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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

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2017

### HIGHLIGHTS

- Revenue decreased by 9.4% to HK\$51,246 million when compared to HK\$56,592 million in FY2016.
- Revenue grew by 4.4% year-on-year in 2HFY2017, exhibiting a remarkable improvement compared to a 23.5% year-on-year decline in 1HFY2017.
- Same Store Sales<sup>(1)</sup> ("SSS") in Mainland China and in Hong Kong and Macau recorded a decline of 5.2% and 12.4%, respectively.
- Gross profit declined by 4.3% year-on-year to HK\$14,963 million during the year.
- Core operating profit<sup>(2)</sup> decreased by 7.9% to HK\$4,649 million in FY2017 from HK\$5,050 million in FY2016.
- Basic earnings per share were HK30.6 cents, an increase compared to HK29.4 cents in the prior year.
- Proposed final and second special dividends are HK10.0 cents and HK20.0 cents per share, respectively<sup>(3)</sup>.
- Retail network expanded to 2,381 POS as at 31 March 2017, with a net addition of 62 POS in FY2017.

(1) "Same Store Sales" for FY2017 represents the revenue from the self-operated points of sale ("POS") existing as at 31 March 2017 and which have been opened prior to 1 April 2015, 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 ("SG&A") 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 FY2017, excluding special dividend, is 52.3% on a full year basis

## ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 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 audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2017 ("FY2017"), together with comparative figures for the year ended 31 March 2016 ("FY2016") as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2017*

	Notes	2017 HK\$ million	2016 HK\$ million
Revenue	2	51,245.5	56,591.5
Cost of goods sold		<u>(36,282.8)</u>	<u>(40,950.1)</u>
<b>Gross profit</b>		<b>14,962.7</b>	<b>15,641.4</b>
Other income		329.5	306.2
Selling and distribution costs		(8,011.3)	(9,196.8)
General and administrative expenses		(2,296.0)	(2,426.6)
Other gains and losses		(285.8)	(244.9)
Other expenses		(214.5)	(51.2)
Share of results of associates		(9.6)	(3.6)
Interest income		140.0	154.6
Finance costs		<u>(236.6)</u>	<u>(243.0)</u>
<b>Profit before taxation</b>	3	<b>4,378.4</b>	<b>3,936.1</b>
Taxation	4	<u>(1,227.3)</u>	<u>(957.2)</u>
<b>Profit for the year</b>		<b><u>3,151.1</u></b>	<b><u>2,978.9</u></b>
<b>Other comprehensive income (expense):</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
— remeasurement of defined benefit scheme		<u>15.8</u>	<u>(2.1)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**(Continued)**  
*For the year ended 31 March 2017*

	<i>Note</i>	<b>2017</b> <i>HK\$ million</i>	<b>2016</b> <i>HK\$ million</i>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
— exchange differences arising on translation of foreign operation		(1,094.6)	(1,010.7)
— share of translation reserve of associates		1.9	(0.7)
		<u>(1,092.7)</u>	<u>(1,011.4)</u>
<b>Other comprehensive expense for the year</b>		<u>(1,076.9)</u>	<u>(1,013.5)</u>
<b>Total comprehensive income for the year</b>		<u><u>2,074.2</u></u>	<u><u>1,965.4</u></u>
<b>Profit for the year attributable to:</b>			
Shareholders of the Company		3,055.3	2,941.4
Non-controlling interests		95.8	37.5
		<u><u>3,151.1</u></u>	<u><u>2,978.9</u></u>
<b>Total comprehensive income (expense) attributable to:</b>			
Shareholders of the Company		2,030.1	1,979.3
Non-controlling interests		44.1	(13.9)
		<u><u>2,074.2</u></u>	<u><u>1,965.4</u></u>
<b>Earnings per share — Basic</b>	5	<u><u>HK30.6 cents</u></u>	<u><u>HK29.4 cents</u></u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 31 March 2017

	Note	2017 HK\$ million	2016 HK\$ million
<b>Non-current assets</b>			
Property, plant and equipment		4,666.3	4,749.7
Land use rights		184.9	211.6
Investment properties		250.0	272.9
Goodwill		257.8	257.8
Other intangible assets		356.3	407.5
Jewellery collectibles		967.1	–
Deposits paid for acquisition of property, plant and equipment		52.7	132.6
Interests in associates		–	39.7
Amounts due from associates		19.7	82.8
Interest in a joint venture		–	–
Loan receivables		65.9	37.6
Deferred tax assets		312.7	478.2
		<u>7,133.4</u>	<u>6,670.4</u>
<b>Current assets</b>			
Inventories	7	29,259.3	31,376.5
Trade and other receivables		5,057.3	4,605.2
Loan receivables		8.5	4.1
Convertible bonds		–	17.8
Bank balances and cash		7,943.4	13,001.4
		<u>42,268.5</u>	<u>49,005.0</u>
<b>Current liabilities</b>			
Trade and other payables		5,693.4	4,336.1
Amounts due to non-controlling shareholders of subsidiaries		89.9	161.2
Taxation payable		596.4	433.4
Bank borrowings		6,192.5	7,320.0
Gold loans		3,215.9	6,513.3
		<u>15,788.1</u>	<u>18,764.0</u>
<b>Net current assets</b>		<u>26,480.4</u>	<u>30,241.0</u>
<b>Total assets less current liabilities</b>		<u>33,613.8</u>	<u>36,911.4</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)***At 31 March 2017*

	<b>2017</b> <i>HK\$ million</i>	<b>2016</b> <i>HK\$ million</i>
<b>Non-current liabilities</b>		
Bank borrowings	<b>600.0</b>	600.0
Retirement benefit obligations	<b>226.6</b>	243.4
Deferred tax liabilities	<b>285.7</b>	318.1
	<hr/> <b>1,112.3</b>	<hr/> 1,161.5
<b>Net assets</b>	<hr/> <b>32,501.5</b>	<hr/> 35,749.9
<b>Share capital</b>	<b>10,000.0</b>	10,000.0
<b>Reserves</b>	<b>21,798.8</b>	24,904.3
	<hr/>	<hr/>
<b>Equity attributable to shareholders of the Company</b>	<b>31,798.8</b>	34,904.3
<b>Non-controlling interests</b>	<b>702.7</b>	845.6
	<hr/>	<hr/>
	<hr/> <b>32,501.5</b>	<hr/> 35,749.9

## NOTES

### 1. BASIS OF PREPARATION

#### **Amendments to International Financial Reporting Standards (“IFRSs”) that are mandatorily effective for the current year**

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time in the current year:

Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants
Amendments to IAS 27	Equity method in separate financial statements
Amendments to IFRSs	Annual improvements to IFRSs 2012–2014 cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations

The application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **New and amendments to IFRSs issued but not yet effective**

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial instruments <sup>3</sup>
IFRS 15	Revenue from contracts with customers and the related amendments <sup>3</sup>
IFRS 16	Leases <sup>4</sup>
IFRS 17	Insurance contracts <sup>5</sup>
IFRIC 22	Foreign currency transactions and advance consideration <sup>3</sup>
Amendments to IFRSs	Annual improvements to IFRSs 2014–2016 cycle <sup>2</sup>
Amendments to IFRS 2	Classification and measurement of share-based payment transactions <sup>3</sup>
Amendments to IFRS 4	Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts” <sup>3</sup>
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>6</sup>
Amendments to IAS 7	Disclosure initiative <sup>1</sup>
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses <sup>1</sup>
Amendments to IAS 40	Transfers of investment property <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>6</sup> Effective for annual periods beginning on or after a date to be determined.

Other than IFRS 9 and IFRS 16 which may have an impact on the Group’s consolidated financial statements, the directors of the Company do not anticipate that the application of the other new and amendments to IFRSs will have material impact on the results and financial position of the Group, notwithstanding that is not practicable to provide a reasonable estimate of the effects until the Group performs or completes a detailed review.

### 2. REVENUE AND SEGMENT INFORMATION

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

## 2. REVENUE AND SEGMENT INFORMATION (Continued)

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 the CODM. The Group's reportable and operating segments for the year ended 31 March 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 year's presentation.

