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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 2017

HIGHLIGHTS

- Revenue increased by 15.0% to HK\$24,754 million when compared to HK\$21,526 million in 1HFY2017.
- Same Store Sales⁽¹⁾ ("SSS") in Mainland China and Hong Kong and Macau recorded a positive growth of 10.3% and 9.5%, respectively.
- Gross profit grew 4.9% year-on-year to HK\$7,166 million during the period.
- Core operating profit⁽²⁾ increased by 40.3% to HK\$2,396 million in 1HFY2018 from HK\$1,708 million in 1HFY2017.
- Basic earnings per share were HK17.8 cents, an increase of 45.6% when compared to HK12.2 cents in 1HFY2017.
- Interim dividend declared is HK12.0 cents per share⁽³⁾.
- Retail network expanded to 2,488 POS as at 30 September 2017, with a net addition of 107 POS during the period.

(1) "Same Store Sales" for 1HFY2018 represents the revenue from the self-operated points of sale ("POS") existing as at 30 September 2017 and which have been opened prior to 1 April 2016, measured at constant exchange rates. Revenue from wholesale and other channels are excluded

(2) Core operating profit, a non-IFRS measure, being the aggregate of gross profit and other income, less selling and distribution costs and general and administrative expenses and unrealised hedging 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) The dividend payout ratio for 1HFY2018 is approximately 67.4%

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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 2017 (“1HFY2018”), together with comparative figures for the six months ended 30 September 2016 (“1HFY2017”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

		Six months ended 30 September 2017	2016
	<i>Notes</i>	HK\$ million (unaudited)	<i>HK\$ million (unaudited)</i>
Revenue	2	24,754.3	21,526.1
Cost of goods sold		<u>(17,588.6)</u>	<u>(14,698.1)</u>
Gross profit		7,165.7	6,828.0
Other income		186.1	177.5
Selling and distribution costs		(3,683.1)	(3,823.0)
General and administrative expenses		(1,203.9)	(1,117.8)
Other gains and losses		111.0	(146.9)
Other expenses		(24.2)	(24.5)
Share of results of associates		–	(4.5)
Interest income		43.9	89.1
Finance costs		(91.6)	(109.0)
Profit before taxation	3	2,503.9	1,868.9
Taxation	4	(674.7)	(601.2)
Profit for the period		<u>1,829.2</u>	<u>1,267.7</u>
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		768.3	(594.7)
Share of translation reserve of associates		–	(2.1)
Other comprehensive income (expense) for the period		<u>768.3</u>	<u>(596.8)</u>
Total comprehensive income for the period		<u><u>2,597.5</u></u>	<u><u>670.9</u></u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the six months ended 30 September 2017

		Six months ended	
		30 September	
		2017	2016
	<i>Note</i>	HK\$ million	HK\$ million
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Shareholders of the Company		1,779.1	1,221.8
Non-controlling interests		50.1	45.9
		<u>1,829.2</u>	<u>1,267.7</u>
Total comprehensive income for the period attributable to:			
Shareholders of the Company		2,510.5	651.4
Non-controlling interests		87.0	19.5
		<u>2,597.5</u>	<u>670.9</u>
Earnings per share — Basic	5	<u>HK17.8 cents</u>	<u>HK12.2 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

		At 30 September 2017 HK\$ million (unaudited)	At 31 March 2017 HK\$ million (audited)
	Note		
Non-current assets			
Property, plant and equipment		4,886.2	4,666.3
Land use rights		186.1	184.9
Investment properties		242.9	250.0
Goodwill		257.8	257.8
Other intangible assets		331.4	356.3
Jewellery collectibles		1,520.1	967.1
Deposits paid for acquisition of property, plant and equipment		14.5	52.7
Interests in associates		–	–
Amounts due from associates		19.7	19.7
Interest in a joint venture		–	–
Loan receivables		39.3	65.9
Deferred tax assets		308.6	312.7
		<u>7,806.6</u>	<u>7,133.4</u>
Current assets			
Inventories	7	35,838.3	29,259.3
Trade and other receivables		6,469.9	5,057.3
Loan receivables		28.2	8.5
Bank balances and cash		5,078.9	7,943.4
		<u>47,415.3</u>	<u>42,268.5</u>
Current liabilities			
Trade and other payables		7,408.8	5,693.4
Amounts due to non-controlling shareholders of subsidiaries		128.1	89.9
Taxation payable		768.9	596.4
Bank borrowings		6,008.4	6,192.5
Gold loans		6,265.2	3,215.9
		<u>20,579.4</u>	<u>15,788.1</u>
Net current assets		<u>26,835.9</u>	<u>26,480.4</u>
Total assets less current liabilities		<u>34,642.5</u>	<u>33,613.8</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*At 30 September 2017*

	At 30 September 2017 <i>HK\$ million</i> (unaudited)	At 31 March 2017 <i>HK\$ million</i> (audited)
Non-current liabilities		
Bank borrowings	2,100.0	600.0
Retirement benefit obligations	222.3	226.6
Deferred tax liabilities	313.1	285.7
	<u>2,635.4</u>	<u>1,112.3</u>
Net assets	<u><u>32,007.1</u></u>	<u><u>32,501.5</u></u>
Share capital	10,000.0	10,000.0
Reserves	<u>21,298.3</u>	<u>21,798.8</u>
Equity attributable to shareholders of the Company	31,298.3	31,798.8
Non-controlling interests	<u>708.8</u>	<u>702.7</u>
	<u><u>32,007.1</u></u>	<u><u>32,501.5</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except that certain financial instruments, 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 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs that are mandatorily effective for the current interim period.

Amendments to IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to IFRS 12	As part of annual improvements to IFRSs 2014–2016 cycle

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 March 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 2016 included four segments, namely (i) jewellery business in the Mainland China, (ii) watch business in the Mainland China, (iii) business in Hong Kong, Macau and other markets and (iv) business of Hearts On Fire Company, LLC (“Hearts On Fire”). During the year ended 31 March 2017, for the purposes of better assessment of performance from each location of operation by the CODM, the segments were reorganised into business (i) in the Mainland China and (ii) in Hong Kong, Macau and other markets. Comparative figures have been restated to conform with the current period’s presentation.

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	
	2017	2016	2017	2016	2017	2016
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Revenue						
External sales (<i>note i</i>)						
— Retail	11,496.7	10,154.4	8,959.3	8,216.0	20,456.0	18,370.4
— Wholesale (<i>note ii</i>)	3,447.3	2,696.3	851.0	459.4	4,298.3	3,155.7
Segment/group revenue	14,944.0	12,850.7	9,810.3	8,675.4	24,754.3	21,526.1
Inter-segment sales (<i>note iii</i>)	25.4	165.8	1,351.9	1,189.7	1,377.3	1,355.5
	14,969.4	13,016.5	11,162.2	9,865.1	26,131.6	22,881.6
Adjusted gross profit (before elimination)	4,594.0	4,190.6	2,650.5	2,279.8	7,244.5	6,470.4
Inter-segment eliminations	(1.3)	38.7	(146.6)	(38.2)	(147.9)	0.5
Adjusted gross profit (<i>note i</i>)	4,592.7	4,229.3	2,503.9	2,241.6	7,096.6	6,470.9
Other income	131.4	122.7	54.7	54.8	186.1	177.5
Selling and distribution costs and general and administrative expenses	(2,871.5)	(2,803.1)	(2,015.5)	(2,137.7)	(4,887.0)	(4,940.8)
Core operating profit (segment result)	1,852.6	1,548.9	543.1	158.7	2,395.7	1,707.6
Unrealised hedging gain on gold					69.1	357.1
Others (<i>note iv</i>)					86.8	(175.9)
Interest income					43.9	89.1
Finance costs					(91.6)	(109.0)
Profit before taxation					2,503.9	1,868.9
Other segment information included in measurement of core operating profit (segment result):						
Concessionaire fees	801.3	761.2	7.9	9.5	809.2	770.7
Operating lease payments in respect of rented premises	124.2	122.9	692.5	828.8	816.7	951.7
Staff costs	1,094.3	1,053.8	675.3	677.4	1,769.6	1,731.2

Notes:

- (i) Included in the external sales and adjusted gross profit, HK\$295.2 million (2016: HK\$323.5 million) and HK\$126.7 million (2016: HK\$143.3 million) are generated from Hearts On Fire, 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) Amount represents other gains and losses, other expenses and share of results of associates.

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 hedging gain on gold. Core operating profit represents the profit generated from each segment without allocation of unrealised hedging gain on gold, other gains and losses, other expenses, share of results of associates, 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	
	30.9.2017	31.3.2017	30.9.2017	31.3.2017	30.9.2017	31.3.2017
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
Property, plant and equipment	3,567.3	3,349.4	1,318.9	1,316.9	4,886.2	4,666.3
Investment properties	—	—	242.9	250.0	242.9	250.0
Jewellery collectibles	—	—	1,520.1	967.1	1,520.1	967.1
Inventories	<u>18,505.7</u>	<u>13,480.5</u>	<u>17,332.6</u>	<u>15,778.8</u>	<u>35,838.3</u>	<u>29,259.3</u>

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

	Six months ended 30 September	
	2017	2016
	HK\$ million	HK\$ million
	(unaudited)	(unaudited)
Retail sales of		
— Gem-set jewellery	4,965.0	5,043.3
— Gold products	11,515.3	9,622.8
— Platinum/karat gold products	2,356.5	2,369.3
— Watches	<u>1,619.2</u>	<u>1,335.0</u>
	20,456.0	18,370.4
Wholesale to franchisees/retailers	3,670.5	2,930.9
Jewellery trading	572.3	196.0
Service income from franchisees	<u>55.5</u>	<u>28.8</u>
	<u>24,754.3</u>	<u>21,526.1</u>

3. PROFIT BEFORE TAXATION

Six months ended 30 September	
2017	2016
HK\$ million	HK\$ million
(unaudited)	(unaudited)

Profit before taxation has been arrived at after charging (crediting):

Staff costs	1,769.6	1,731.2
Concessionaire fees	809.2	770.7
Operating lease rentals in respect of rented premises	816.7	951.7
Depreciation of property, plant and equipment	383.4	382.5
Depreciation of investment properties	7.1	7.3
Amortisation of land use rights	6.8	7.1
Amortisation of other intangible assets	24.9	25.2
Allowances on inventories (included in cost of goods sold)	4.8	23.2
Allowances for doubtful debts	4.7	3.1
Fair value (gain) loss on gold loans (included in cost of goods sold)	(10.3)	39.0

4. TAXATION

Six months ended 30 September	
2017	2016
HK\$ million	HK\$ million
(unaudited)	(unaudited)

The taxation charge comprises:

Current tax:

Enterprise Income Tax in Mainland China	359.4	309.7
Hong Kong Profits Tax	190.2	49.3
Macau complementary tax	17.1	16.8
Taxation in other jurisdictions	0.2	0.2

566.9 376.0

Deferred tax charge

Withholding tax⁽¹⁾

95.2 213.3

12.6 11.9

674.7 601.2

⁽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 2016: 10,000,000,000) shares in issue during the period.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during both periods.

