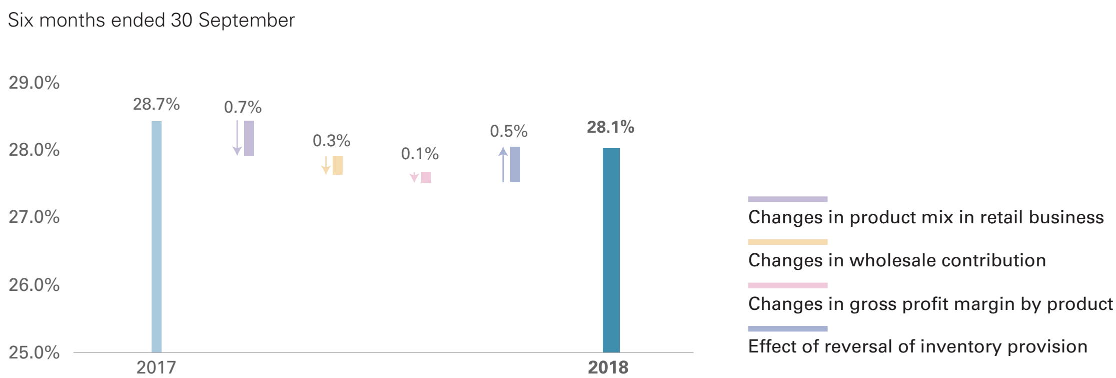
Unrealised loss (gain)

Six months ended 30 September	2016	2017	**2018**
Gross profit margin	31.7%	28.9%	**28.7%**
Unrealised gain on gold loans	(1.6)%	(0.2)%	**(0.6)%**
Adjusted gross profit margin	30.1%	28.7%	**28.1%**

- Unrealised loss (gain) for the period represents the net effect of (i) the reversal of the loss (gain) recorded due to the timing difference in recognising the effect of long and short position in gold when we take a snapshot position at the end of the previous financial year; and (ii) the loss (gain) arising from such timing difference at the end of the current financial period.

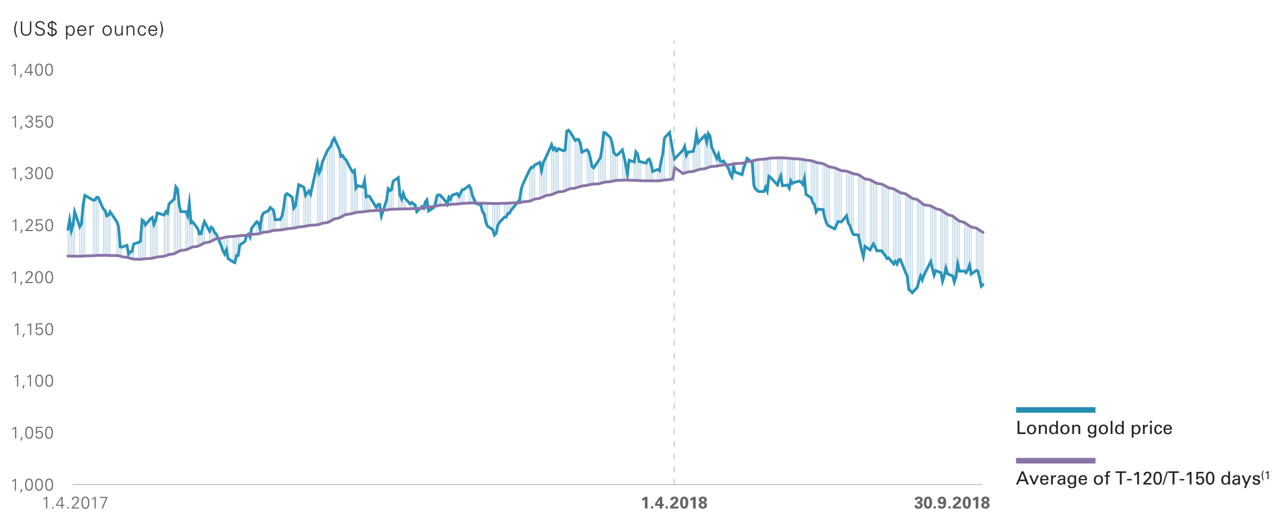
- We use gold loans (short position in gold) for economic hedge purpose to mitigate the financial impact of the gold price fluctuations in our gold inventories (long position). While the long-term effect of long and short positions in gold is expected to net out each other through the sales of gold products, a loss (gain) may arise due to a short-term timing difference between the time when a loss (gain) on gold loans is recorded in the cost of goods sold and the time when sales of hedged gold inventories are recognised, when we take a snapshot position at the end of the reporting period.

Changes in adjusted gross profit margin



- At group level, adjusted gross profit margin reduced by 60 basis points when compared to 1HFY2018. A less favourable product mix, higher contribution from our wholesale business and slight decline in gross profit margin by product led to the contraction of margin. Yet, it was partially offset by the reversal of inventory impairment provision made in previous financial year.