### (a) An analysis of the Group's revenue and results by reportable segment

For the year ended 31 March

	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 (note i)						
— Retail	24,313.7	26,472.6	19,299.2	21,852.9	43,612.9	48,325.5
— Wholesale (note ii)	6,705.4	7,197.8	927.2	1,068.2	7,632.6	8,266.0
Segment/group revenue	31,019.1	33,670.4	20,226.4	22,921.1	51,245.5	56,591.5
Inter-segment sales (note iii)	384.8	419.6	2,241.2	1,999.5	2,626.0	2,419.1
	31,403.9	34,090.0	22,467.6	24,920.6	53,871.5	59,010.6
Adjusted gross profit (before elimination)	9,217.3	9,840.6	5,467.3	6,234.3	14,684.6	16,074.9
Inter-segment eliminations	0.3	(7.4)	(57.8)	299.7	(57.5)	292.3
Adjusted gross profit (note i)	9,217.6	9,833.2	5,409.5	6,534.0	14,627.1	16,367.2
Other income	211.5	253.3	118.0	52.9	329.5	306.2
Selling and distribution costs and general and administrative expenses	(5,853.8)	(6,722.6)	(4,453.5)	(4,900.8)	(10,307.3)	(11,623.4)
Core operating profit (segment result)	3,575.3	3,363.9	1,074.0	1,686.1	4,649.3	5,050.0
Unrealised hedging gain (loss) on gold					335.6	(725.8)
Others (note iv)					(509.9)	(299.7)
Interest income					140.0	154.6
Finance costs					(236.6)	(243.0)
Profit before taxation					4,378.4	3,936.1
Other segment information included in measurement of core operating profit (segment result):						
Concessionaire fees	1,699.5	1,927.4	16.9	21.8	1,716.4	1,949.2
Operating lease payments in respect of rented premises	249.5	250.7	1,580.7	1,827.7	1,830.2	2,078.4
Staff costs	2,119.0	2,410.5	1,430.5	1,470.0	3,549.5	3,880.5

## 2. REVENUE AND SEGMENT INFORMATION (Continued)

Notes:

- (i) Included in the external sales and adjusted gross profit HK\$657.0 million (2016: HK\$755.4 million) and HK\$290.8 million (2016: HK\$350.4 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) Amount represents other gains and losses, other expenses and share of results of associates.

Adjusted gross profit represents the gross profit generated from each segment without allocation of unrealised hedging gain (loss) on gold. Core operating profit represents the profit generated from each segment without allocation of unrealised hedging gain (loss) 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:**

*As at 31 March*

	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
Property, plant and equipment	3,349.4	3,610.0	1,316.9	1,139.7	4,666.3	4,749.7
Investment properties	–	–	250.0	272.9	250.0	272.9
Jewellery collectibles	–	–	967.1	–	967.1	–
Inventories	13,480.5	13,979.6	15,778.8	17,396.9	29,259.3	31,376.5

*Segment assets and liabilities*

Except for the above, no other assets and liabilities are included in the measures of the Group's segment reporting that are reviewed by the CODM. Accordingly, no segment assets and liabilities are presented.

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

	2017 HK\$ million	2016 HK\$ million
Retail sales of		
— Gem-set jewellery	11,075.6	13,167.4
— Gold products	24,524.0	26,136.7
— Platinum/karat gold products	5,098.8	6,235.9
— Watches	2,914.5	2,785.5
	43,612.9	48,325.5
Wholesale to franchisees/retailers	7,208.4	7,800.6
Jewellery trading	352.4	430.8
Service income from franchisees	71.8	34.6
	51,245.5	56,591.5

No individual customer contributed over 10% of the total revenue of the Group in both years.



## 2. REVENUE AND SEGMENT INFORMATION (Continued)

The Group's non-current assets, excluding loan receivables, interests in associates and a joint venture, amounts due from associates and deferred tax assets, by geographical areas are as follows:

	2017 HK\$ million	2016 HK\$ million
Mainland China	3,572.5	3,942.9
Hong Kong, Macau and other markets	3,162.6	2,089.2
	<u>6,735.1</u>	<u>6,032.1</u>

## 3. PROFIT BEFORE TAXATION

	2017 HK\$ million	2016 HK\$ million
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration	49.6	47.7
Staff's retirement benefits scheme contributions	531.7	643.1
Staff costs	2,968.2	3,189.7
	<u>3,549.5</u>	<u>3,880.5</u>
Cost of inventories recognised as expenses	35,327.0	39,153.6
Concessionaire fees	1,716.4	1,949.2
Operating lease rentals in respect of rented premises	1,830.2	2,078.4
Depreciation of property, plant and equipment	788.8	837.0
Depreciation of investment properties	14.4	21.3
Amortisation of land use rights	14.0	14.9
Amortisation of other intangible assets	51.2	41.4
Impairment loss of interest in an associate (included in other expenses)	32.0	–
Impairment loss of amount due from an associate (included in other expenses)	79.6	–
Impairment loss of amount due from a joint venture (included in other expenses)	52.3	–
Allowances on inventories (included in cost of goods sold)	39.8	74.2
Allowances for doubtful debts	3.7	19.5
Fair value (gain) loss of gold loans (included in cost of goods sold)	(107.2)	542.1
Donations (included in other expenses)	10.8	9.8
Auditors' remuneration		
— audit services	8.8	8.9
— non-audit services	3.5	6.1

#### 4. TAXATION

	2017 HK\$ million	2016 HK\$ million
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax ("EIT") in Mainland China	720.9	377.1
Hong Kong Profits Tax	150.5	128.9
Macau complementary tax	36.3	54.3
Taxation in other jurisdictions	0.7	1.9
	<u>908.4</u>	<u>562.2</u>
(Over)underprovision in prior years:		
EIT in Mainland China	(11.8)	(22.7)
Hong Kong Profits Tax	0.3	(0.9)
Macau complementary tax	1.9	–
	<u>(9.6)</u>	<u>(23.6)</u>
Deferred tax charge	<u>300.2</u>	<u>388.2</u>
Withholding tax*	<u>28.3</u>	<u>30.4</u>
	<u><u>1,227.3</u></u>	<u><u>957.2</u></u>

\* 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 years.

Under the Enterprise Income Tax Law (the "EIT Law") of the People's Republic of China ("PRC") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in Mainland China is 25% for both years.

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% for both years.

Macau complementary tax is calculated at the maximum progressive rate of 12% on the estimated assessable profit for both years.

## 5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit attributable to shareholders of the Company for the year and on the number of 10,000,000,000 (2016: 10,000,000,000) shares in issue during the year.

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

## 6. DIVIDENDS

	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 year:				
2017 Interim (2016: 2016 Interim)	6.0	600.0	8.0	800.0
2017 Special (2016: 2016 Special)	15.0	1,500.0	42.0	4,200.0
2016 Final (2016: 2015 Final)	8.0	800.0	15.0	1,500.0
2016 Special (2016: nil)	22.0	2,200.0	–	–
		<u>5,100.0</u>		<u>6,500.0</u>

Subsequent to the end of the reporting period, a final dividend of HK10.0 cents per share and a special dividend of HK20.0 cents per share, totalling HK\$3,000.0 million in respect of the year ended 31 March 2017 (2016: a final dividend of HK8.0 cents per share and a special dividend of HK22.0 cents per share, totalling HK\$3,000.0 million) have been proposed by the directors of the Company and are subject to approval by the shareholders in the forthcoming annual general meeting.

## 7. INVENTORIES

	2017 <i>HK\$ million</i>	2016 <i>HK\$ million</i>
Raw materials for:		
Gem-set jewellery	5,059.1	4,757.6
Gold products	632.8	415.7
Platinum/karat gold products	126.2	111.0
	<u>5,818.1</u>	<u>5,284.3</u>
Finished goods:		
Gem-set jewellery	11,140.6	13,000.2
Gold products	7,826.3	7,773.8
Platinum/karat gold products	2,166.5	2,496.4
Watches	2,224.0	2,689.7
	<u>23,357.4</u>	<u>25,960.1</u>
Packing materials	<u>83.8</u>	<u>132.1</u>
	<u>29,259.3</u>	<u>31,376.5</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Executive Summary

In response to changing customer preferences and market uncertainties, we remained focused in seizing business opportunities and enhancing store productivity through optimising our network portfolio. Striving to enrich customer experience, we strengthened our product offerings and implemented store differentiation and multi-brand strategy.

Leveraging the strength of our business model and employing state-of-the-art technology, we spearheaded innovation to deliver extraordinary products, services and experience to our customers. Our "Smart+" initiatives had also supported us in fostering online-to-offline ("O2O") interactions, further enhancing our operational efficiency and staying responsive to the ever-changing retail landscape.