6. DIVIDENDS

	Six months ended 30 September			
	2017		2016	
	<i>HK cents per share</i>	<i>HK\$ million</i>	<i>HK cents per share</i>	<i>HK\$ million</i>
Dividends recognised as distribution during the period:				
2017 Final (2016: 2016 Final)	10.0	1,000.0	8.0	800.0
2017 Special (2016: 2016 Special)	20.0	2,000.0	22.0	2,200.0
		<u>3,000.0</u>		<u>3,000.0</u>

On 21 November 2017, the directors of the Company have determined to declare an interim dividend of HK12.0 cents per share (2016: an interim dividend of HK6.0 cents per share and a special dividend of HK15.0 cents per share), totalling HK\$1,200.0 million (2016: HK\$2,100.0 million) for the six months ended 30 September 2017.

7. INVENTORIES

	At 30 September 2017 <i>HK\$ million</i> (unaudited)	At 31 March 2017 <i>HK\$ million</i> (audited)
Raw materials for:		
Gem-set jewellery	6,813.9	5,059.1
Gold products	1,573.0	632.8
Platinum/karat gold products	125.1	126.2
	<u>8,512.0</u>	<u>5,818.1</u>
Finished goods:		
Gem-set jewellery	11,491.4	11,140.6
Gold products	11,111.1	7,826.3
Platinum/karat gold products	2,413.4	2,166.5
Watches (<i>note</i>)	2,206.6	2,224.0
	<u>27,222.5</u>	<u>23,357.4</u>
Packing materials	<u>103.8</u>	<u>83.8</u>
	<u>35,838.3</u>	<u>29,259.3</u>

Note: The inventory balances of watches as at 30 September 2017 included an impairment of HK\$94.3 million (31 March 2017: HK\$86.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

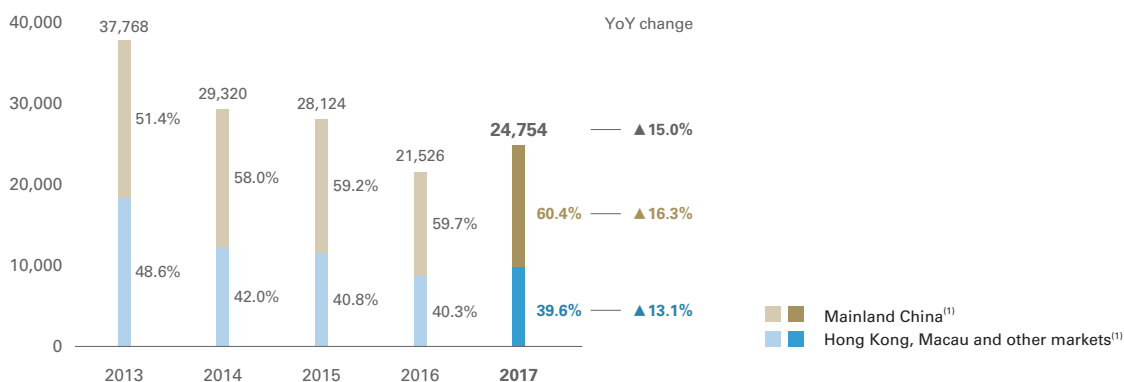
Our operations started to recover in 2HFY2017. Encouragingly, growth momentum extended to 1HFY2018, driven by an improving consumer sentiment and a low base of comparison.

Revenue breakdown

Group

Revenue by reportable segment

Six months ended 30 September
(HK\$ million)



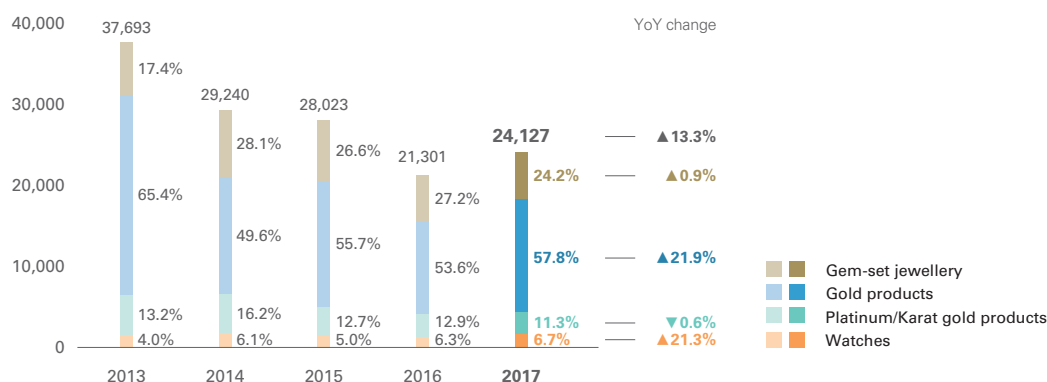
- Revenue contribution from Mainland China increased steadily over the past few years, and contributed to over 60% of the Group's revenue in 1HFY2018.
- Revenue in both reportable segments continued to rebound during 1HFY2018. Mainland China delivered a 16.3% growth while Hong Kong, Macau and other markets recorded a 13.1% increase.

(1) In 1HFY2017, the Group's reportable segments included (i) Mainland China — Jewellery business, (ii) Mainland China — Watch business, (iii) Hong Kong, Macau and other markets and (iv) Hearts On Fire. In 2HFY2017, in the course of organisational restructuring and business integration, we combined the former Mainland China — Jewellery and Mainland China — Watch segments into one reportable segment, called Mainland China. Furthermore, the former Hearts On Fire segment, which included Hearts On Fire retail business in the U.S. and Taiwan and wholesale business with retailers globally, was integrated into the Hong Kong, Macau and other markets segment. Following these changes, the Group's new reportable segments included (i) Mainland China and (ii) Hong Kong, Macau and other markets

Note: The percentages calculated are subject to minor rounding differences

Revenue by product⁽²⁾

Six months ended 30 September
(HK\$ million)



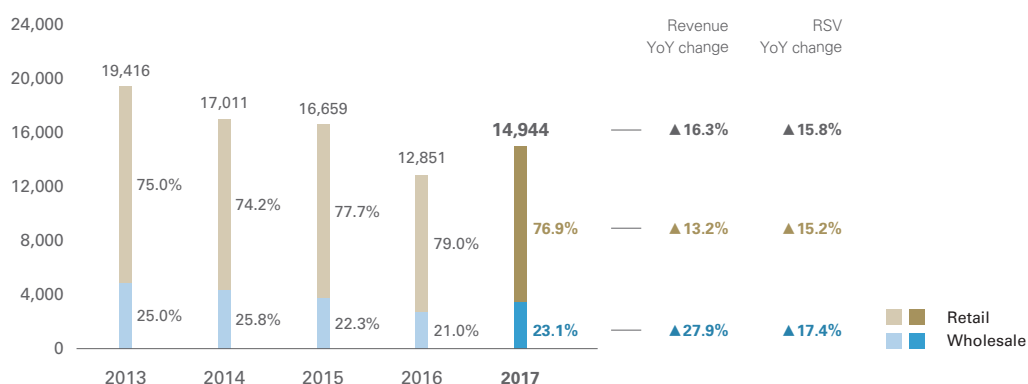
- Revenue contribution from gold products surged by 420 basis points year-on-year to 57.8% due to a relatively strong demand for gold products. Yet, relative to 60.1% in 2HFY2017, 1HFY2018 product mix already normalised in revenue contribution from gold products.
- Watches continued to demonstrate healthy growth, leading to an increase of 40 basis points in revenue contribution to 6.7%.

(2) Revenue from jewellery trading and service income from franchisees excluded

Mainland China

Revenue by operation model

Six months ended 30 September
(HK\$ million)

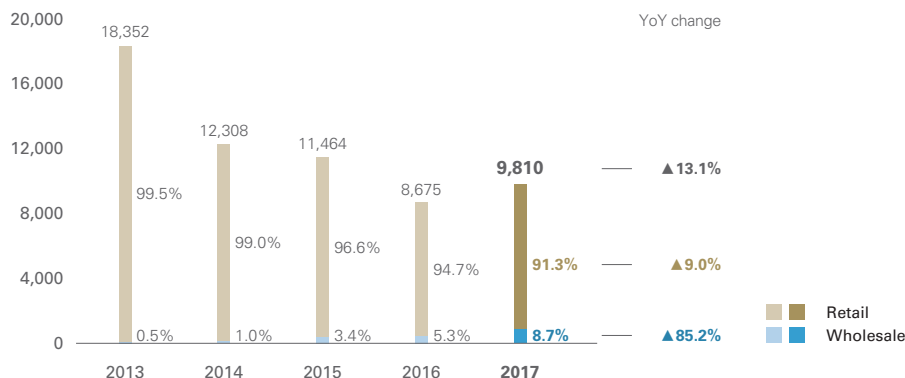


- In Mainland China, our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees and provision of services to franchisees under the inventory ownership unification programme.
- Upon complete adoption of the inventory ownership unification programme by all franchised POS, the trends of wholesale revenue and RSV are expected to converge considerably.

Hong Kong, Macau and other markets

Revenue by operation model

Six months ended 30 September
(HK\$ million)

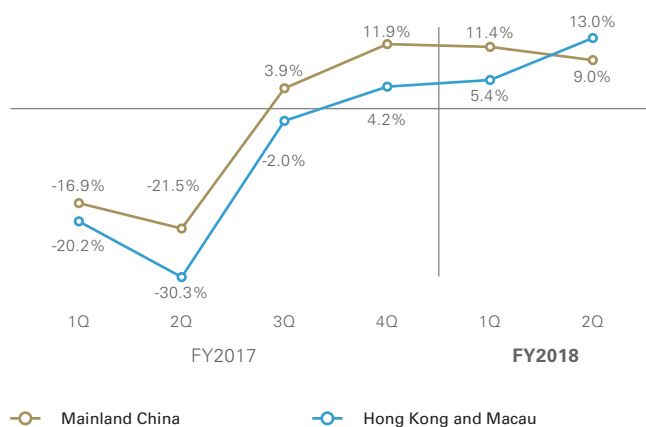


- In Hong Kong, Macau and other markets, our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees, sales to retailers and sales from jewellery trading.
- The rise in wholesale revenue contribution during 1HFY2018 was mainly due to an increase in sales from jewellery trading.