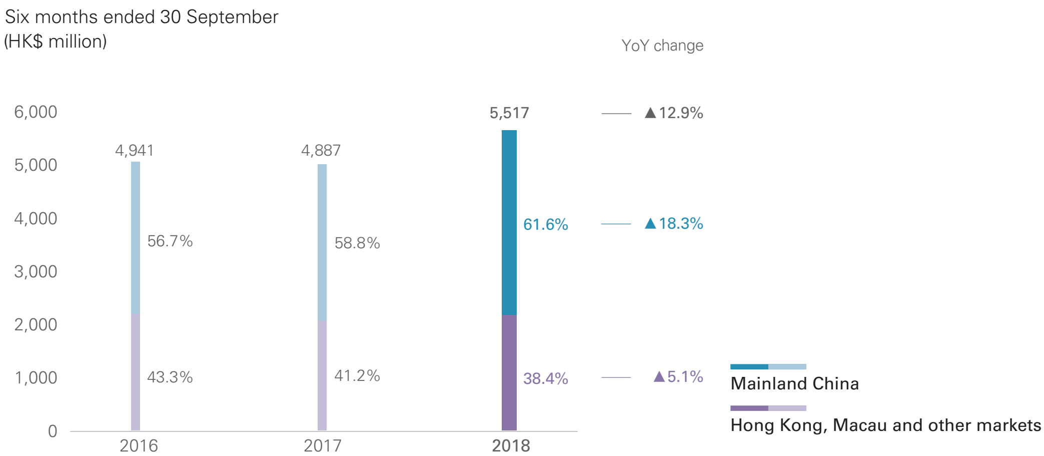
London gold price



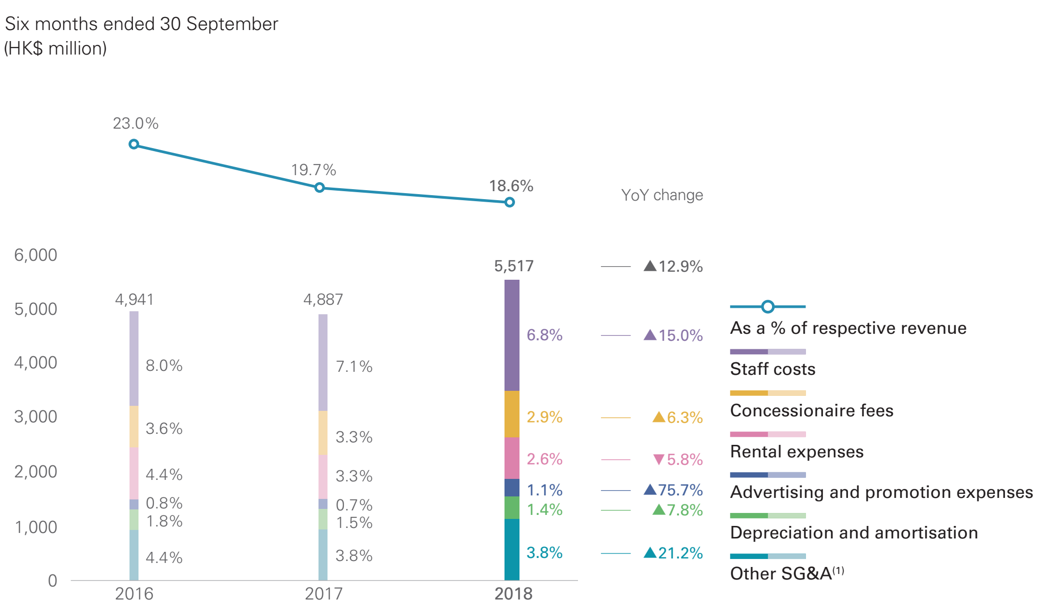
(1) Average of T-120/150 days refers to the average gold price of previous 120 or 150 days on rolling basis, being a proxy of the average price of our hedged inventories. As gold inventories turnover lengthened in 1HFY2019, average of T-120 days and T-150 days was used for FY2018 and 1HFY2019, respectively

SG&A

SG&A by reportable segment



SG&A to revenue ratio



(1) Other SG&A mainly represented bank charges incurred for sales transaction settlement, royalty fees for the sales of licensed products, certificate expenses, packing materials, utilities and other staff related expenses

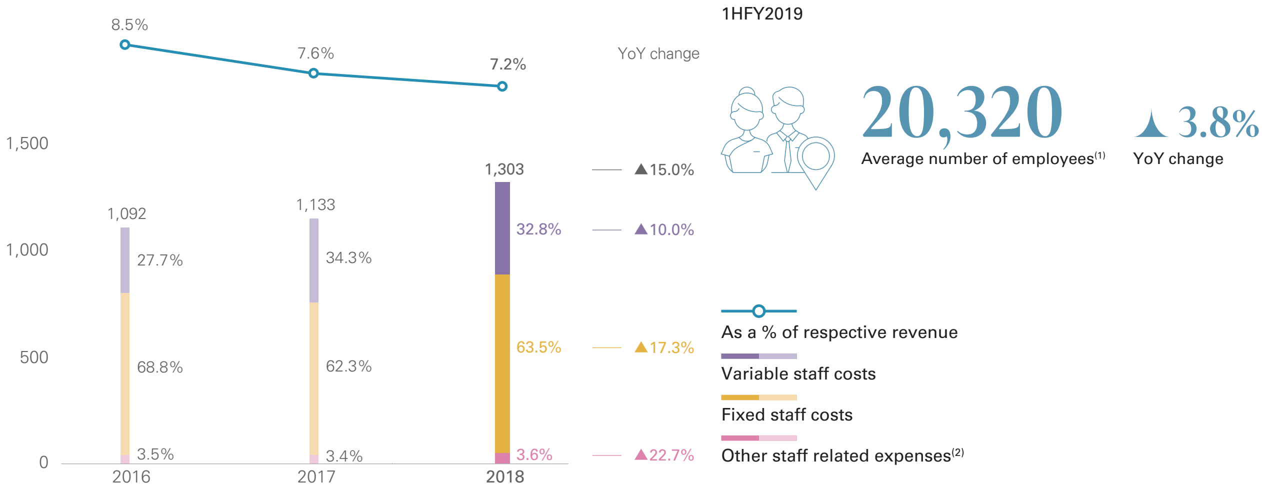
- Mainland China segment contributed over half of SG&A over the first half of the past three financial years.
- SG&A expenses increased by 12.9% to HK$5,517 million in 1HFY2019 as major SG&A components increased except for rental expenses which recorded a 5.8% decrease.
- Advertising and promotion expenses significantly increased by 75.7% and its corresponding ratio to revenue normalised to 1.1% as more resources have been put on increasing our brands' exposure and lifting brand equity.
- Thanks to operating leverage, SG&A ratio fell by 110 basis points to 18.6%.