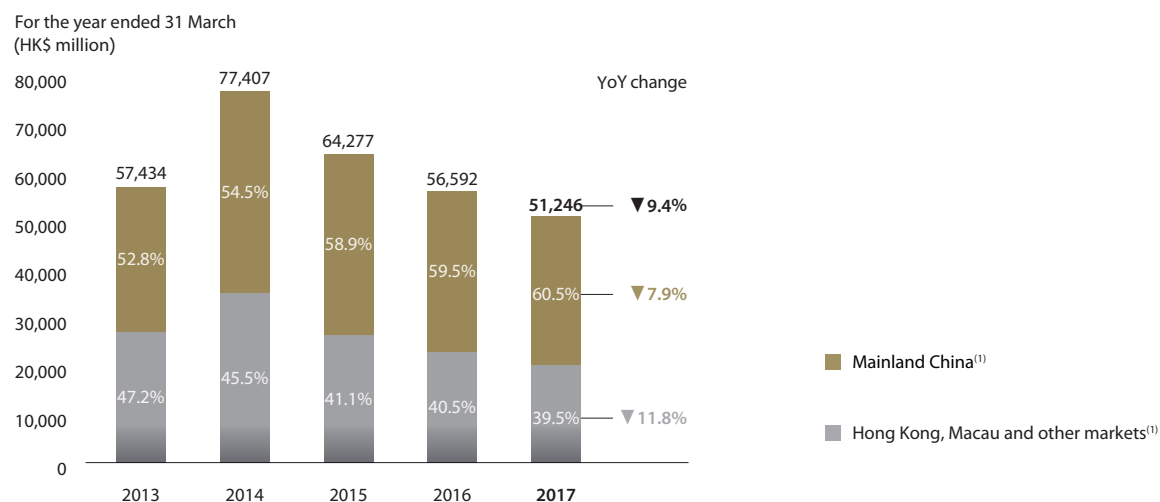
Benefitting from the sales rebound and operating leverage in 2HFY2017, our profitability remained relatively stable year-on-year and exhibited improvement when compared to 1HFY2017. We strive to maintain an optimal capital structure and capital efficiency in creating long-term value and return to our shareholders.

### Business Review

#### Group

#### Revenue

#### Revenue by reportable segment

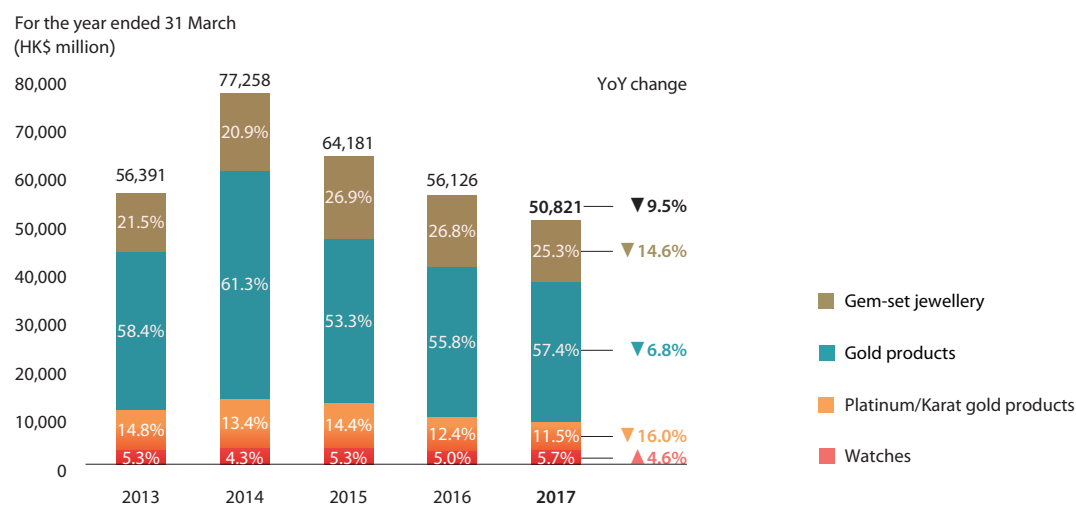


Revenue (HK\$ million)	1HFY2016	2HFY2016	1HFY2017	2HFY2017	1HFY YoY change	2HFY YoY change
Mainland China <sup>(1)</sup>	16,660	17,011	12,851	18,169	▼ 22.9%	▲ 6.8%
Hong Kong, Macau and other markets <sup>(1)</sup>	11,464	11,457	8,675	11,551	▼ 24.3%	▲ 0.8%
Overall	28,124	28,468	21,526	29,720	▼ 23.5%	▲ 4.4%

(1) In FY2016, 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 FY2017, 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

- Revenue contribution from Mainland China increased steadily over the past few years, and contributed to over 60% of the Group's revenue in FY2017.
- Full year revenue declined by 9.4% to HK\$51,246 million with an improving trend noted in 2HFY2017. As operations stabilised, revenue grew by 4.4% year-on-year in 2HFY2017, a remarkable improvement versus a year-on-year decline of 23.5% in 1HFY2017.
- Both reportable segments showed encouraging signs of turnaround in 2HFY2017. Hong Kong, Macau and other markets returned to a revenue growth of 0.8% during 2HFY2017 whereas Mainland China recorded an even stronger rebound of 6.8% year-on-year.

#### Revenue by product<sup>(2)</sup>



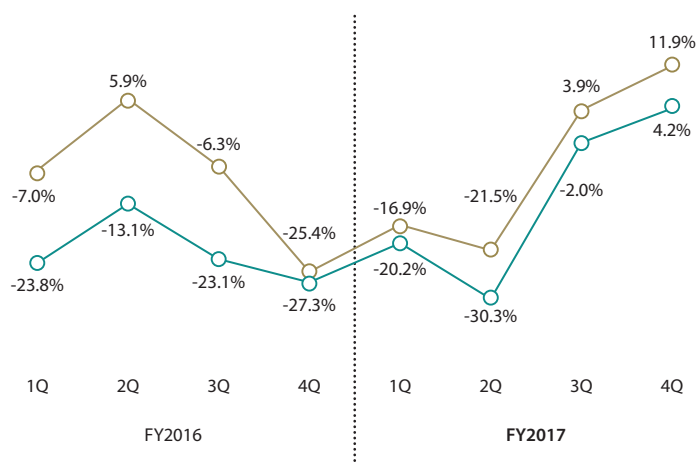
(2) Revenue from jewellery trading and service income from franchisees excluded

% of revenue	1HFY2016	2HFY2016	1HFY2017	2HFY2017
Gem-set jewellery	26.6%	27.1%	<b>27.2%</b>	<b>24.0%</b>
Gold products	55.7%	55.9%	<b>53.6%</b>	<b>60.1%</b>
Platinum/Karat gold products	12.7%	12.1%	<b>12.9%</b>	<b>10.6%</b>
Watches	5.0%	4.9%	<b>6.3%</b>	<b>5.4%</b>

- A higher revenue contribution from gold products was seen in FY2017, especially during 2HFY2017 as gold price weakened.
- Revenue contribution from gold products reached 60.1% in 2HFY2017, up 420 basis points year-on-year and 650 basis points when compared to 1HFY2017.

### Same Store Sales Growth ("SSSG")

#### SSSG by major market



—○— Mainland China  
—○— Hong Kong and Macau

- During FY2017, SSSG recovery in both markets was driven by an increase in average selling price ("ASP"). SSS volume was down by 15.8% and 18.8% in Mainland China and in Hong Kong and Macau, respectively.
- Mainland China has consistently outperformed Hong Kong and Macau in terms of SSSG trend over the past 8 quarters, signifying a stronger recovery momentum.
- SSS of Mainland China rebounded to a 8.2% growth in 2HFY2017, versus a 19.2% decline in 1HFY2017.
- SSSG of Hong Kong and Macau returned to positive in 4QFY2017. This is the first time Hong Kong and Macau recorded a positive quarterly SSSG after 12 consecutive quarters of decline since 4QFY2014.