SSSG

Group

SSSG by major market



1HFY2018

SSSG

▲ 10.3%

Mainland China

▲ 9.5%

Hong Kong and Macau

SSS volume growth

▲ 1.7%

Mainland China

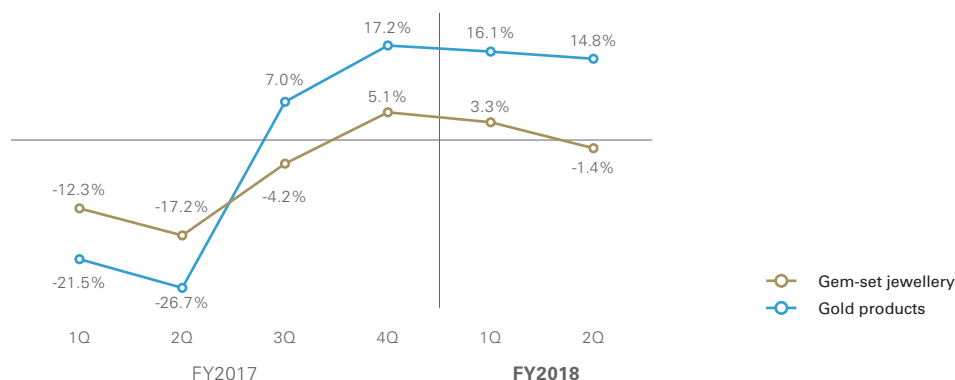
▲ 9.6%

Hong Kong and Macau

- SSSG in both markets picked up since 2HFY2017 and have sustained the recovery in 1HFY2018.
- Mainland China SSSG was mainly driven by ASP, while that of Hong Kong and Macau was primarily driven by volume.

Mainland China

SSSG of major products



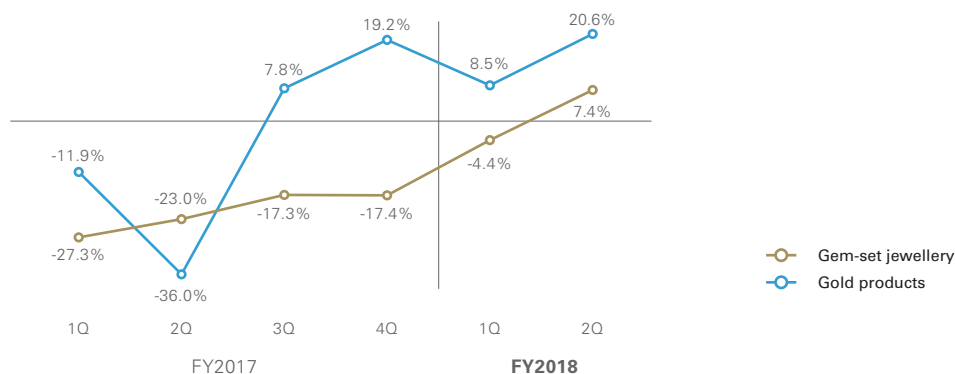
1HFY2018

	SSSG	SSS volume growth	Same store ASP	
Gem-set jewellery	▲ 0.9%	▼ 2.7%	HK\$6,300	(1HFY2017: HK\$6,000)
Gold products	▲ 15.6%	▲ 1.9%	HK\$3,600	(1HFY2017: HK\$3,200)
Platinum/Karat gold products	▲ 2.4%	▲ 4.0%	HK\$1,900	(1HFY2017: HK\$1,900)
Watches	▲ 23.5%	▲ 2.7%	HK\$14,100	(1HFY2017: HK\$11,700)
Overall	▲ 10.3%	▲ 1.7%		

- While all products delivered positive SSSG in Mainland China, growth momentum was largely generated from gold products.
- Gold products ASP was up by 13.4% despite the fact that the average international gold price depreciated by 2.3% year-on-year during 1HFY2018. The lift in ASP was resulted from a gain in the average weight per gold product sold during the period.
- Gem-set jewellery ASP continued to rise and reached HK\$6,300, up 3.8% year-on-year.

Hong Kong and Macau

SSSG of major products



1HFY2018				
	SSSG	SSS volume growth	Same store ASP	
Gem-set jewellery	▲ 1.9%	▲ 21.1%	HK\$10,800	(1HFY2017: HK\$12,800)
Gold products	▲ 14.7%	▲ 9.7%	HK\$7,100	(1HFY2017: HK\$6,800)
Platinum/Karat gold products	▼ 2.9%	▲ 5.3%	HK\$1,800	(1HFY2017: HK\$2,000)
Watches	▲ 20.1%	▲ 6.9%	HK\$51,100	(1HFY2017: HK\$45,500)
Overall	▲ 9.5%	▲ 9.6%		

- Growth momentum in Hong Kong and Macau was also fuelled by gold products.
- Both volume and ASP contributed to the rise in gold products SSSG. Volume increased by approximately 9.7% year-on-year. With the average international gold price depreciating by 2.3% year-on-year during 1HFY2018, the ASP growth was attributable to the gain in the average weight per gold product sold.
- Gem-set jewellery SSSG continued to improve in 1HFY2018. It recorded the first positive quarterly growth in 2QFY2018 after 13 quarters of decline since FY2015. The improvement was driven by volume thanks to our promotional efforts on affordable luxury jewellery.

POS distribution⁽¹⁾

POS movement

As at	31.3.2016	31.3.2017	During 1HFY2018			30.9.2017
	Total	Total	Addition	Reduction	Net	Total
Mainland China	2,179	2,246	172	(60)	112	2,358
Hong Kong	89	83	2	(10)	(8)	75
Macau	20	19	1	–	1	20
Taiwan	23	22	–	(1)	(1)	21
Korea	4	5	–	–	–	5
Japan	–	–	2	–	2	2
Malaysia	1	2	–	–	–	2
Singapore	1	1	–	–	–	1
United States	2	3	1	–	1	4
Total	2,319	2,381	178	(71)	107	2,488

POS by brand

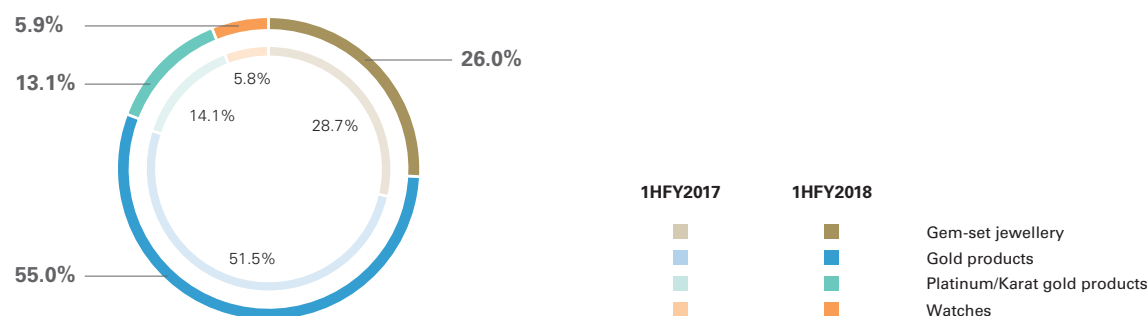
	As at 30.9.2017					
	Chow Tai Fook Jewellery	CTF Watch	Hearts On Fire	Monologue	SOINLOVE	Total
Mainland China	2,223	115	8	6	6	2,358
Hong Kong	73	2	–	–	–	75
Macau	19	1	–	–	–	20
Taiwan	10	–	11	–	–	21
Korea	5	–	–	–	–	5
Japan	2	–	–	–	–	2
Malaysia	2	–	–	–	–	2
Singapore	1	–	–	–	–	1
United States	2	–	2	–	–	4
Total	2,337	118	21	6	6	2,488

(1) SIS and CIS excluded

- We opened a net of 107 POS during 1HFY2018.
- In Mainland China, on the back of a general resumption of growth in the jewellery market and an easing trend of consolidation in conventional department stores, net openings amounted to 112 POS during 1HFY2018.
- In Hong Kong and Macau, consolidation of our network continued in 1HFY2018. Closures were focused in touristic area while there were openings in residential neighbourhoods, resulting in a net closure of 7 POS.
- We opened 1 POS in the U.S. and 2 POS in Japan to capture the opportunities arising from the demand of the local customers and travellers in these regions.

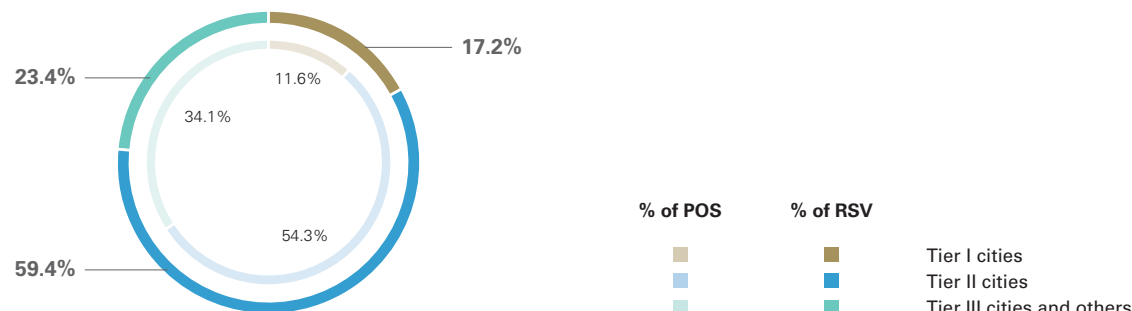
Mainland China business

RSV by product



	RSV YoY change
Gem-set jewellery	▲ 5.2%
Gold products	▲ 23.7%
Platinum/Karat gold products	▲ 7.6%
Watches	▲ 18.5%
Overall	▲ 15.8%