Major SG&A components

Staff costs and related expenses

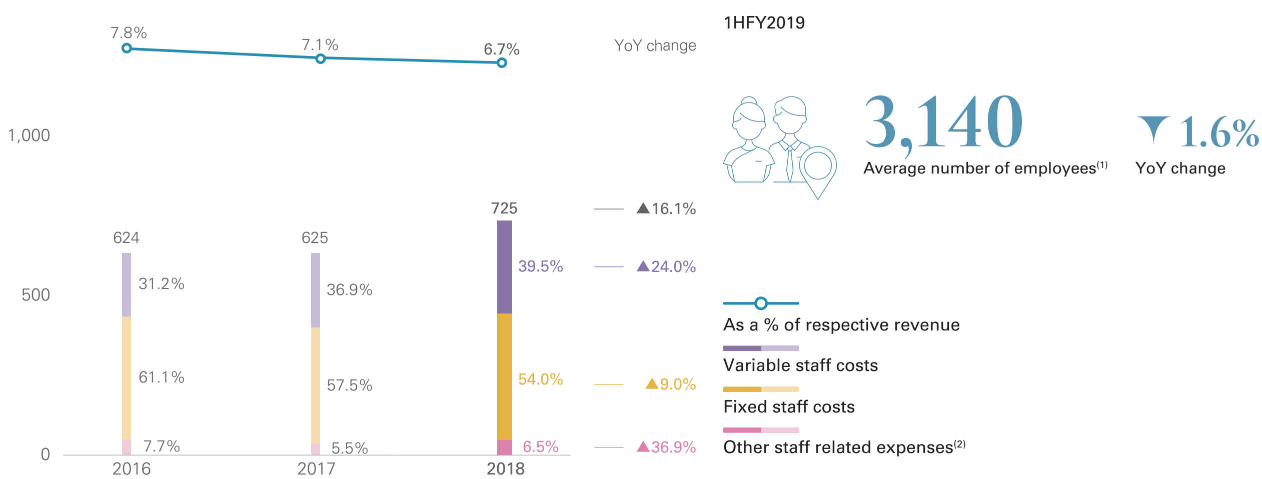
Mainland China

Six months ended 30 September
(HK$ million)



Hong Kong and Macau

Six months ended 30 September
(HK$ million)

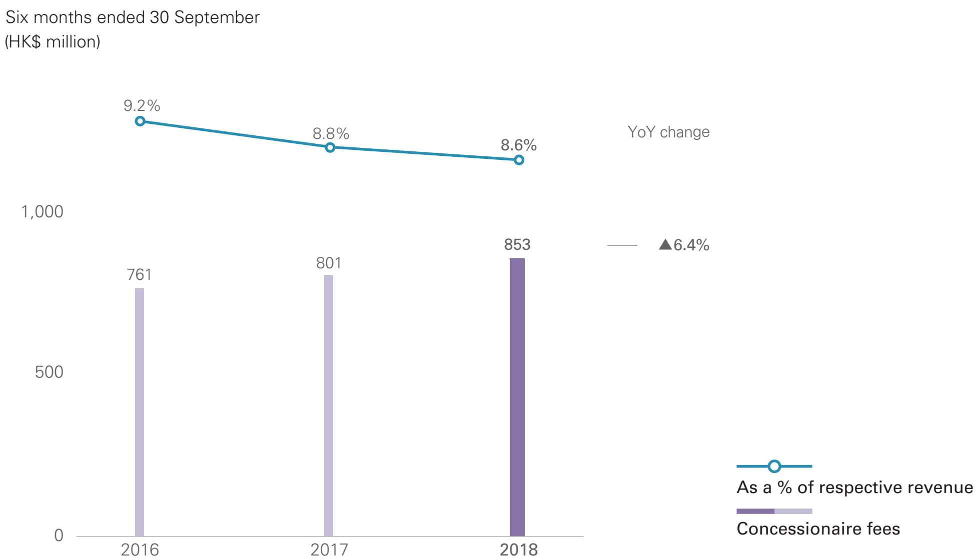


(1) *Employees in production function excluded*
(2) *Other staff related expenses mainly included staff messing, medical care, educational expenses, etc.*

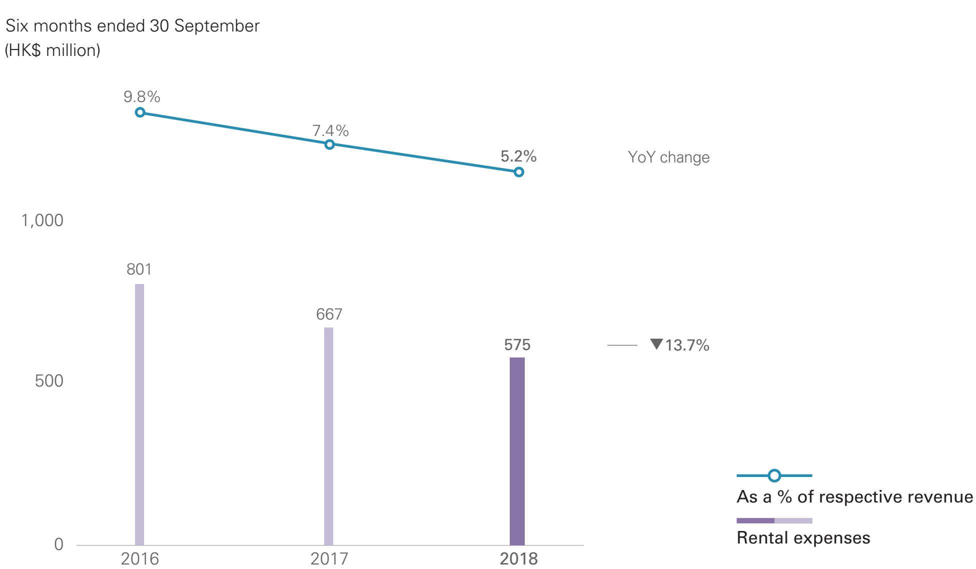
- Staff costs and related expenses in both markets increased in 1HFY2019.
- Variable staff costs increased in line with business growth while the increase in fixed staff costs was largely attributable to the additional headcount for strengthening the capabilities in areas such as branding and marketing, production and logistics and technology applications.

Concessionaire fees and rental expenses

Mainland China



Hong Kong and Macau



- In Mainland China, concessionaire fees increased by 6.4% as sales improved. The slight decline in concessionaire fees ratio was mainly due to the shift of sales mix towards gold products which are generally subject to lower rates.