POS network<sup>(1)</sup>

As at	31.3.2015 Total	31.3.2016 Total	Addition	During FY2017 Reduction	Net	31.3.2017 Total
Mainland China	2,124	2,179	235	(168)	67	2,246
Hong Kong	93	89	1	(7)	(6)	83
Macau	19	20	1	(2)	(1)	19
Taiwan	16	23	–	(1)	(1)	22
Korea	1	4	1	–	1	5
Malaysia	1	1	1	–	1	2
Singapore	1	1	–	–	–	1
United States	2	2	1	–	1	3
<b>Total</b>	<b>2,257</b>	<b>2,319</b>	<b>240</b>	<b>(178)</b>	<b>62</b>	<b>2,381</b>

	Chow Tai Fook Jewellery	CTF Watch	Hearts On Fire	Monologue	31.3.2017 Total
Mainland China	2,118	117	8	3	2,246
Hong Kong	80	3	–	–	83
Macau	18	1	–	–	19
Taiwan	11	–	11	–	22
Korea	5	–	–	–	5
Malaysia	2	–	–	–	2
Singapore	1	–	–	–	1
United States	1	–	2	–	3
<b>Total</b>	<b>2,236</b>	<b>121</b>	<b>21</b>	<b>3</b>	<b>2,381</b>

(1) Shop-in-shop ("SIS") and counter-in-shop ("CIS") excluded

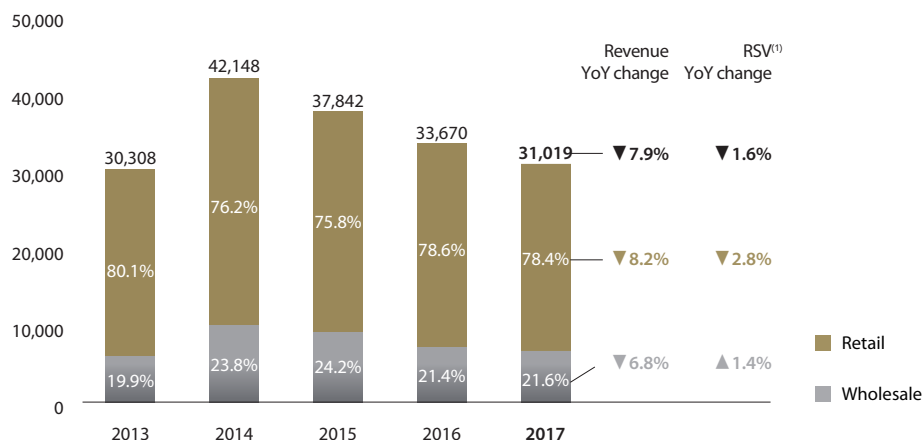
- In FY2017, we opened a net of 67 POS in Mainland China, with gross openings of 235 POS and closures of 168 POS. With an easing trend of consolidation in department stores, our POS reduction has also moderated compared to last year.
- In Hong Kong and Macau, we continued to optimise our retail network to enhance efficiency and productivity. A net of 7 POS were closed during the year.
- We also opened 3 POS in Korea, Malaysia and the U.S. to capture the opportunities arising from the demand of Chinese customers there.

## Mainland China

### Revenue

#### Revenue by operation model

For the year ended 31 March  
(HK\$ million)



(1) The sales at the ending price (VAT inclusive, if any), in respective functional currencies, of products sold to customers in the POS network and other channels

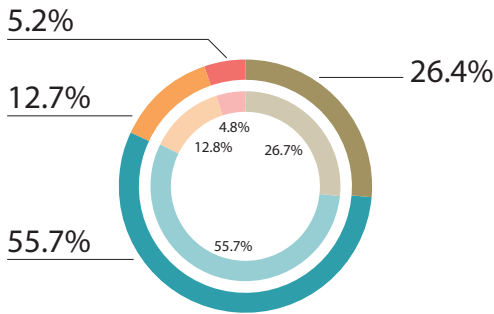
- Our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees and provision of services to franchisees under the inventory ownership unification programme.
- Upon complete adoption of the inventory ownership unification programme by all franchised POS, the trends of wholesale revenue and RSV are expected to converge considerably. As at 31 March 2017, 517 franchised POS (approximately 65% of our total franchised POS) were in the programme, holding inventories valued at approximately HK\$1,870 million, representing 6.4% of total inventories of the Group.



RSV, SSSG and POS network

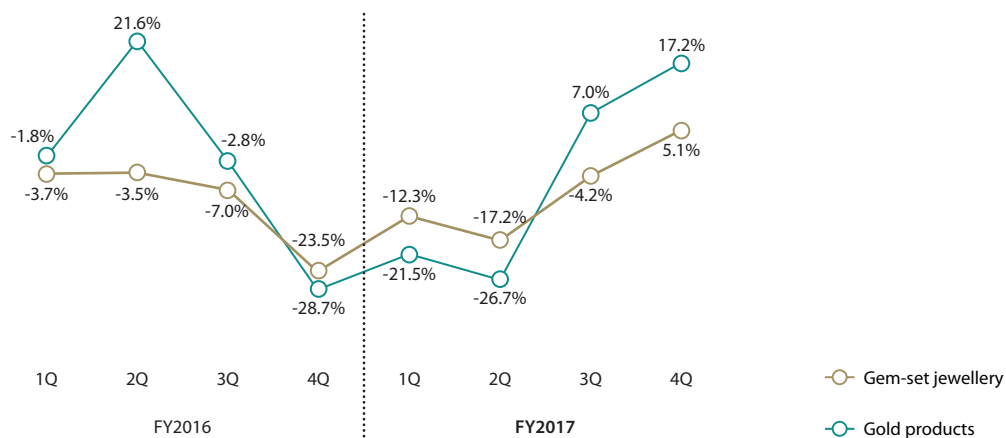


RSV by product



FY2016	FY2017		RSV YoY change
		Gem-set jewellery	▼2.1%
		Gold products	▼1.1%
		Platinum/Karat gold products	▼2.2%
		Watches	▲6.1%

## SSSG of major products

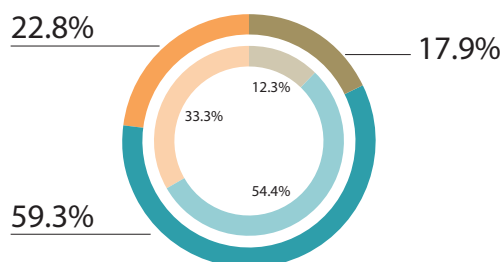


	SSSG	FY2017 SSS volume growth	ASP	FY2016 ASP
Gem-set jewellery	▼ 6.8%	▼ 11.7%	HK\$6,200	HK\$5,900
Gold products	▼ 5.3%	▼ 17.5%	HK\$3,500	HK\$3,000
Platinum/Karat gold products	▼ 10.0%	▼ 15.7%	HK\$1,800	HK\$1,700
Watches	▲ 11.3%	▲ 2.0%	HK\$13,100	HK\$12,000
Overall	▼ 5.2%	▼ 15.8%		

- SSSG of gem-set jewellery in Mainland China stabilised from 3QFY2017 onwards, reflecting a recovery in fundamentals. Full year ASP at same store level rose steadily to reach HK\$6,200.
- SSSG of gold products rebounded since 2HFY2017. Full year ASP of gold products in Mainland China was up by around 15%. The lift in ASP was partly due to an increase in average international gold price of around 9% year-on-year. The rest was resulted from an average weight gain per gold product sold.
- As the luxury watch market recovered broadly in Mainland China, both RSV and SSS of watches recorded a year-on-year growth.

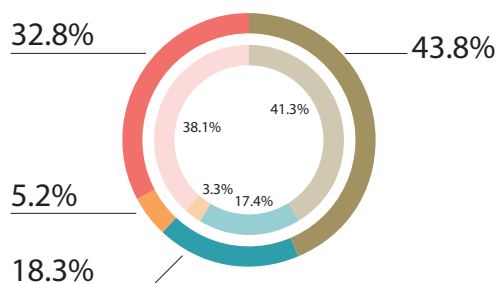
## Jewellery business

### RSV and POS by tier of cities



- Tier I and II cities continued to be more resilient in RSV performance thanks to the relatively stable fundamentals and consumer sentiment.