RSV and POS by tier of cities⁽¹⁾ — Jewellery business

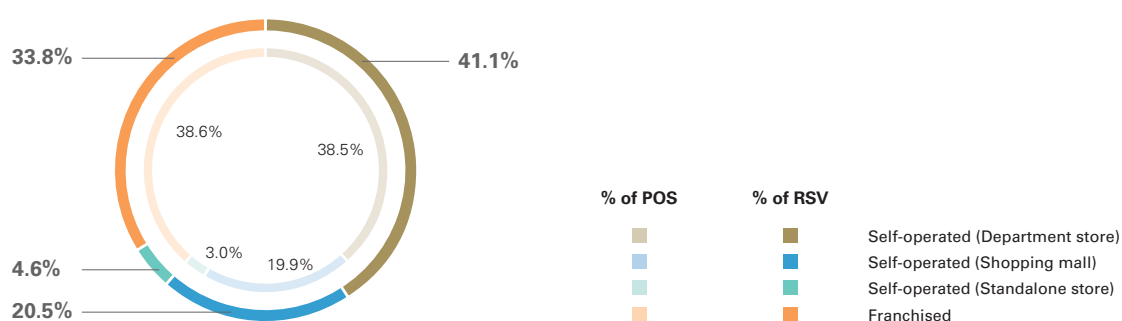


(1) As an initiative to better reflect the economic development and strategic significance of cities in Mainland China, we revised our criteria of defining city tiers to keep our classification up-to-date

	RSV YoY change	POS movement during 1HFY2018
Tier I cities	▲ 14.7%	▲ 12
Tier II cities	▲ 13.8%	▲ 73
Tier III cities and others	▲ 10.3%	▲ 29

- All city tiers rebounded to positive RSV growth in 1HFY2018. RSV performance of Tier I and II cities outperformed that of Tier III cities and others.
- Net opening of 114 Jewellery POS was recorded in 1HFY2018 as general sentiment improved on the consumer front and among franchisees. Out of these net openings, 105 POS were under the Chow Tai Fook Jewellery brand.

RSV and POS by operation model — Jewellery business

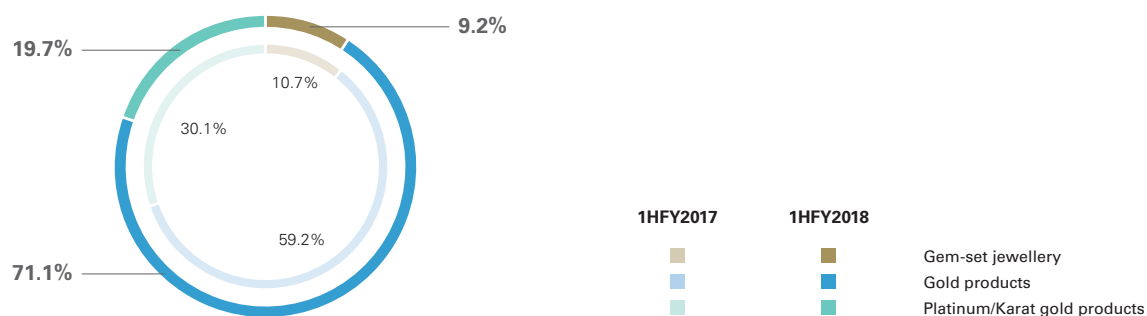


	RSV YoY change	POS movement during 1HFY2018
Self-operated (Department store)	▲ 4.0%	▼ 16
Self-operated (Shopping mall)	▲ 32.7%	▲ 77
Self-operated (Standalone store)	▼ 0.8%	▼ 2
Franchised	▲ 17.4%	▲ 55

- While all operation models delivered an improvement in RSV performance, shopping mall remained the best performer.
- Major openings were still focused in shopping malls with 77 net openings, while POS consolidation in department stores continued with a net closure of 16 POS in 1HFY2018.

E-commerce — Jewellery business

RSV by product



	RSV YoY change
Gem-set jewellery	▲ 89.2%
Gold products	▲ 164.8%
Platinum/Karat gold products	▲ 44.0%
Overall	▲ 120.4%

1HFY2018

▲ **120.4%** YoY change

RSV

HK\$1,300

ASP
(1HFY2017: HK\$1,200)

345,000

Unique daily visitors⁽¹⁾

5.4%

of respective RSV
(1HFY2017: 2.8%)

13.4%

of respective retail sales volume
(1HFY2017: 7.4%)

3,409,000

Number of followers⁽²⁾

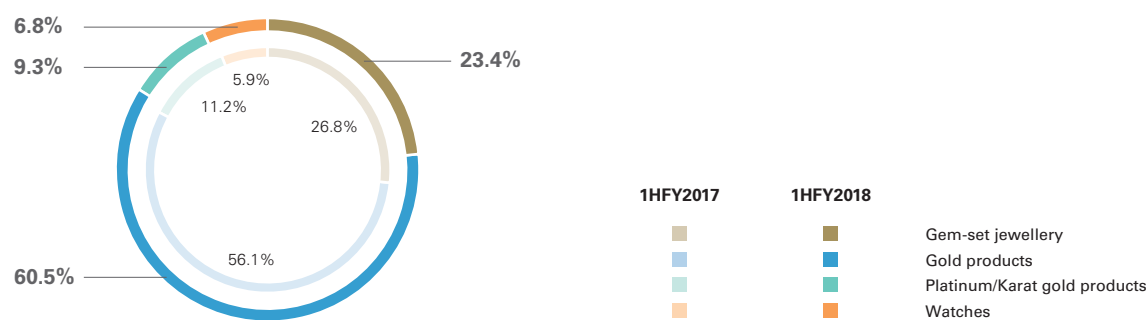
(1) Source: Chow Tai Fook e-shop, Tmall and JD.com

(2) Source: Official Sina Weibo, Tencent Weibo and WeChat accounts

- Our e-commerce business further accelerated in 1HFY2018, registering an impressive RSV growth of 120.4%, mainly thanks to a strengthened co-operation with major online platform partners.

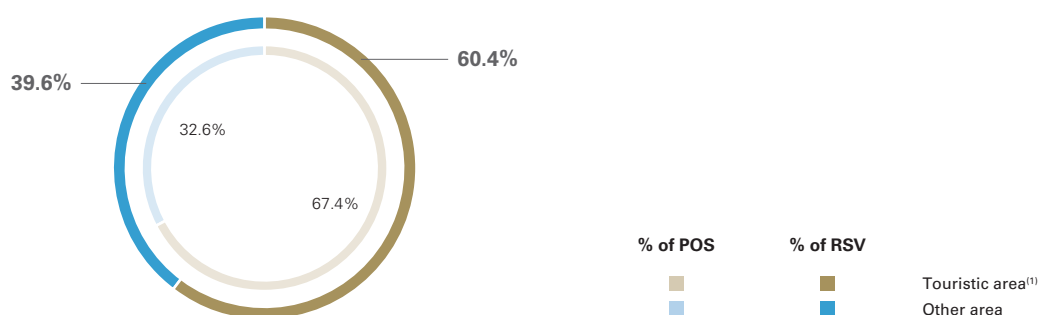
Hong Kong and Macau business

RSV by product



	RSV YoY change
Gem-set jewellery	▼ 4.4%
Gold products	▲ 18.3%
Platinum/Karat gold products	▼ 8.7%
Watches	▲ 26.3%
Overall	▲ 9.7%

RSV and POS by area



	RSV YoY change	POS movement during 1HFY2018
Touristic area ⁽¹⁾	▲ 1.8%	▼ 7
Other area	▲ 24.9%	–

- (1) 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

Hong Kong and Macau industry performance

1HFY2018

▲ **6.0%** YoY change

Retail sales of jewellery industry in Hong Kong⁽²⁾

▲ **1.8%** YoY change

Number of Mainland visitors⁽³⁾ (Hong Kong)

▲ **5.6%** YoY change

Number of Mainland visitors⁽³⁾ (Macau)

Our Hong Kong and Macau performance

1HFY2018

▼ **8.4%** YoY change

Customer traffic at POS

42.6% (1HFY2017: 43.4%)

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

- (2) Value of retail sales of jewellery, watches and clocks, and valuable gifts in Hong Kong according to Census and Statistics Department of Hong Kong
- (3) Source: Commerce and Economic Development Bureau of Hong Kong and Macau Statistics and Census Service
- RSV performance of touristic area posted a turnaround in 1HFY2018, resuming to a 1.8% growth.
 - A net of 7 POS were closed during 1HFY2018, with most closures located in touristic area such as Mong Kok and Causeway Bay, and openings in other area such as Tsuen Wan and Yuen Long.
 - Customer traffic decline narrowed to 8.4% in 1HFY2018, from a dip of around 29% in 1HFY2017.
 - 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, reduced slightly to 42.6% in 1HFY2018.

Hearts On Fire

Retail network

As at	31.3.2016 Total	31.3.2017 Total	During 1HFY2018 Net	30.9.2017 Total
POS	19	21	–	21
Mainland China	5	8	–	8
Taiwan	12	11	–	11
United States	2	2	–	2
SIS and CIS	136	187	19	206
Mainland China	118	163	18	181
Hong Kong	18	20	1	21
Macau	–	1	–	1
Other markets	–	3	–	3
Retailer locations	544	509	4	513
North America	362	339	–	339
Others	182	170	4	174

- We have been expanding the presence of Hearts On Fire primarily in SIS/CIS format through our extensive retail network.
- In the U.S., we are in progress of refreshing the store image of several Hearts On Fire retailer locations to give a brand new customer experience.

Market performance

- In 1HFY2018, ASP of Hearts On Fire products reached approximately HK\$22,000 in Mainland China and HK\$21,900 in Hong Kong and Macau, fetching a price premium over our blended ASP of gem-set products.

CTF Watch

Retail network

As at	31.3.2016 Total	31.3.2017 Total	During 1HFY2018 Net	30.9.2017 Total
POS	125	121	(3)	118
Mainland China	122	117	(2)	115
Hong Kong	3	3	(1)	2
Macau	–	1	–	1
SIS and CIS	42	34	(1)	33
Mainland China	9	4	(1)	3
Hong Kong	26	24	–	24
Macau	7	6	–	6

Market performance

- In Mainland China, revenue contribution of watches expanded from 6.6% in 1HFY2017 to 6.8% in 1HFY2018. Revenue grew by 21.7% year-on-year at constant exchange rate, indicating the recovery in the luxury watch market had sustained.
- In Hong Kong, Macau and other markets, revenue contribution of watches increased from 5.7% in 1HFY2017 to 6.6% in 1HFY2018. Revenue rose by 25.1% year-on-year thanks to the continuing recovery in the luxury watch market as well as the launch of an enhanced instalment payment programme during FY2017.