- In Hong Kong and Macau, rental expenses fell by 13.7% and rental expenses ratio shrank by 220 basis points to 5.2% in 1HFY2019 as the effect of the renewals and closures in FY2018 kicked in. We achieved an average reduction of approximately 3% on leases renewed during 1HFY2019.

Other income, other gains and losses and other expenses

Six months ended 30 September	2016 HK$ million	2017 HK$ million	2018 HK$ million	2018 vs 2017 YoY change
Other income	178	186	167	▼ 10.2%
Other gains and losses	(147)	111	(334)	N/A
Other expenses	(25)	(24)	(28)	▲ 15.7%

- Other income mainly arose from the government grants received by the subsidiaries in Mainland China.

- Other gains and losses mainly represented a net foreign exchange loss of HK$326 million (1HFY2018: a net foreign exchange gain of HK$115 million) due to the depreciation of RMB during the period.

- Other expenses mainly represented the amortisation of other intangible assets arising from the acquisition of Hearts On Fire.

Interest income, finance costs and taxation

Six months ended 30 September	2016 HK$ million	2017 HK$ million	2018 HK$ million	2018 vs 2017 YoY change
Interest income from banks	81	38	49	▲ 29.7%
Other interest income	8	6	10	▲ 58.1%
Finance costs on bank borrowings	(36)	(44)	(94)	▲ 112.9%
Finance costs on gold loans	(73)	(48)	(60)	▲ 26.3%
Taxation	(601)	(675)	(728)	▲ 7.9%

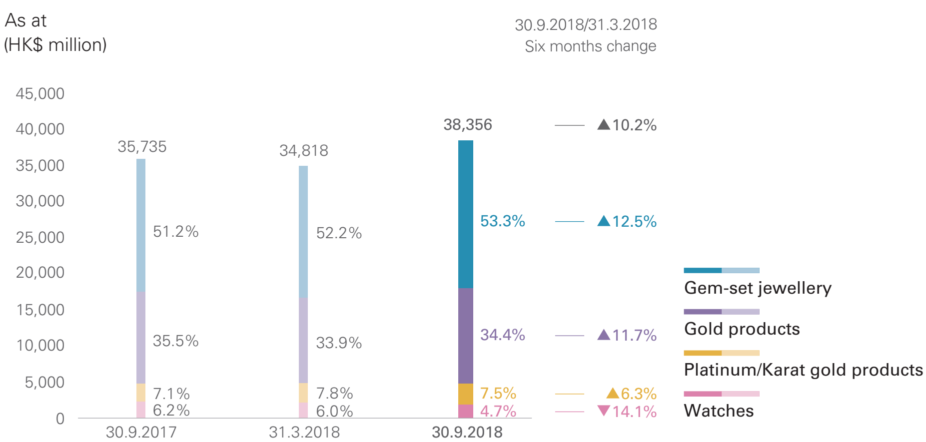
- Finance costs on gold loans increased by 26.3% was mainly due to a relatively higher average ratio between gold loan and gold inventory in 1HFY2019 as compared to 1HFY2018 as the Group stocked up more gold inventories amid robust customer demand.

- Finance costs on bank borrowings increased by 112.9% as bank borrowing rates increased during 1HFY2019.

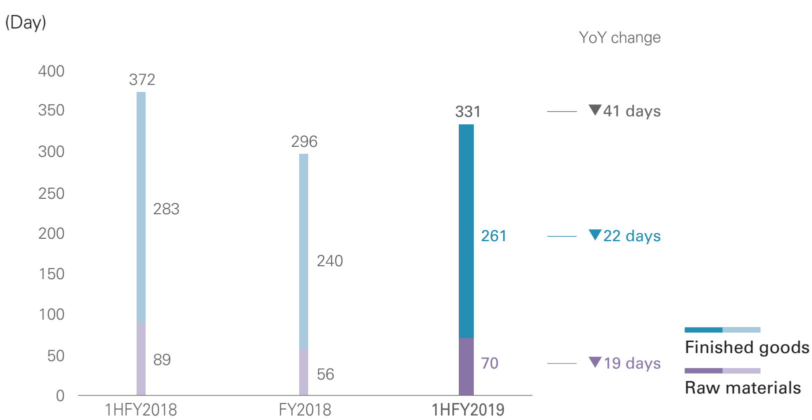
- Effective tax rate stayed at approximately 27% in both 1HFY2019 and 1HFY2018.

Inventory balances and turnover period

Inventory balances by product[1]



Inventory turnover period by category[2]



(1) Packing materials excluded

(2) Being inventory balances, excluding packing materials, at the end of the reporting period divided by cost of goods sold for the period, multiplied by 365 (for FY)/183 (for 1HFY)

- Inventory balances, excluding packing materials, increased by 10.2% and stood at HK$38,356 million as at 30 September 2018.
- Inventory turnover period shortened by 41 days when compared to that of 1HFY2018 as sales improved during 1HFY2019.
- As at 30 September 2018, approximately HK$3,780 million or 9.8% of our total inventory balances were held by 809 franchised POS (31 March 2018: approximately HK$3,290 million or 9.4% were held by 712 franchised POS).
- If the inventory balances held by franchisees were excluded, inventory turnover period in 1HFY2019 would reduce to 299 days (1HFY2018: 341 days).

Capital structure

As at	31.3.2018 HK$ million	% to total equity	30.9.2018 HK$ million	% to total equity	Increase (decrease) HK$ million	Denominated currency[1]	Interest rate structure[1]
Non-current assets	8,258	24.2%	7,963	26.7%	(296)	N/A	N/A
Inventories	34,929	102.4%	38,484	129.0%	3,554	N/A	N/A
Bank deposits and cash equivalents[2]	7,944	23.3%	4,831	16.2%	(3,113)	Mainly HKD, RMB and USD	Mainly variable interest rate
Total borrowings[3]	13,258	38.9%	16,789	56.3%	3,531		
Bank borrowings	7,923	23.3%	9,783	32.8%	1,860	HKD	Variable interest rate
Gold loans	5,335	15.6%	7,006	23.5%	1,671	RMB and USD	Fixed interest rate
Net debt[4]	5,314	15.6%	11,958	40.1%	6,644	N/A	N/A
Working capital[5]	28,593	83.9%	23,955	80.3%	(4,638)	N/A	N/A
Total equity	34,098	100.0%	29,823	100.0%	(4,275)	N/A	N/A

(1) Information about denominated currency and interest rate structure related to the condition as at 30 September 2018

(2) Bank balances and cash included

(3) As at 30 September 2018, bank borrowings amounted to HK$8,283 million and all the gold loans would be matured within 12 months while bank borrowings amounted to HK$1,500 million would be matured in more than 1 year but not exceeding 2 years

(4) Aggregate of bank borrowings, gold loans, net of bank deposits and cash equivalents

(5) Being net current assets

- We principally meet our working capital and other liquidity requirements through a combination of capital contributions, including cash flows from operations, bank borrowings and gold loans. Gold loans are also used for economic hedge purpose to mitigate the financial impact of the price fluctuations in the Group's gold inventories.