## RSV and POS by operation model

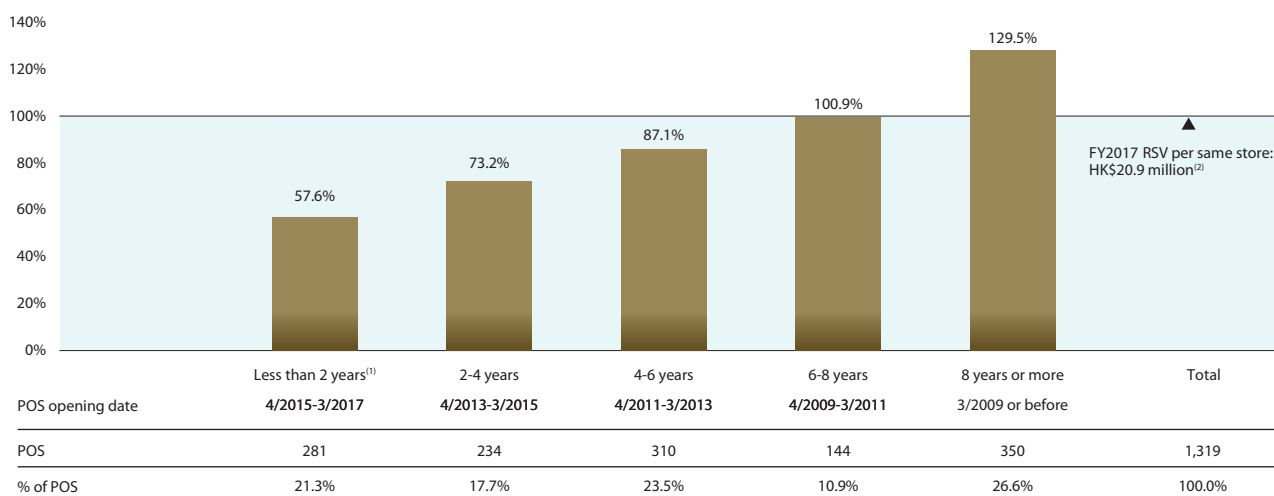


	% of RSV	% of POS	RSV YoY change	POS movement
Self-operated (Department store)	43.8%	41.3%	▼ 8.8%	▼ 39
Self-operated (Shopping mall)	32.8%	38.1%	▲ 13.1%	▲ 76
Self-operated (Standalone store)	18.3%	17.4%	▼ 13.8%	▼ 4
Franchised	5.2%	3.3%	▲ 1.4%	▲ 39

- Major net openings were in shopping malls with 76 net openings while our footprint in department stores continued to reduce with a net closing of 39 POS in FY2017.
- By RSV, the performance of shopping mall was also ranked best among all operation models and channels illustrated above.

## Self-operated Jewellery POS

### RSV per store by store age



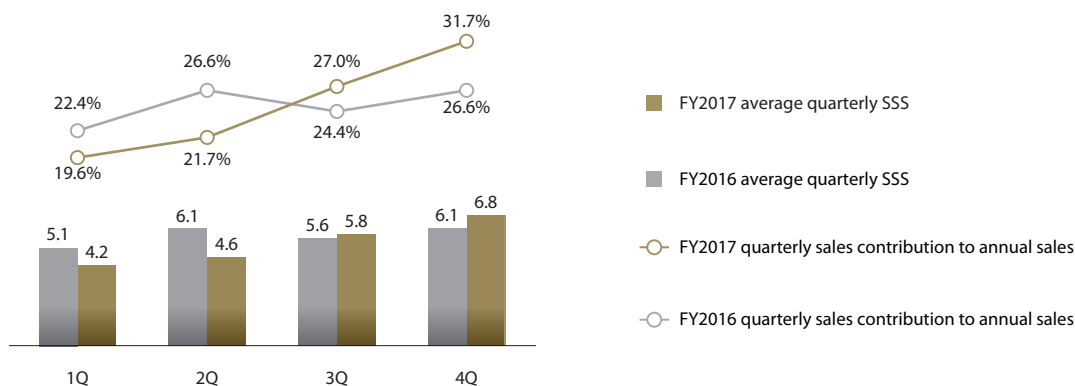
Ratio of annual RSV per store to RSV per same store

(1) For POS of age less than 1 year, RSV is adjusted on an annualised basis

(2) Value-added tax ("VAT") included

## Average quarterly sales

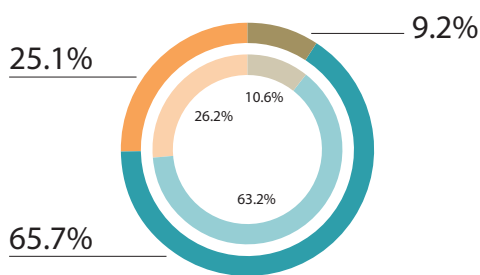
(HK\$ million)



- 4Q, being our peak season as driven by festive occasions such as Chinese New Year and Valentine's Day, usually accounts for the highest quarterly SSS contribution.
- While FY2016 strayed away from this usual pattern, quarterly SSS contribution in FY2017 was generally in line with normal seasonality as fundamentals began to stabilise.

## E-commerce — Jewellery business

### RSV by product



FY2016	FY2017		RSV YoY change
		Gem-set jewellery	▲22.0%
		Gold products	▲47.0%
		Platinum/Karat gold products	▲35.6%
		Overall	▲41.4%



Unique daily visitors<sup>(1)</sup>  
364,000

Number of followers<sup>(2)</sup>  
3,043,000

### FY2017 e-commerce

RSV  
▲41.4% YoY change

3.3% of respective RSV  
(FY2016: 2.3%)

9.3% of respective retail sales volume  
(FY2016: 7.0%)

ASP  
HK\$1,200  
(FY2016: HK\$1,000)

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

(2) Source from official Sina Weibo, Tencent Weibo and WeChat accounts

- We continue to integrate our online and offline resources to direct traffic to our distribution channels empowered by digital marketing.
- Our e-commerce business growth accelerated in 2HFY2017, mainly thanks to a strengthened co-operation with major online platform partners.
- A notable example is our online order distribution initiatives with JD.com and Tmall. Orders on online platforms are routed directly to our physical POS nearby the customers. By mobilising our extensive physical retail network, we can achieve full O2O interactions and enhance customer experience by shortening delivery time and cost.
- We ranked 6<sup>th</sup> in digital intelligence firm L2's "Digital IQ Index Luxury China 2017" and were also the top-ranked pure play jeweller on the list, a global benchmark for digital performance of consumer brands. The ranking is based on the overall performance in digital competence across four dimensions, namely site and e-commerce, digital marketing, social media and mobile and tablet among international fashion, watches and jewellery brands.

### Strategies

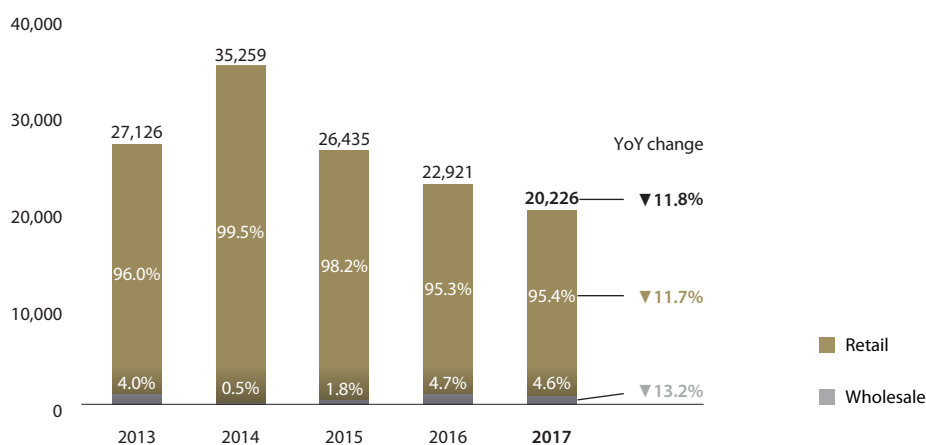
- Stay selective in POS openings.
- Continue store differentiation: roll out luxury, elegant and trendy style POS and revamp store image.
- Employ multi-brand strategy: launch new brands "Monologue" and "SOINLOVE".

### Hong Kong, Macau and other markets

#### Revenue

#### Revenue by operation model

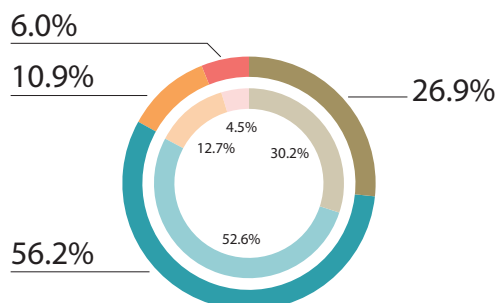
For the year ended 31 March  
(HK\$ million)



- Weak consumer sentiment and the change in purchase behaviour of Mainland tourists continued to affect the sales performance during FY2017.