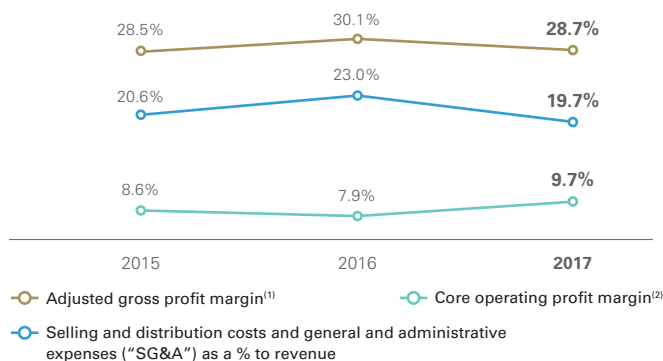
FINANCIALS

Benefitting from the sales rebound and operating leverage, our profitability exhibited improvement when compared to 1H FY2017. We strive to maintain an optimal capital structure and capital efficiency in creating long-term value and return to our shareholders.

Profitability

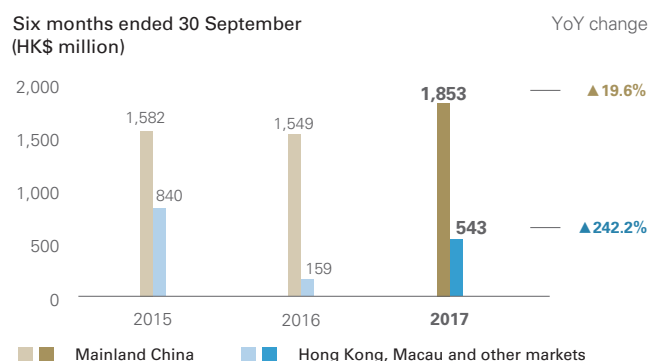
Overall

Six months ended 30 September



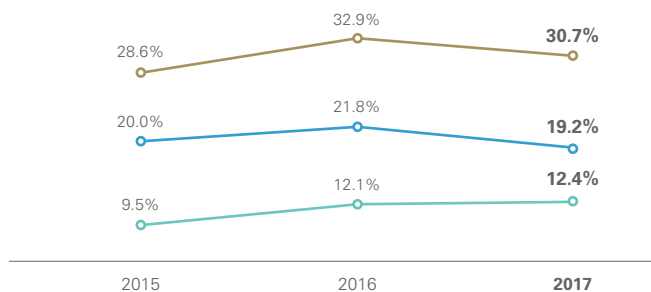
Core operating profit⁽²⁾ by reportable segment

Six months ended 30 September
(HK\$ million)



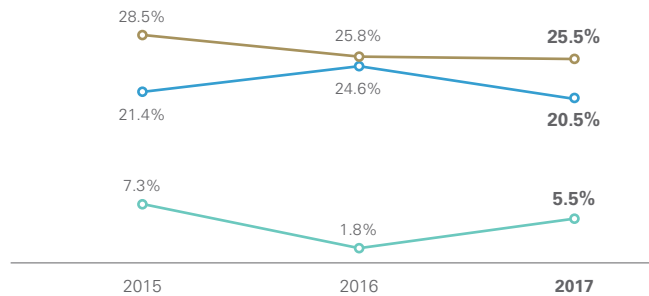
Mainland China

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, eliminate the effect of unrealised hedging 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 businesses

Mainland China

- Mainland China continued to be our main profit contributor and accounted for over 75% of the Group's core operating profit in 1HFY2018.
- In terms of profitability, adjusted gross profit margin was down by 220 basis points in 1HFY2018 primarily due to the increase in sales contribution of gold products and wholesale business, as well as a lower retail margin in gold products.
- Yet, with a reduction in SG&A ratio by 260 basis points, core operating profit margin of Mainland China improved by 30 basis points to 12.4%.

Hong Kong, Macau and other markets

- Hong Kong, Macau and other markets recorded a remarkable of 242.2% turnaround in core operating profit during 1HFY2018.
- Adjusted gross profit margin dropped by 30 basis points. The increase in jewellery trading income and gold products mix dragged the adjusted gross profit margin. Yet, the retail margin by products improved.
- As a result of the operating leverage, which drove the SG&A ratio down, core operating profit margin improved to 5.5%, up by 370 basis points from 1.8% in 1HFY2017.

Group

- At group level, core operating profit margin improved over the past two financial periods to 9.7% in 1HFY2018 due to the resumption of revenue growth and operating leverage.

Gross profit margin

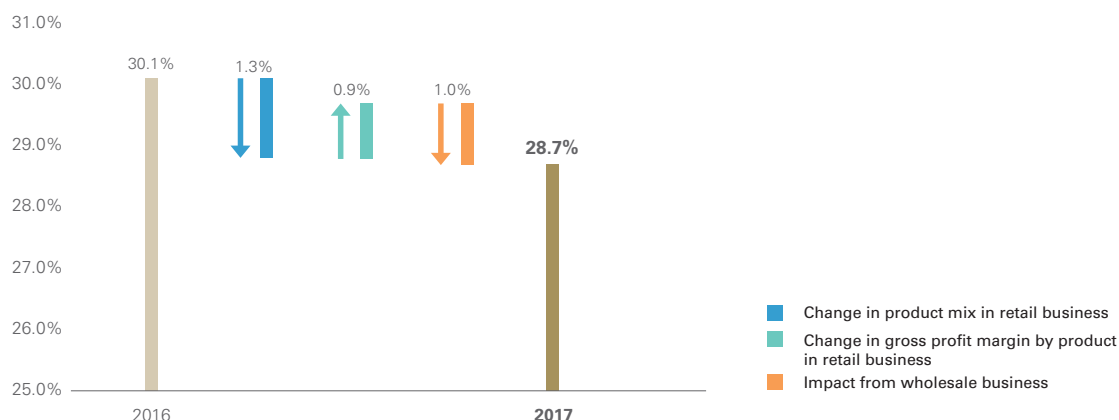
Unrealised hedging loss/(gain)

Six months ended 30 September	2015	2016	2017
Gross profit margin	27.9%	31.7%	28.9%
Unrealised hedging loss/(gain) on gold loans	0.6%	(1.6)%	(0.2)%
Adjusted gross profit margin	28.5%	30.1%	28.7%

- Unrealised hedging 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) to hedge against 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

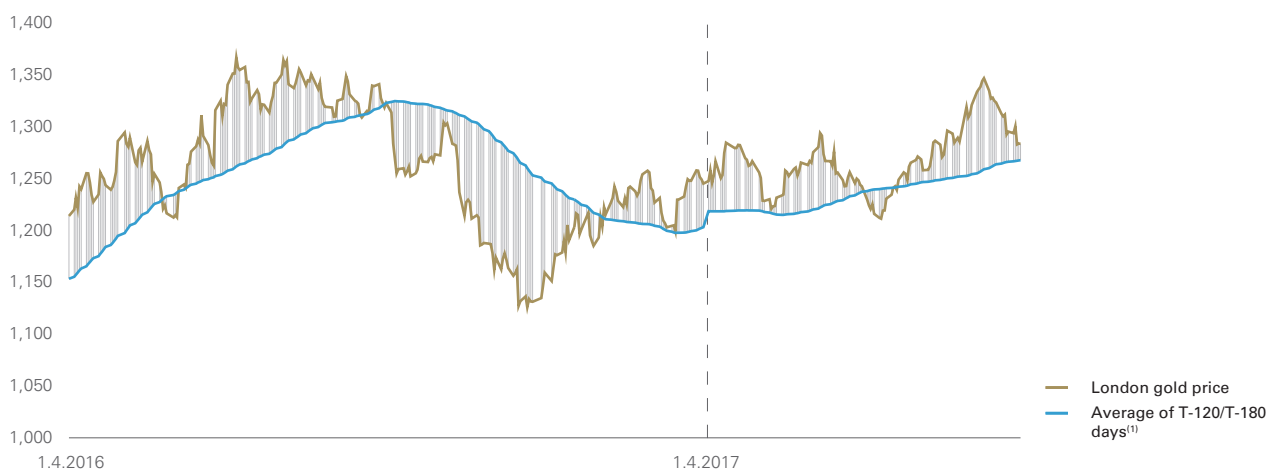
Six months ended 30 September



- At group level, adjusted gross profit margin was reduced by 140 basis points when compared to 1HFY2017, primarily due to the increase in sales contribution of gold products as well as wholesale business.
- Yet, these were partially offset by the improvement in gross profit margin in the retail business.

London gold price

(US\$ per ounce)



- (1) Average of T-120/T-180 days refers to the average gold price of previous 120 or 180 days on rolling basis, being a proxy of the average price of our hedged gold inventories. As gold inventories turnover lengthened in 1HFY2018, average of T-120 days and T-180 days was used for FY2017 and 1HFY2018, respectively

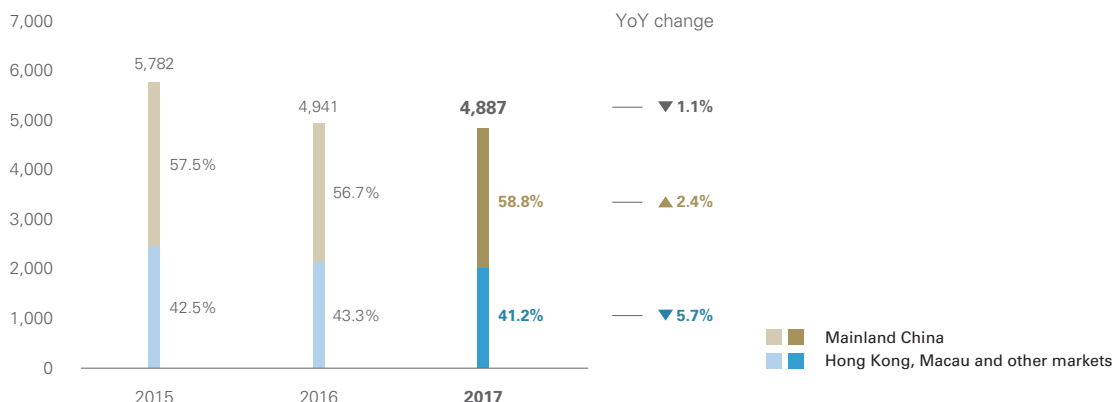
Updates on hedging mechanism

- Following a review in 2HFY2017, we decided to use a more targeted hedging approach and shifted our hedging ratio from a fixed 70% to a floating hedging ratio, depending on seasonality.
- The new approach has been fully implemented during 1HFY2018 and the hedging ratio (by weight) ranged from 35%–50% during the period.
- As at 30 September 2017, the hedging ratio was 48%.