- The Group's daily operation was mainly financed by operating cash flows, and mainly relied on short-term borrowings to satisfy inventory financing needs during peak seasons, working capital for future expansion plans and unexpected needs. The Group has not experienced any difficulties in repaying its borrowings.

- The Group's income and expenditure were mostly denominated in HKD and RMB, while its assets and liabilities were mostly denominated in HKD, RMB and USD.

Effect of RMB fluctuation

- As part of our business operation was in Mainland China, the fluctuation in RMB would post some impact to our performance.

- Transactions entered by the Hong Kong entities but denominated in RMB, including the inter-group transactions with the Mainland China subsidiaries, are converted into HKD, the functional currency of the Group, initially using the spot rate at the date of transaction and the unsettled transactions are retranslated at closing exchange rate at the balance sheet date. Such translation differences between the spot rate and closing exchange rate are recognised in profit or loss, negatively affecting our profit for the period when RMB depreciated.

- Exchange difference also arises when i) incomes and expenses of the Mainland China segment are translated into HKD, the presentation currency of the Group, at the average exchange rate, while the corresponding assets and liabilities are translated at closing exchange rate and ii) change in closing exchange rates at the current financial period of the net assets of the Mainland China segment from the closing rates at the previous financial year. Such differences are recognised in the translation reserve in equity.

- The tables below illustrate the fluctuation of RMB and the impact to our financial performance:

	30.9.2018/31.3.2018 Closing exchange rate six months change	1HFY2019 vs 1HFY2018 Average exchange rate YoY change
RMB to HKD	▼9%	▲3%

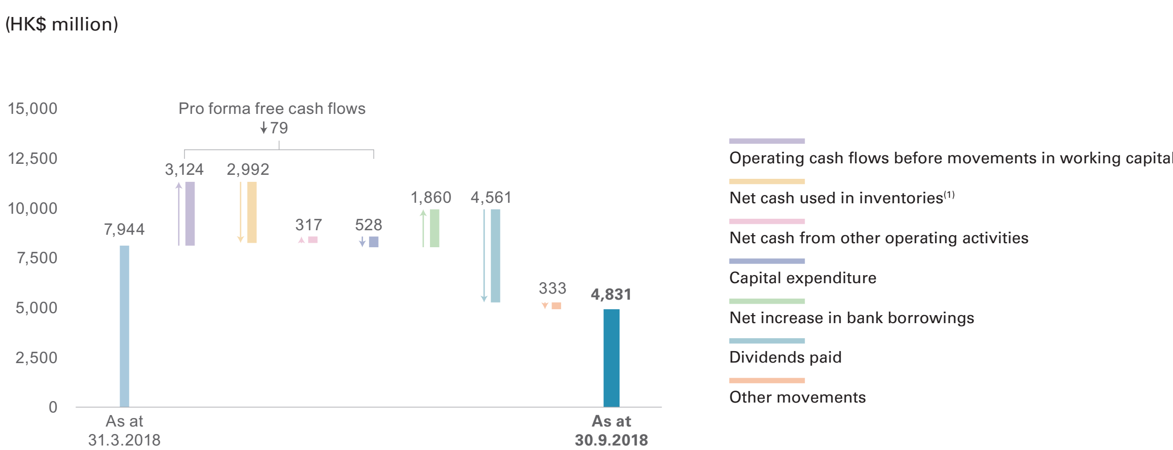
Six months ended 30 September	2017 As reported	2017 Constant exchange rate basis	2018 As reported	2018 Constant exchange rate basis
Revenue YoY change	▲15.0%	▲16.5%	▲20.0%	▲17.7%
Core operating profit YoY change	▲40.3%	▲42.7%	▲24.7%	▲22.1%
Changes in inventory balances (30 September vs 31 March)	▲22.5%	▲20.0%	▲10.0%	▲15.3%
Changes in bank balances and cash (30 September vs 31 March)	▼36.1%	▼38.4%	▼39.2%	▼35.2%

- Revenue and core operating profit on constant exchange rate basis are calculated by translating current period's revenue and core operating profit of the Mainland China segment in RMB into HKD using the prior period's average RMB to HKD exchange rates. We believe using constant exchange rate basis could enhance the comparability between two financial periods.

Cash flows

Six months ended 30 September	2016 HK$ million	2017 HK$ million	2018 HK$ million
Operating cash flows before movements in working capital	2,525	2,869	3,124
Net cash used in inventories[1]	(483)	(2,948)	(2,992)
Net cash from (used in) other operating activities	(846)	(187)	317
Purchase of a jewellery collectible	—	(553)	–
Capital expenditure	(398)	(410)	(528)
Pro forma free cash flows	798	(1,229)	(79)
Net change in bank borrowings	(1,920)	1,297	1,860
Dividends paid	(3,045)	(3,027)	(4,561)
Other movements	(470)	95	(333)
Net decrease in bank balances and cash	(4,637)	(2,864)	(3,113)