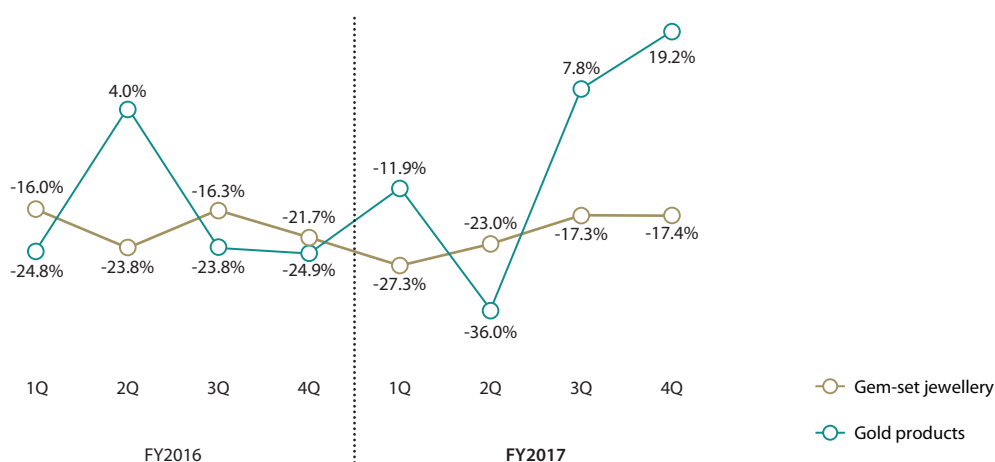
## Hong Kong and Macau

### RSV and SSSG by product



	FY2016	FY2017		RSV YoY change
			Gem-set jewellery	▼24.8%
			Gold products	▼10.0%
			Platinum/Karat gold products	▼27.5%
			Watches	▲14.0%

### SSSG of major products

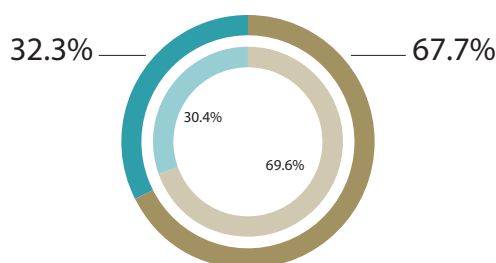


	SSSG	FY2017 SSS volume growth	ASP	FY2016 ASP
Gem-set jewellery	▼21.0%	▼20.8%	HK\$12,000	HK\$12,100
Gold products	▼6.9%	▼21.8%	HK\$6,700	HK\$5,700
Platinum/Karat gold products	▼25.7%	▼13.7%	HK\$1,700	HK\$2,000
Watches	▲13.7%	▼1.3%	HK\$46,200	HK\$40,100
Overall	▼12.4%	▼18.8%		

- Despite sequential improvement in 2HFY2017, SSS performance of gem-set jewellery in Hong Kong and Macau was still under pressure as affected by a year-on-year decline in customer traffic. Customer traffic dropped by 20.3% year-on-year in 2HFY2017, yet has improved relative to 1HFY2017 with a traffic decline of 28.8% year-on-year. Gem-set jewellery ASP held well at HK\$12,000, similar to FY2016 level.
- SSSG of gold products in Hong Kong and Macau had a remarkable rebound since 2HFY2017. Full year ASP of gold products rose by around 19% due to a combination of an increase in average international gold price of around 9% year-on-year and an average weight gain per gold product sold.

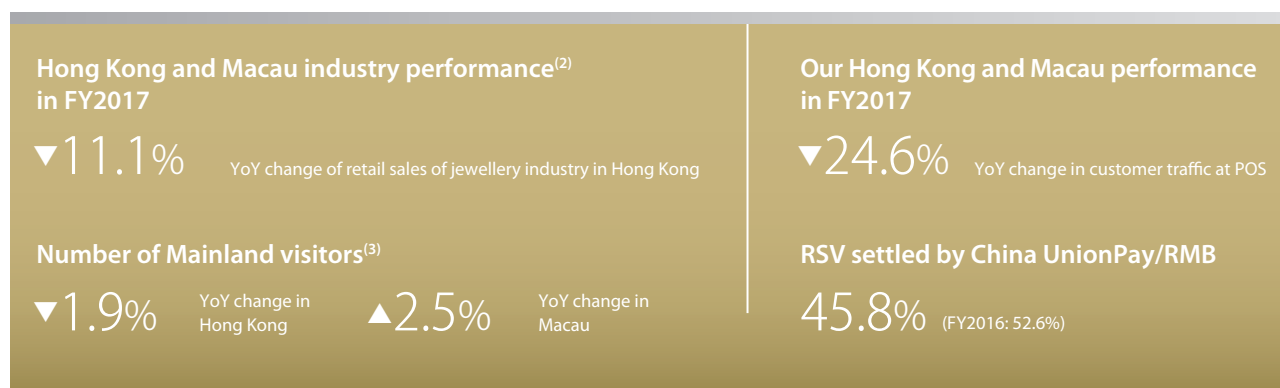
- The better RSV and SSS performance of watches was mainly due to the general recovery of the luxury watch market and the launch of an enhanced instalment payment programme during FY2017.

#### RSV and POS by area



% of RSV	% of POS	RSV YoY change	POS movement
32.3%	30.4%	▼19.7%	▼7
67.7%	69.6%	▼4.0%	–

(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



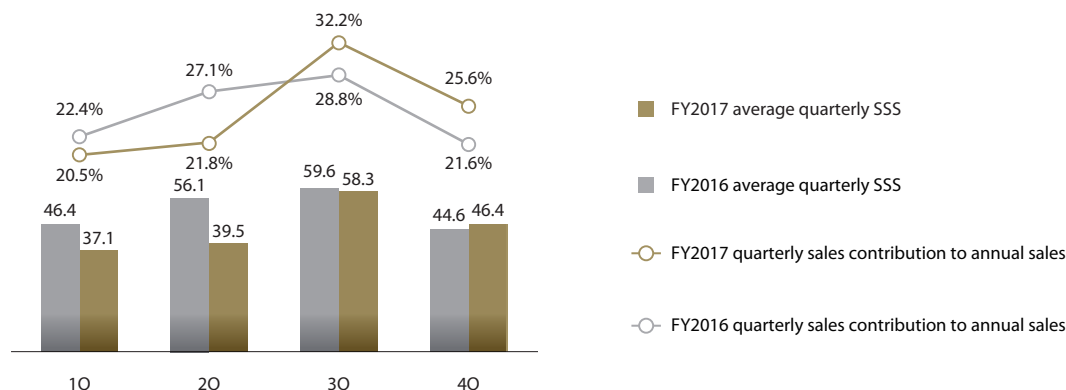
(2) Being the value of retail sales of jewellery, watches and clocks, and valuable gifts in Hong Kong, and was sourced from Census and Statistics Department of Hong Kong

(3) Source from Commerce and Economic Development Bureau of Hong Kong, and the Macau Statistics and Census Service

- Touristic area in Hong Kong and Macau recorded a 19.7% drop in RSV, compared to a decline of 22.3% last year, indicating that touristic area was still under pressure in FY2017.
- The percentage of RSV settled by China UnionPay or RMB to the total RSV of Hong Kong and Macau market, a proxy for sales contribution from Mainland tourists, reduced to 45.8% in FY2017 from 52.6% in FY2016. Yet, such contribution remained stable from 1HFY2017.

## Average quarterly sales

(HK\$ million)



- 3Q, being our peak season as driven by Christmas and our annual mega sales, usually accounts for the highest quarterly SSS contribution for Hong Kong and Macau market.

## Strategies

- Continue to optimise POS network while being opportunistic to store openings in residential neighbourhood.
- Extend presence cautiously in overseas markets.
- Reach out to business prospects in soliciting wholesale business in the U.S.

## Hearts On Fire

- We have been expanding the presence of Hearts On Fire primarily in SIS and CIS format through our extensive retail network.

## POS network

	31.3.2015 Total	31.3.2016 Total	Addition	During FY2017 Reduction	Net	31.3.2017 Total
<b>POS</b>	12	19	3	(1)	2	21
Mainland China	2	5	3	–	3	8
Taiwan	8	12	–	(1)	(1)	11
United States	2	2	–	–	–	2
<b>SIS and CIS</b>	–	136	81	(30)	51	187
Mainland China	–	118	74	(29)	45	163
Hong Kong	–	18	3	(1)	2	20
Macau	–	–	1	–	1	1
Other markets	–	–	3	–	3	3
<b>Retailer locations</b>	524	544	19	(54)	(35)	509
North America	367	362	14	(37)	(23)	339
Others	157	182	5	(17)	(12)	170



### *Roll-out plan and synergies*

#### Mainland China, Hong Kong and Macau

- We strive for further realising the synergies from the acquisition by leveraging our retail network.
- In FY2017, Hearts On Fire products contributed 2.2% and 3.6% of the RSV of our diamond products sold in Mainland China and in Hong Kong and Macau, respectively.