SG&A

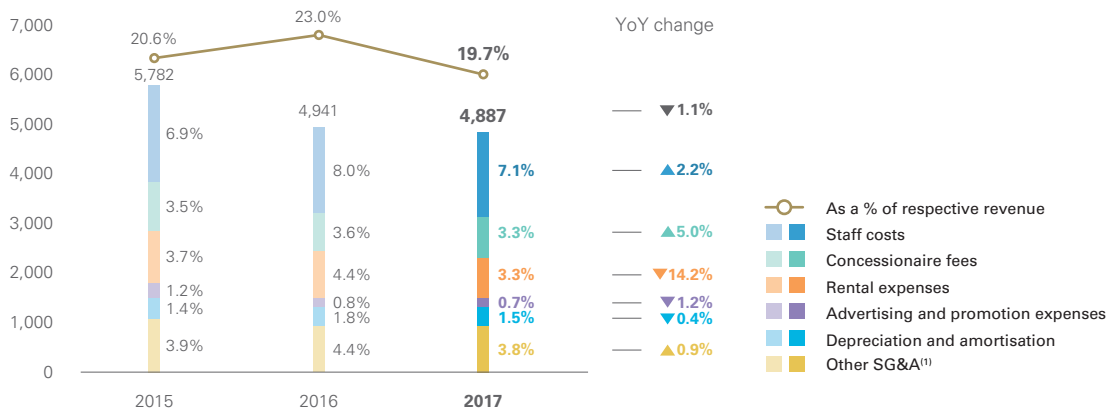
SG&A by reportable segment

Six months ended 30 September
(HK\$ million)



SG&A to revenue ratio

Six months ended 30 September
(HK\$ million)



(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

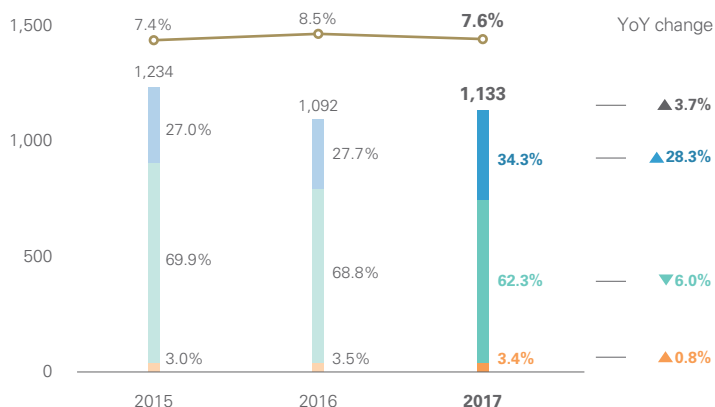
- Our Mainland China segment contributed over half of total SG&A over the past three financial periods.
- With effective cost saving measures, we managed to trim our major SG&A components. SG&A expenses dropped slightly by 1.1% to HK\$4,887 million in 1HFY2018.
- Thanks to the sales rebound and operating leverage, SG&A ratio improved by 330 basis points to 19.7% in 1HFY2018.

Major SG&A components

Staff costs and related expenses

Mainland China

Six months ended 30 September
(HK\$ million)



1H FY2018

19,880

Average number of employees⁽¹⁾

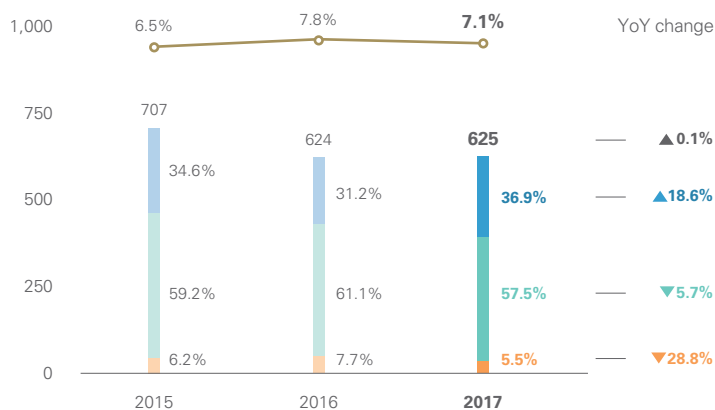
▼ **6.0%**

YoY change

○ As a % of respective revenue
■ Variable staff costs
■ Fixed staff costs
■ Other staff related expenses⁽²⁾

Hong Kong and Macau

Six months ended 30 September
(HK\$ million)



1H FY2018

3,190

Average number of employees⁽¹⁾

▼ **9.6%**

YoY change

○ As a % of respective revenue
■ Variable staff costs
■ Fixed staff costs
■ Other staff related expenses⁽²⁾

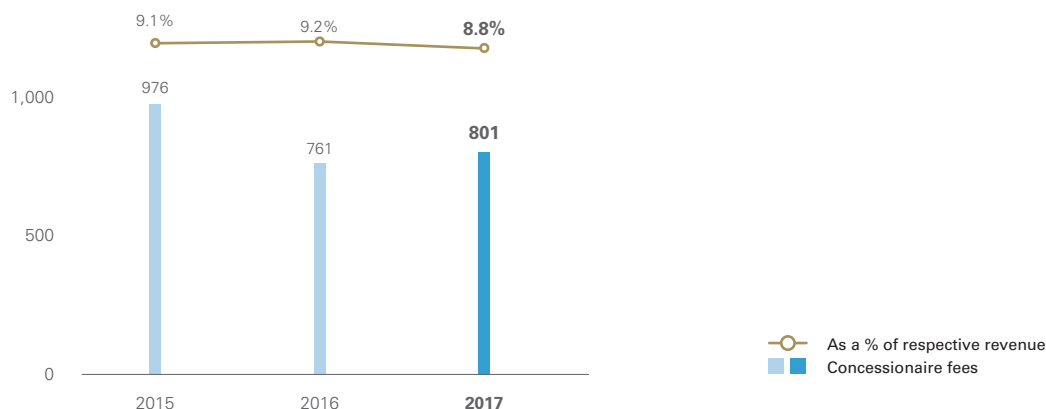
- (1) Employees in production function excluded
- (2) Other staff related expenses mainly included staff messing, medical care, educational expenses, etc.

- Staff costs and related expenses in Mainland China slightly increased by 3.7% to HK\$1,133 million while those in Hong Kong and Macau stayed at around HK\$625 million. Both markets recorded a decrease in fixed staff costs which was largely in line with the reduction in average headcount. Yet, this was partially offset by the increase in variable staff costs as business recovered in both markets.

Concessionaire fees and rental expenses

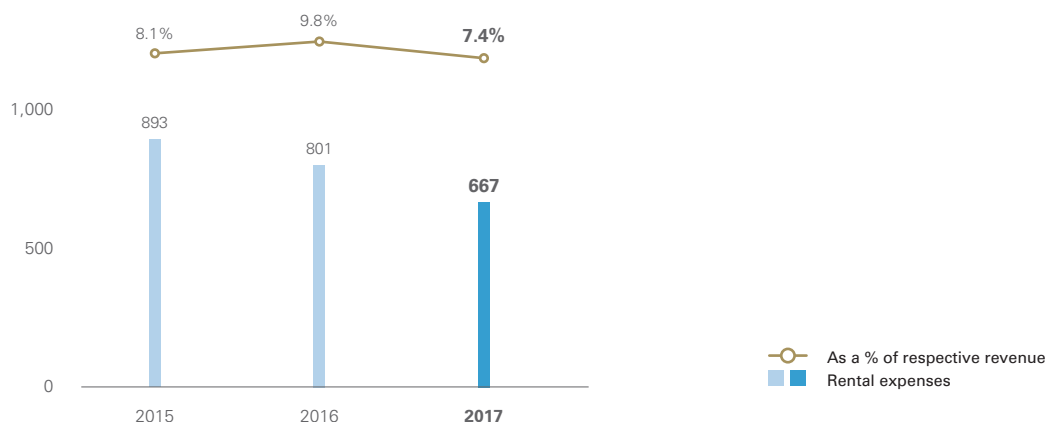
Mainland China

Six months ended 30 September
(HK\$ million)



Hong Kong and Macau

Six months ended 30 September
(HK\$ million)



- In Mainland China, concessionaire fees increased by 5.3% 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 were down by 16.8% and rental expenses ratio was down by 240 basis points to 7.4% in 1HFY2018. POS consolidation and negotiation with landlords for rental reduction have been effective during the period. We achieved an average reduction on rental renewal of approximately 20% in 1HFY2018.

Other income, other gains and losses and other expenses

Six months ended 30 September	2015 HK\$ million	2016 HK\$ million	2017 HK\$ million	2017 vs 2016 YoY change
Other income	166	178	186	▲ 4.8%
Other gains and losses	(161)	(147)	111	N/A
Other expenses	(25)	(25)	(24)	▼ 1.2%

- 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 gain of HK\$115 million. (1HFY2017: net foreign exchange loss of HK\$150 million) as RMB appreciated 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

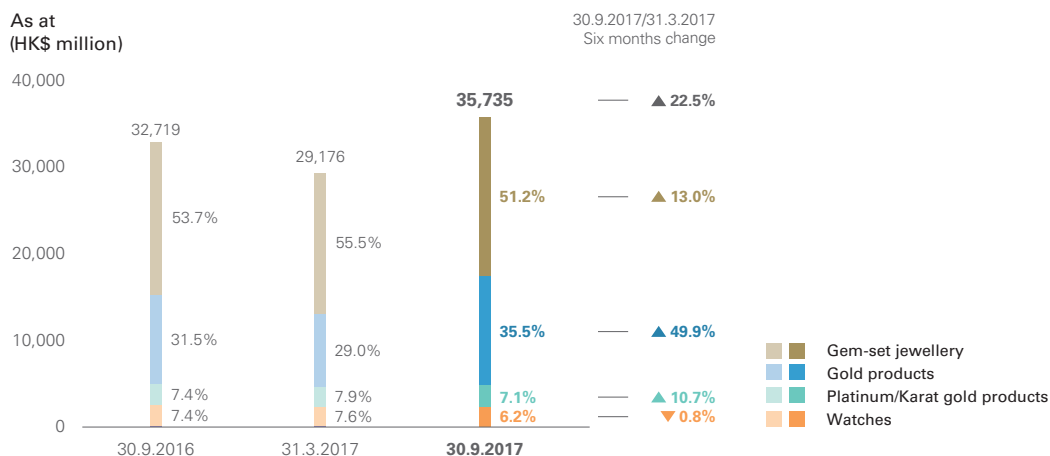
Six months ended 30 September	2015 HK\$ million	2016 HK\$ million	2017 HK\$ million	2017 vs 2016 YoY change
Interest income from banks	54	81	38	▼ 53.2%
Other interest income	27	8	6	▼ 27.1%
Finance costs on bank borrowings	(21)	(36)	(44)	▲ 21.5%
Finance cost on gold loans	(91)	(73)	(48)	▼ 34.7%
Taxation	(463)	(601)	(675)	▲ 12.2%

- Finance cost on gold loans dropped by 34.7%. With a lower hedging ratio under the new mechanism, a cost saving of HK\$25 million was achieved during the period.
- Effective tax rate decreased from 32.2% in 1HFY2017 to 26.9% in 1HFY2018 due to a higher profit contribution to the Group from Hong Kong, Macau and other markets, where a lower tax rate was applied, as well as the fact that exchange gains and losses are partially non-taxable or non-deductible, depending on the nature.