Major cash flows items for 1HFY2019

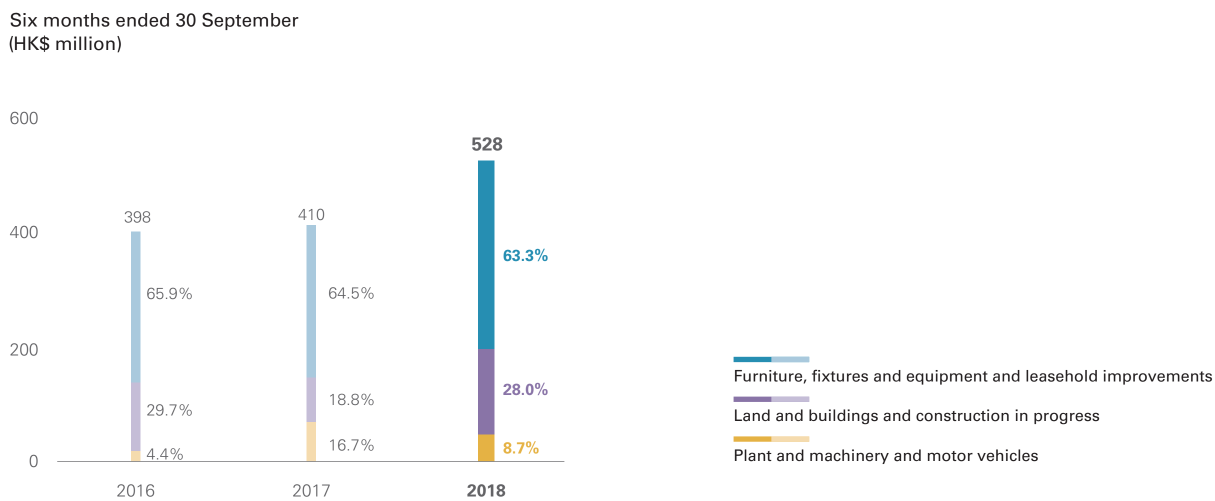


(1) Net cash used in inventories included net change in inventories, gold loan raised and repayment of gold loans

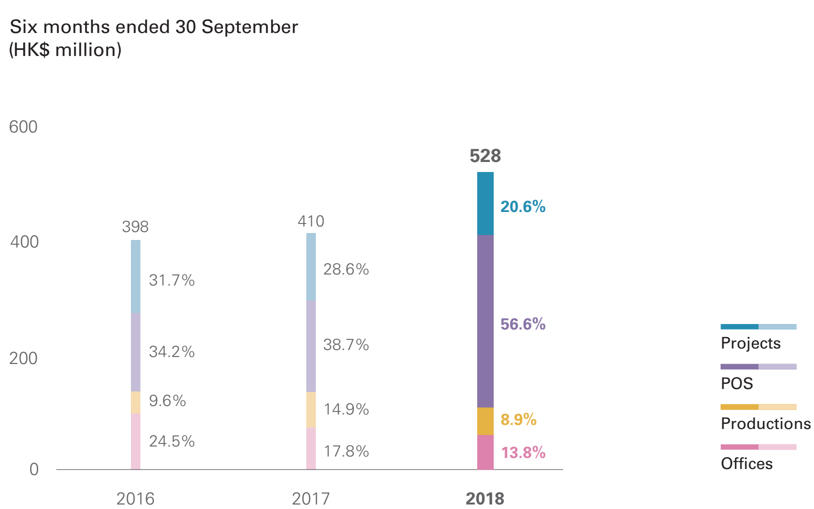
Capital expenditure

- The Group's capital expenditure incurred during 1HFY2019 amounted to HK$528 million (1HFY2018: HK$410 million).

Capital expenditure by nature



Capital expenditure by function



OPERATIONS

Business Development

Our business continued its strong momentum in 1HFY2019 following a journey of recovery since FY2018, backed by stabilising consumer demand and reviving Mainland visitation which fuelled the retail market considerably.

While exponential technology and innovation are transforming the retail industry at an unprecedented pace, we strive to stay at the forefront of the disruptions and capitalise on new opportunities. Since FY2018, we have been diligently executing our "Smart+ 2020" strategic framework to deliver an exceptional customer experience that creates long-term differentiation and loyalty, underpinned by our commitment to innovation, technology and sustainability.

Mainland China

2,682	▲ 233
POS	Net openings
As at 30 September 2018	1HFY2019

- Store openings were focused on shopping malls to leverage their escalating customer traffic.
- Market penetration, particularly in lower tier cities, continued to accelerate through our franchised model in order to further benefit from the rapid urbanisation and infrastructural development in these areas.
- Catering to different customer segments and lifting our experience-driven retail offerings, we unveiled our multi-brand strategy to provide a diversified portfolio of products and brands. Experience shops will also be rolled out in Mainland China in 2HFY2019.

Hong Kong, Macau and other markets

Hong Kong and Macau

99	◄►
POS	Net openings
As at 30 September 2018	1HFY2019

- Retail network footprint in the region remained stable. A net of one POS was closed in touristic area in 1HFY2019, whilst one POS was added in residential neighbourhood targeting local clientele.
- Improving store productivity will continue to be a priority, while POS openings will remain selective in 2HFY2019.

Other markets

41	▲ 4
POS	Net openings
As at 30 September 2018	1HFY2019

- We have been exploring opportunities to expand our presence in other markets, with openings mainly covering the Asia-Pacific region including Japan, Korea, Malaysia and Singapore to capitalise on the potential from local customers and Mainland tourists in those markets.