#### United States

- Given our well-established relationship with retailers, we will continue our efforts in wholesale business.
- During FY2017, we also focused on brand building and group integration.

#### Taiwan

- 1 POS was closed during FY2017.

### *Hearts On Fire collections*

#### "Hearts On Fire by Stephen Webster — White Kites" Collection

- During FY2017, we collaborated with acclaimed London-based jewellery designer Stephen Webster and launched "Hearts On Fire by Stephen Webster — White Kites" Collection.
- This collection, inspired by the magnificence of the white-tailed kite, further elevates our design offerings with greater variety in both high-end fashion and bridal jewellery.

#### Hearts On Fire "Triplicity" Collection

- Introduced during FY2017, this unique collection by Hearts On Fire Director of Design Ilaria Lanzoni takes inspiration from the city skyline in New York. The perfectly cut diamonds highlight the glowing elegance and trendsetting style of modern women.

## CTF Watch

### POS network

	31.3.2015 Total	31.3.2016 Total	Addition	During FY2017 Reduction	Net	31.3.2017 Total
<b>POS</b>	135	125	7	(11)	(4)	121
Mainland China	132	122	6	(11)	(5)	117
Hong Kong	3	3	–	–	–	3
Macau	–	–	1	–	1	1
<b>SIS and CIS</b>	48	42	–	(8)	(8)	34
Mainland China	10	9	–	(5)	(5)	4
Hong Kong	29	26	–	(2)	(2)	24
Macau	9	7	–	(1)	(1)	6

### Market performance

#### Mainland China

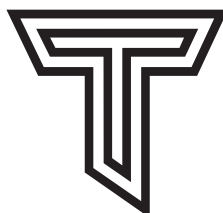
- In Mainland China, revenue contribution of watches increased from 5.4% in FY2016 to 5.8% in FY2017. Revenue grew by 5.7% year-on-year at constant exchange rate, a sign of broad recovery in the luxury watch market.

#### Hong Kong, Macau and other markets

- In Hong Kong, Macau and other markets, revenue contribution of watches increased from 4.3% in FY2016 to 5.6% in FY2017. Revenue rose by 14.4% year-on-year thanks to the general recovery in the luxury watch market as well as the launch of an enhanced instalment payment programme during FY2017.

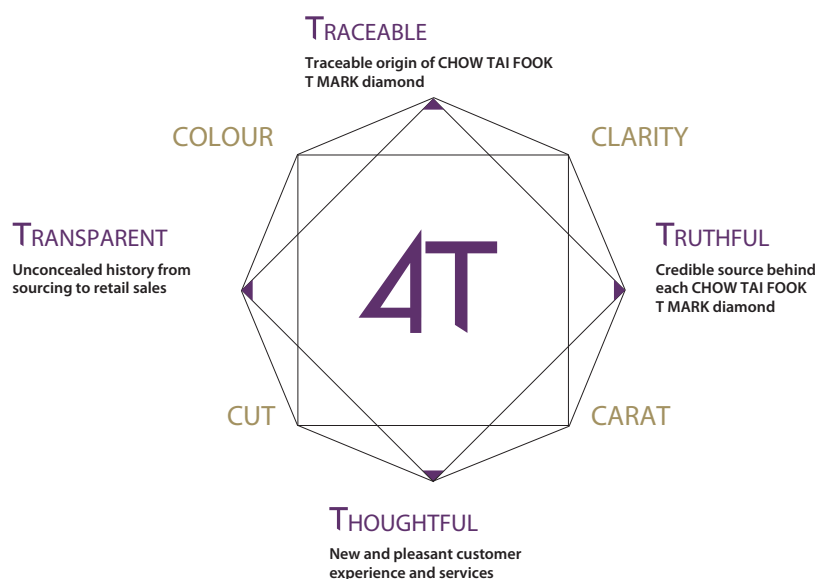
## Operations and Management

### CHOW TAI FOOK T MARK



CHOW TAI FOOK T MARK

- In an effort to differentiate our product offerings, we brought in a disruptive innovation, CHOW TAI FOOK T MARK diamond brand, in Mainland China, Hong Kong and Macau in August last year. It was a breakthrough on the current industry practice by introducing the “4Ts” concept backed by our vertically integrated business model.



- Each CHOW TAI FOOK T MARK diamond is inscribed with a “T MARK” marking by our patented nano-inscription technology with no chemical residue.
- The marking, essentially a set of unique serial numbers, serves as a resume of the diamond with records of procurement, cutting and polishing, marking, authentication, design and production along our vertically integrated business model.
- In FY2017, CHOW TAI FOOK T MARK products contributed 2.8% and 5.2% of the RSV of our diamond products sold in Mainland China and in Hong Kong and Macau, respectively.
- Since the launch in August last year, 75 and 27 POS in Mainland China and in Hong Kong and Macau, respectively have been carrying CHOW TAI FOOK T MARK products.
- We expect to further expand its presence to more than 300 selected POS in Mainland China, Hong Kong and Macau by the end of FY2018.

### ***Continual collaboration with The Walt Disney Company***

#### *Chow Tai Fook Disney “Beauty and the Beast” Collection*

- The Chow Tai Fook Disney “Beauty and the Beast” Collection transforms the movie characters into sophisticated ornaments and diamond jewellery pieces.

#### *Chow Tai Fook “Star Wars™” Collection*

- The Chow Tai Fook “Star Wars™” Collection brings back the popular Star Wars characters as meticulously crafted ornaments and jewellery pieces.

#### *Opening of POS in Hong Kong Disneyland Resort and Disneytown of Shanghai Disney Resort*

- During the year, we further strengthened our partnership with The Walt Disney Company by opening POS in Hong Kong Disneyland Resort and Disneytown of Shanghai Disney Resort.

### ***Franco-Chinese Branding Forum***

- In April 2017, we participated in a prestigious event, The Third Franco-Chinese Branding Forum in Paris. As a company of rich Chinese culture, we are delighted to leverage this platform to exchange ideas and inspirations with up-and-coming designers from the West.
- During the event, we also signed up with 6 French designers for the collaboration of new collections which shall be launched later in FY2018.

### ***Customer experience***

- Effective brand management and strong customer loyalty lead to the successful long-term development of the Group. As customers are becoming more sophisticated and well-informed, we are committed to offering personalised and unique shopping experiences to customers.

#### *Store differentiation*

- In response to the evolving retail landscape, 3 POS styles are available to meet different customer expectations: luxury, elegant and trendy styles.
- The luxury and elegant style POS, with more personalised product offerings and services, bring about a privileged experience to customers who strive for exceptional excellence. These stores are mainly located in Tier I and II cities where customer expectations tend to be higher.
- For the trendy style POS, we have refreshed the store image. The new display, apart from looking more refreshing, segments the merchandise display area by different themes of customer needs such as wedding, fashion, classic, etc.

#### *Multi-brand strategy*

- We are in process of executing our multi-brand strategy to further diversify our product offerings and enhance customer experience primarily in Tier I and II cities.
- “Monologue”, targeting young generations, offers fashion-oriented jewellery at lower ASP. As at 31 March 2017, there were 3 Monologue POS.

- As the wedding market was blooming, we introduced “SOINLOVE” to target soon-to-be-wed couples. The first POS was opened in May 2017.

#### *Wedding Gift Card*

- During the financial year, we engaged celebrity couple Pal Sinn and Paisley Hu to market our brand new Wedding Gift Card via social media and online channels.
- The card provides our customers with a through-train convenience of various wedding-related privileges and promotions, such as jewellery, wedding banquets, overseas trips and photography services.

#### **Customer relationship management**

- Our membership programme plays an important role in supporting our business growth. To stay connected with our members, we provide them with an exclusive experience that matches with their privileged status.