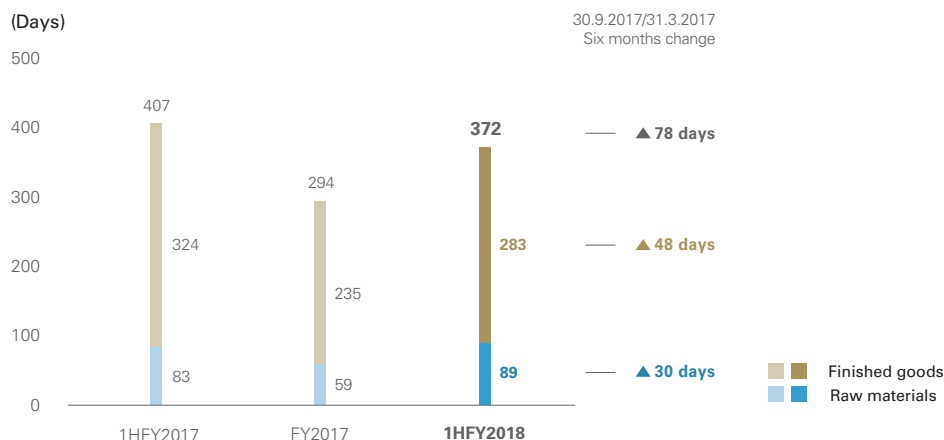
Inventory turnover and capital structure

Inventory balances and turnover period

Inventory balances by product⁽¹⁾



Inventory turnover period by category⁽²⁾



(1) Packing materials excluded

(2) 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 and stood at HK\$35,735 million as at 30 September 2017.
- Inventory turnover period lengthened by 78 days compared to that of FY2017, while 35 days shorter compared to that of 1HFY2017 as sales improved during 1HFY2018.
- As at 30 September 2017, 647 franchised POS (approximately 75% of our total franchised POS) were in the inventory ownership unification programme, holding inventories valued at approximately HK\$2,980 million, representing 8.3% of total inventories of the Group, while as at 31 March 2017, approximately HK\$1,870 million, representing 6.4% of total inventories of the Group, were held by the franchised POS under the programme.

Capital structure

As at	31.3.2017 HK\$ million	% to total equity	30.09.2017 HK\$ million	% to total equity	Increase/ (decrease) HK\$ million	Denominated currency ⁽¹⁾	Interest rate structure ⁽¹⁾ YoY change
Non-current assets	7,133	21.9%	7,807	24.4%	674	N/A	N/A
Inventories	29,259	90.0%	35,838	112.0%	6,579	N/A	N/A
Bank deposits and cash equivalents ⁽²⁾	7,943	24.4%	5,079	15.9%	(2,864)	Mainly HKD, RMB and USD	Mainly variable interest rate
Total borrowings ⁽³⁾	10,009	30.8%	14,374	44.9%	4,365		
Bank borrowings	6,793	20.9%	8,108	25.3%	1,315	HKD and RMB	Variable interest rate
Gold loans	3,216	9.9%	6,265	19.6%	3,049	RMB and USD	Fixed interest rate
Net debt ⁽⁴⁾	2,066	6.4%	9,295	29.0%	7,229	N/A	N/A
Working capital ⁽⁵⁾	26,480	81.5%	26,836	83.8%	356	N/A	N/A
Total equity	32,502	100.0%	32,007	100.0%	(495)	N/A	N/A

(1) Information about denominated currency and interest rate structure related to the condition as at 30 September 2017

(2) Bank balances and cash included

(3) As at 30 September 2017, bank borrowings amounted to HK\$6,008 million and all the gold loans would be matured within 12 months while bank borrowings amounted to HK\$2,100 million would be matured in more than 2 years but not exceeding 5 years

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

(5) 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 to hedge against 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 at 30 September 2017, RMB to HKD appreciated by around 5% as compared to 31 March 2017. As part of our business operation was in Mainland China, the improvement in RMB would positively affect the performance and balances of assets and liabilities of our Mainland China operation, as well as the balances of inter-group advances denominated in RMB, which posed some impact to our net profit for the period.
- The table below illustrates the impact to our financial performance due to RMB fluctuation:

Six months ended 30 September	2016		2017	
	As reported	Constant exchange rate basis	As reported	Constant exchange rate basis
Revenue YoY change	▼ 23.5%	▼ 20.6%	▲ 15.0%	▲ 16.5%
Core operating profit YoY change	▼ 29.5%	▼ 25.4%	▲ 40.3%	▲ 42.7%
Changes in inventory balances (30 September vs 31 March)	▲ 4.6%	▲ 6.2%	▲ 22.5%	▲ 20.0%
Changes in bank balances and cash (30 September vs 31 March)	▼ 35.7%	▼ 33.3%	▼ 36.1%	▼ 38.4%

- 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 the two financial periods.

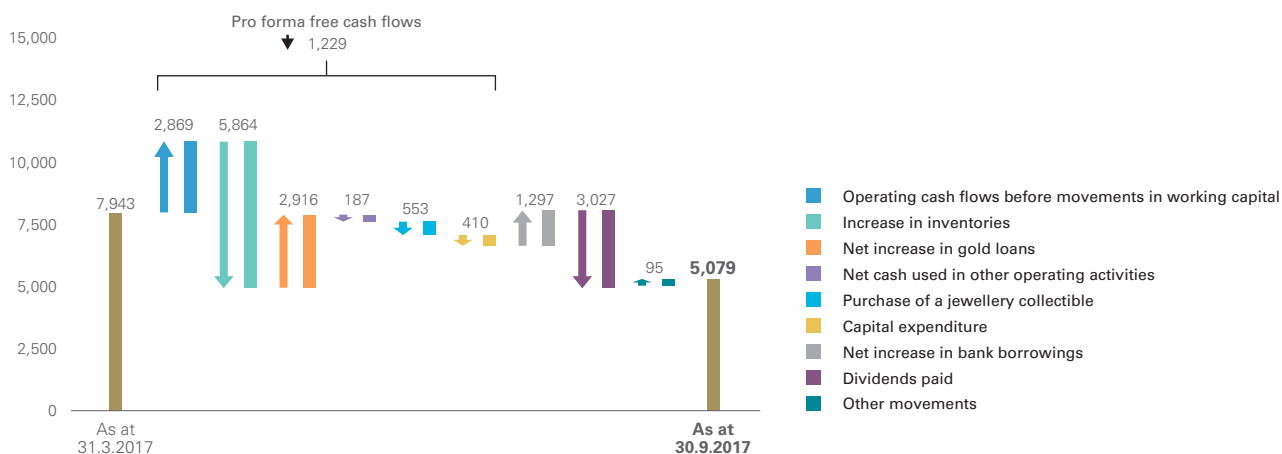
Cash flows and others

Six months ended 30 September	2015 HK\$ million	2016 HK\$ million	2017 HK\$ million
Operating cash flows before movements in working capital	2,696	2,525	2,869
Decrease/(increase) in inventories	1,694	(1,961)	(5,864)
Net change in gold loans	(50)	1,478	2,916
Net cash used in other operating activities	(91)	(846)	(187)
Purchase of a jewellery collectible	—	—	(553)
Capital expenditure	(489)	(398)	(410)
Pro forma free cash flows	3,760	798	(1,229)
Net change in bank borrowings	137	(1,920)	1,297
Dividends paid	(1,565)	(3,045)	(3,027)
Other movements	(389)	(470)	95
Net increase/(decrease) in bank balances and cash	1,943	(4,637)	(2,864)

Cash flows

Major cash flows items for 1HFY2018

(HK\$ million)

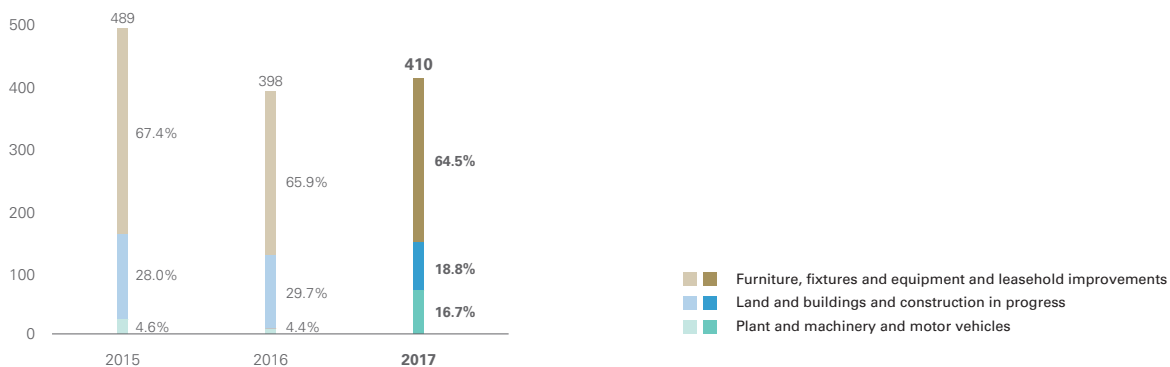


Capital expenditure

- The Group's capital expenditure incurred during 1HFY2018 amounted to HK\$410 million (1HFY2017: HK\$398 million).