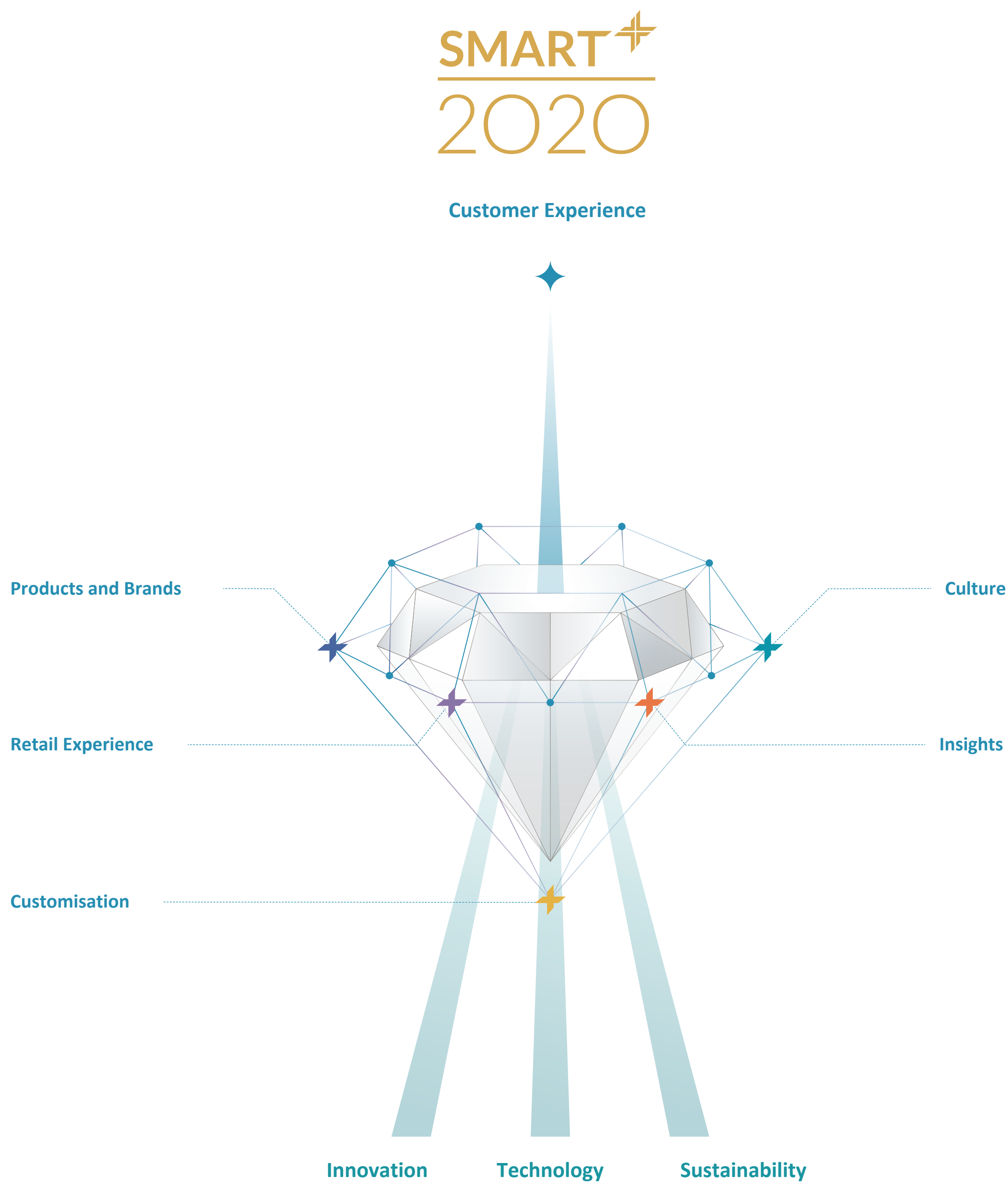
Wholesale business

- We are leveraging our strong global retail network, to lead the effort of developing the jewellery wholesale business community around the world.

- We have also been optimising resources and processes along our vertically integrated business model, which enables us to lay the foundation of unique retail solutions offering to other jewellery retailers in order to support our long-term sustainable growth.

"Smart+ 2020" Strategic Framework

Our "Smart+ 2020" strategic framework is a three-year strategic work plan focusing on five key areas of work. Each of which is underpinned by a firm commitment to innovation, technology and sustainability aiming to deliver exceptional customer experience that creates long-term differentiation and loyalty.



Products and Brands

CHOW TAI FOOK JEWELLERY, ARTRIUM and JEWELRIA

- To curate and create our stores catering to the demand of more sophisticated customers, we have embarked on our store revamp initiative in selective CHOW TAI FOOK JEWELLERY POS in 1HFY2019.
- Meanwhile, we have also been upgrading some of our POS with differentiated store layouts and product offerings.
- ARTRIUM, which was newly launched in August 2018, rolled out two POS in Changsha and Shanghai in 1HFY2019.
- We also introduced JEWELRIA last year with 18 POS that were either newly opened or upgraded during 1HFY2019, bringing the total POS for this brand to 25 across Mainland China, as at 30 September 2018.

HOUSE 1929

- Following the unveiling of our high jewellery collection "Mosaïque de Rêverie" early this year, we organised an auction in Hong Kong in November 2018. Over 300 VVIPs and prestigious guests were invited to this exclusive event.

T MARK

- As at 30 September 2018, there were 405 and 51 CIS in Mainland China and Hong Kong, Macau and other markets, respectively. Two specialty stores were also opened in Hong Kong and Shanghai in 1HFY2019.
- During 1HFY2019, sales of T MARK products accounted for 18.6% and 25.2% of the RSV of our diamond products sold in Mainland China and Hong Kong and Macau, respectively.
- RSV growth amounted to 134.8% and 156.7% in Mainland China and Hong Kong and Macau, respectively.
- Leveraging blockchain technology, we collaborated with Gemological Institute of America to deliver secure and digital diamond grading reports to our customers. This experience is currently piloted in four of our POS in Hong Kong, and will be rolled out gradually to other POS in 2HFY2019 and beyond.
- In October 2018, we also brought together Vera Wang, the world renowned fashion designer to launch the VERA WANG LOVE fine jewellery collection catering to the wedding market. The collection debuted at our T MARK specialty store in Shanghai and would further expand to other cities in Greater China.

HEARTS ON FIRE

- As at 30 September 2018, we had 21 POS, 192 SIS and CIS and over 500 retailer locations globally. During 1HFY2019, we opened our first HEARTS ON FIRE POS in Hong Kong.

SOINLOVE

- Six POS were opened in 1HFY2019, bringing the total number of POS to 15 as at 30 September 2018.

MONOLOGUE

- A net of five POS were opened in 1HFY2019, bringing the total number of POS to 16 as at 30 September 2018.

Retail Experience

- Experience shops introduced in Hong Kong in FY2018 have been gaining traction, with its rejuvenated shopping experience and elegant shop ambience widely embraced by our customers. On the back of this success, a gradual rollout of experience shops in Mainland China is planned during 2HFY2019.

- Self-service experience corners, incorporating the idea of grab-and-go concept with mobility to reach a vast base of potential customers in various locations, are now operating in five cities in Mainland China.

Customer relationship management

- We are dedicated to enhancing our membership programme in order to retain the loyalty of our customers. Starting from April 2018, members in Mainland China could earn points upon purchases, with more lifestyle rewards and privileges made available for redemptions via WeChat mobile app.

Mainland China
As at 30 September 2018

1,744,000
Number of members

1HFY2019

22.3%
Members' repeat purchase as a % of respective RSV

Hong Kong and Macau
As at 30 September 2018

932,000
Number of members

1HFY2019

32.6%
Members' repeat purchase as a % of respective RSV

Customisation

- We are leading the efforts to complete the Customer-to-Manufactory ("C2M") operational model that will result in a seamless experience for our customers by engaging them along the supply chain from product design, manufacturing, logistics to distribution.

- Our jewellery customisation platform D-ONE, which was initially introduced in 2017, has extended its rollout in WeChat mini programme in August this year as an integral part of our C2M model. Customers can personalise their own jewellery by choosing the diamonds and settings of their own preferences and enjoy a fast and convenient shopping journey.

- To support the transition to a C2M model, with respect to manufacturing, we have been adopting a more customer-centric approach adhering to four production principles, namely standardisation, automation, digitalisation and intelligence.

- We have also been increasingly focused on automation to enhance our production efficiency and reliability. For instance, Phase II of our Logistics and Distribution Centre began operations in August 2018, which doubled our daily inventory distribution capacity.

- Digitalisation and intelligence drive reliability and consistency along the key areas of our supply chain. In 1HFY2019, we extended RFID technology deployment from Wuhan to Shenzhen production hubs to monitor the production status and speed up the order tracking process. Intelligent equipment monitoring system was also installed in selected production lines to monitor the efficiency of machinery in real time.

Insights

- Big data analytics, a disruptive technology, empower us to continuously innovate and differentiate ourselves to stay ahead. We unlock data to provide us not only insights in customer behaviour and preferences, but also intelligence in operations and business strategies.

- We embed data analytics to predict business performance for informed decision-making. For example, in our POS optimisation exercise, we measure the potential sales impact on our existing POS when there are new store openings and closures nearby. Such foresight allows us to refine our strategies effectively in order to achieve business goals.

- In our inventory management, we also apply statistical modelling and analytical programme in merchandise assortment and distribution in our POS. Sales and customer behavioural data is processed and transformed into automated distribution solutions, which has been piloted in gold products in Hong Kong and Macau since April 2018. We expect the programme to enable us to serve the customer needs more precisely, and ultimately help improve the inventory turnover and keep supply chain management as a whole.

Culture

- Echoing our focus on spearheading business innovation, we redesigned and renovated our working space in an unbounded environment at our Shenzhen headquarters so as to encourage team interactions and a vibrant workplace culture, which helps work get done efficiently and stimulate innovation.

- We are also devoted to incubating young talent in the jewellery industry and encouraging new business start-ups in Hong Kong and Mainland China.

- Loupe, located at PMQ in Central, Hong Kong, offers a common design incubation space to inspire creativity of the design talent in jewellery industry. For instance, through the Design Residency Programme we recruit talented designers and nurture them by developing their technical skills and business knowledge in jewellery industry. In August 2018, we collaborated with the K11 Atelier Academy to share the Loupe community's inspirational ideas with their tenants in an effort to increase participation in Loupe's workshops through the K11 online platform.

- C^+ Creative Park, which is located in Wuhan, Mainland China, provides a wide range of supporting services to entrepreneurs in the area and assists them to address common challenges and obstacles faced by many business start-ups.

BUSINESS OUTLOOK

The robust sales growth in 1HFY2019 is a testament to both improving consumer sentiment and our continued efforts in executing our strategic priorities. Nevertheless, such growth momentum is expected to be moderated in 2HFY2019, as the escalating comparison base, rising US-China trade tensions and foreign exchange fluctuations could cloud the performance. In light of the macro headwinds, however, the Chinese government has ramped up efforts in deploying a series of measures such as tax cuts and more infrastructure spending to stimulate domestic consumption and counteract slowing economy. As such, we are cautiously optimistic about the prospect of the jewellery market in Greater China for the foreseeable future.

In this context, we remain vigilant and strive for excellence in customer experience via the faithful execution of our "Smart+ 2020" strategic framework, with focuses on

1. The rollout of multi-brand strategy and innovative retail experience;

2. The conversion to an agile C2M business model to enable customer engagement along the supply chain;

3. The investment in data analytics to drive insights and values along our business operations; and

4. The incubation of innovative and entrepreneurial culture across the Group and the jewellery industry.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.15 per share, amounting to approximately HK$1,500 million, to shareholders whose names appear on the register of members of the Company on Friday, 14 December 2018. The interim dividend is expected to be paid on or around Monday, 24 December 2018.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2018 and discussed the financial related matters with the management. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2018 have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2018, the Company was in full compliance with all applicable principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard as set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2018.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to the proposed interim dividend, the register of members of the Company will be closed on Friday, 14 December 2018, no transfer of share of the Company will be registered on that day. All transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 13 December 2018.

For and on behalf of the Board
Dr. Cheng Kar-Shun, Henry
Chairman

Hong Kong, 29 November 2018

As of the date of this announcement, the executive directors are Dr. Cheng Kar-Shun, Henry, Mr. Wong Siu-Kee, Kent, Dr. Cheng Chi-Kong, Adrian, Mr. Cheng Chi-Heng, Conroy, Mr. Cheng Ping-Hei, Hamilton, Mr. Chan Sai-Cheong, Mr. Suen Chi-Keung, Peter, Mr. Chan Hiu-Sang, Albert and Mr. Liu Chun-Wai, Bobby; the non-executive director is Mr. Cheng Kam-Biu, Wilson; and the independent non-executive directors are Mr. Cheng Ming-Fun, Paul, Dr. Fung Kwok-King, Victor, Mr. Kwong Che-Keung, Gordon, Mr. Lam Kin-Fung, Jeffrey and Dr. Or Ching-Fai, Raymond.