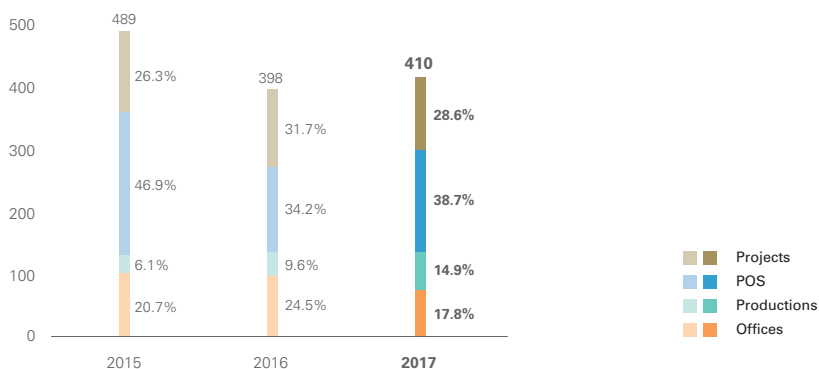
Capital expenditure by nature

Six months ended 30 September
(HK\$ million)



Capital expenditure by function

Six months ended 30 September
(HK\$ million)



CORPORATE STRATEGIES

Business development

While optimising retail network remains to be an integral part of our business development, we endeavour to seize every emerging opportunity in fostering sustainable business growth amid current market dynamics.

Mainland China

- In view of the improving general consumer sentiment, coupled with the rising opportunities from the development of shopping malls in the region, we will continue to expand our retail network in 2HFY2018.
- To further increase our market share and to drive our sustainable business development, we are fully committed to investing in customer experience through various initiatives such as rolling out our own jewellery brands SOINLOVE and Monologue.

POS	Net openings
2,358	112
As at 30 September 2017	1HFY2018

Hong Kong, Macau and other markets

Hong Kong and Macau

- We closed 10 POS mainly in touristic area, and opened a total of 2 POS in Tsuen Wan and Yuen Long.
- Few more closures in touristic area are planned in 2HFY2018. Nonetheless, more openings in selected residential neighbourhoods are in the pipeline. Store interior will be refurbished with different themes and designs to tap into the demand and expectation of local customers.

POS	Net closings
95	7
As at 30 September 2017	1HFY2018

Other markets

- Our openings covered Japan and the United States to reach out to the local customers and travellers in these regions.

POS	Net openings
35	2
As at 30 September 2017	1HFY2018

Wholesale business

- Leveraging Hearts On Fire’s strong retail network with over 500 retailer locations around the world, alongside the edge of our vertically integrated business model, we continued to develop and expand wholesale business for polished diamonds and jewellery with reputable branded retailers around the globe as an integral part of our sustainable growth strategy.

Customer experience

Our “Smart+” initiatives enable us to engage our customers with seamless and unmatched shopping experience channelled through advanced product innovations, refined jewellery branding, caring customer services and relationship management, as well as efficient production and operations.

Products

CHOW TAI FOOK T MARK

- We revolutionised current industry practice and launched CHOW TAI FOOK T MARK diamond brand last year in pursuit of excellence and to fulfil the rising customer expectation for diamond authenticity and transparency.
- The pioneered “4Ts” concept of “Traceable”, “Transparent”, “Thoughtful” and “Truthful” allows customers to trace the life cycle of a diamond from sourcing to production.
- An official launch press conference was held in Hong Kong in August this year, and artist Fiona Sit was invited as our celebrity guest to showcase CHOW TAI FOOK T MARK jewellery.

POS with CHOW TAI FOOK T MARK products

As at 30 September 2017

198

Mainland China

33

Hong Kong and Macau

Hearts On Fire

- Since 2014, we have been dedicated to integrating Hearts On Fire – a U.S. premium diamond brand carrying design-focused jewellery, into our retail network, especially in Greater China to cater to the more sophisticated group of customers demanding for exquisite craftsmanship and design.
- As at 30 September 2017, more than 180 POS in Mainland China and 20 POS in Hong Kong and Macau carried Hearts On Fire jewellery.
- To boost the brand awareness in the region, we invited famous Chinese actress Zhao Li-ying and contemporary artist Cheng Ran to collaborate on a photography exhibition themed “Fire” in Shanghai K11 in November 2017, where Hearts On Fire collections were showcased in the event.

Fashion jewellery and licensed collections

- Responding to the shift of customers' preferences towards more contemporary and trendy jewellery designs, we have been collaborating with international renowned business partners to roll out licensed collections with an aim to widen our fashion jewellery portfolio.

Store differentiation

SOINLOVE

- To further diversify our bridal product offerings, especially in Mainland China, we introduced SOINLOVE in April this year.
- SOINLOVE's store layout, display and product collections collaboratively create a romantic shopping ambience to our customers.
- During 1HFY2018, we opened 6 POS in Mainland China focusing on Tier I and II cities.
- We will continue to scale up our efforts in rolling out SOINLOVE POS in FY2018.

Monologue

- With an aim to tap the growing business opportunities arising from millennials in Mainland China, we introduced Monologue with a unique brand DNA of individuality and style distinction since 2016.
- As at 30 September 2017, there were 6 POS in Mainland China. More openings are expected in 2HFY2018.
- We sponsored "RAPCHINA", a popular rap reality show in Mainland China, in which the final contestants wore our featured collections to promote the brand on the show.

Chow Tai Fook Jewellery

Mainland China

- To tailor more personalised products and experience to our customers, we segmented our stores into three styles – luxury, elegant and trendy types in Mainland China.
- Substantial proportion of our POS are in trendy style, while the rest of selected ones are set in luxury and elegant styles to cater to the high-end customers.
- To enrich customer experience, further refurbishment on store interior designs are in the pipeline.

Hong Kong

- During the period, we opened 2 POS in Tsuen Wan and Yuen Long. Catering to the customer profile and brand positioning of respective shopping malls, we deliver a rejuvenated shopping experience to local customer via refreshed store layouts with different themes.
- A few more openings located in selected shopping malls in residential area are expected in 2HFY2018.

Customer relationship management

Membership Programme

- Customer loyalty is essential in supporting our sustainable business growth.
- Over 1,730,000 members were recorded across Mainland China, Hong Kong and Macau as at 30 September 2017.
- In 1HFY2018, members' repeat purchase ratio reached 30.5% and 32.5% in Mainland China and in Hong Kong and Macau, respectively.

Customer-led production and operations

Smart Manufacturing

We established our “Smart Manufacturing” implementation framework characterised by four key elements — standardisation, automation, digitalisation and intelligence along our production and supply chain, enabling us to respond quickly to evolving market dynamics and customer demand, so as to eventually uplift customer experience.

Standardisation

- We consolidate, streamline and standardise relevant operations, procedures, specifications and techniques in production for better quality control, standards and efficiency.

Automation

- Upon standardisation, automation facilities could be installed and applied effectively to shorten the production lead time and enhance overall efficiency and reliability.

Digitalisation

- Data analytics and monitoring play an increasing pivotal role in the accuracy of production planning and supply chain management today and tomorrow.

Intelligence

- Following the enhanced standardisation, automation and digitalisation along our production and supply chain operations, minted with sophisticated mathematical algorithms, we could automate the business decision process and deliver more reliable and consistent productivity.

Production planning

- Our “Smart+” initiatives support production innovations that are crucial to future business growth. To this end, we defined the roles of our three major production hubs in Mainland China with their respective directions clearly set.

Shunde Ingenuity Centre

- It is the longest-running production operations endowed with strong capabilities in handling jewellerys that require complicated production and craftsmanship.
- Extensive deployment of Internet of Things (IoT) and item-level RFID technology, coupling with an automated warehousing system support us in managing stock movements and distributions in a more effective and efficient way.
- Approximately 35% of our products sold in volume in Mainland China during 1HFY2018 were handled and distributed by the Logistics and Distribution Centre in Shunde.

Wuhan Production Centre

- It served as one of our major production hubs in Mainland China since 2014.
- The centre is equipped with advanced manufacturing and green facilities that enable the production of mass luxury jewellery in an efficient and eco-friendly way.
- E-commerce Centre commenced logistics and distribution operations in FY2017.

Shenzhen Research and Development Centre

- The Centre started operations since April 2017.
- It currently supports our production with smaller capacity at the initial stage.
- It focuses on research and development on production techniques, process improvement and pilot projects of various automation facilities.
- We have invested expertise and resources in our Data Intelligence Space in Beishan, Shenzhen, which has kicked off its operations in June this year. It is tasked with the monitoring of key performance indicators and efficiency analysis for different production hubs to facilitate business assessment and decision-making.

BUSINESS OUTLOOK

- FY2018 will be a turning point for our business given the nascent jewellery market recovery. Although the recovery is gradual and mild, the industry is expected to return to a stable yet sustainable growth.
- To capitalise on this recovery, our market development will progress as follows:
 - In Mainland China, in view of the improving general consumer sentiment, coupled with the rising opportunities from the development of shopping malls in the region, our network expansion is expected to continue in 2HFY2018;
 - In Hong Kong and Macau, we will continue to optimise POS efficiency in touristic area and selectively open stores in residential neighbourhoods;
 - In the U.S., we shall progressively expand wholesale business with reputable branded retailers.
- Furthermore, we will intensify our focus on customer experience in four key areas to bolster the sustainability of the Group:
 - Product offerings will be differentiated through innovations, exquisite craftsmanship and compelling designs;
 - Store differentiation will continue in order to increase the uniqueness of our brands;
 - Production and operations will be enhanced from a customer-centric perspective;
 - Finally, customer relationship will be further elevated through our membership programme.
- Despite the ups and downs in the economy, there is always a genuine demand for jewellery as it is deeply attached to emotional needs and desired in different important occasions. We therefore remain optimistic about the long-term prospects of the jewellery market.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK12.0 cents per share, amounting to approximately HK\$1,200.0 million, to shareholders whose names appear on the register of members of the Company on Wednesday, 6 December 2017. The interim dividend is expected to be paid on or around Friday, 15 December 2017.

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 2017 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 2017 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, 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 2017, the Company was in full compliance with all applicable principles and code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, except the deviation mentioned below.

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting of the Company. Due to health reasons, Dr. Cheng Kar-Shun, Henry, the Chairman of the Board, did not attend the annual general meeting of the Company held on 26 July 2017 (the "2017 AGM"). Mr. Wong Siu-Kee, Kent, the Managing Director who took the chair of the 2017 AGM, together with other members of the Board who attended this meeting, were of sufficient calibre for answering questions at the 2017 AGM.

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 2017.

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 2017.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to the interim dividend, the register of members of the Company will be closed on Wednesday, 6 December 2017, 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 Tuesday, 5 December 2017.

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

Hong Kong, 21 November 2017

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. Chan Sai-Cheong, Mr. Suen Chi-Keung, Peter, Mr. Chan Hiu-Sang, Albert, Mr. Cheng Ping-Hei, Hamilton 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.