---

#### **Mainland China**

Number of members:	1,015,000
% of members in top 3 tiers:	3.6%
Repeat purchase as a % of RSV:	
All members	27.2%
Members in top 3 tiers	8.7%

---

#### **Hong Kong and Macau**

Number of members:	590,000
% of members in top 3 tiers:	2.4%
Repeat purchase as a % of RSV:	
All members	29.5%
Members in top 3 tiers	11.5%

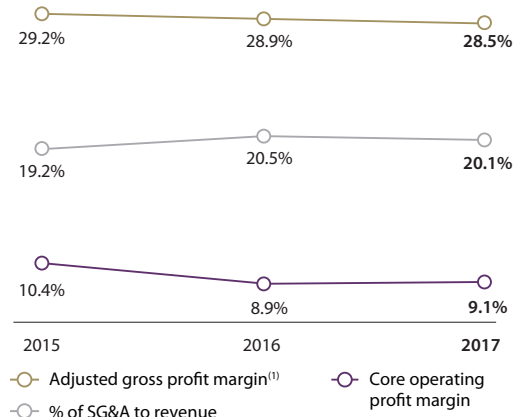
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## Financials

### Profitability

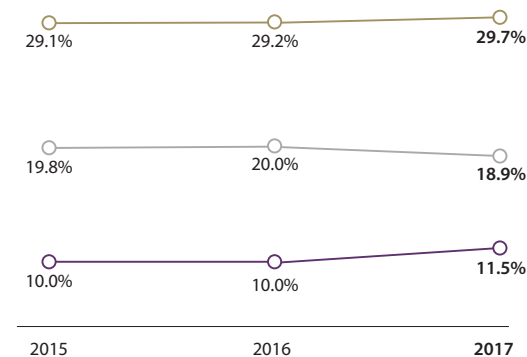
#### Overall

For the year ended 31 March



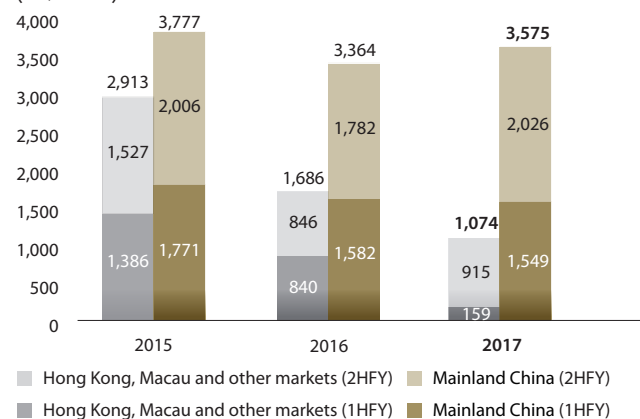
#### Mainland China

For the year ended 31 March



#### Core operating profit by reportable segment

For the year ended 31 March  
(HK\$ million)



#### Hong Kong, Macau and other markets

For the year ended 31 March



(1) Adjusted gross profit and the corresponding margin, a non-IFRS measure, eliminates 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

Half yearly performance	1HFY2016	2HFY2016	1HFY2017	2HFY2017	1HFY YoY change	2HFY YoY change
Revenue	28,124	28,468	21,526	29,719	▼ 23.5%	▲ 4.4%
Adjusted gross profit <sup>(1)</sup>	8,038	8,329	6,471	8,156	▼ 19.5%	▼ 2.1%
Adjusted gross profit margin <sup>(1)</sup>	28.6%	29.3%	30.1%	27.4%	▲ 1.5% pts	▼ 1.9% pts
Other income	166	140	178	152	▲ 7.0%	▲ 8.3%
SG&A	(5,782)	(5,841)	(4,941)	(5,367)	▼ 14.6%	▼ 8.1%
SG&A as a % to revenue	20.6%	20.5%	23.0%	18.1%	▲ 2.4% pts	▼ 2.4% pts
Core operating profit	2,422	2,628	1,708	2,942	▼ 29.5%	▲ 11.9%
Core operating profit margin	8.6%	9.2%	7.9%	9.9%	▼ 0.7% pts	▲ 0.7% pts

### Mainland China

- Mainland China was our main profit contributor and accounted for over 75% of the Group's core operating profit in FY2017.
- Thanks to the business turnaround in 2HFY2017, core operating profit delivered a 13.7% growth in 2HFY2017, resulting in a 6.3% growth for the full year.
- In terms of profitability, adjusted gross profit margin was uplifted by 50 basis points in FY2017 primarily due to margin improvement on gem-set jewellery.
- Coupled with a reduction in operating expenses, core operating profit margin of Mainland China improved by 150 basis points to 11.5%.

### Hong Kong, Macau and other markets

- Similarly, Hong Kong, Macau and other markets recorded a growth of 8.1% in core operating profit during 2HFY2017, compared to a decline of 81.1% in 1HFY2017. 2HFY2017 core operating profit contributed around 85% of the respective segment profit in FY2017.
- On the other hand, adjusted gross profit margin dropped by 180 basis points mainly due to an increase in gold products sales mix and jewellery trading income.
- Core operating profit margin fell by 210 basis points to 5.3% on a full year basis. 2HFY2017 core operating profit margin improved to 7.9%, up by 610 basis points from 1.8% in 1HFY2017, as business stabilised and the benefit of operating leverage kicked in.

### Group

- At group level, core operating profit margin improved sequentially from 7.9% in 1HFY2017 to 9.9% in 2HFY2017 due to the sales rebound and operating leverage in 2HFY2017.

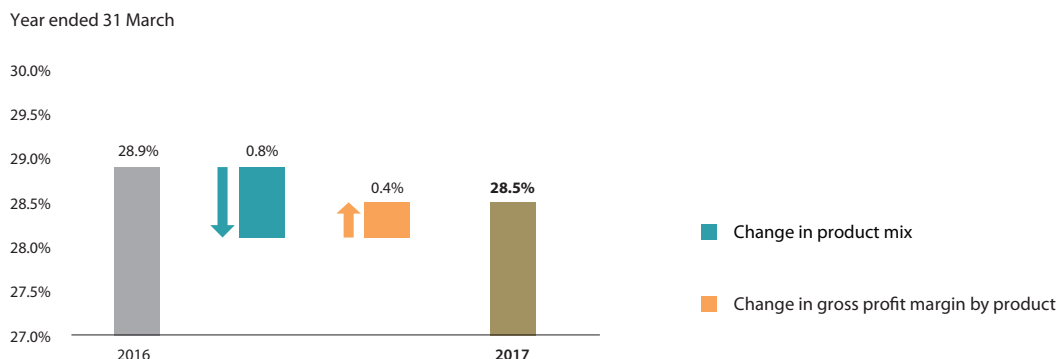
## Gross profit margin

### Unrealised hedging loss/(gain)

For the year ended 31 March	2015	2016	2017
Gross profit margin	29.7%	27.6%	<b>29.2%</b>
Unrealised hedging loss/(gain) on gold loans	(0.5)%	1.3%	<b>(0.7)%</b>
Adjusted gross profit margin	29.2%	28.9%	<b>28.5%</b>

- Unrealised hedging loss/(gain) for the year 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 year.
- 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.

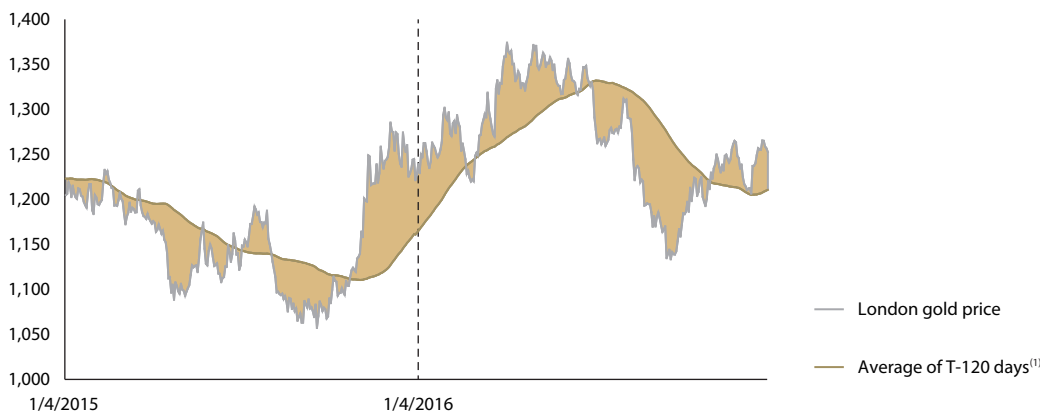
### Changes in adjusted gross profit margin



- At group level, adjusted gross profit margin was reduced by 40 basis points year-on-year primarily as sales contribution of gold products increased.



London gold price  
(US\$ per ounce)



(1) Average of T-120 days refers to the average gold price of previous 120 days on rolling basis, being a proxy of the average price of our hedged gold inventories. Average of T-120 days was used for FY2016 and FY2017

### Changes in hedging mechanism

- We regularly review our gold hedging mechanism and during the year, we decided to use a more targeted hedging approach to enhance effectiveness after considering the below factors:
  - (i) Higher reliance has been placed on Mainland China operations where seasonality plays a more prominent role.
  - (ii) There has been a higher proportion of consigned inventory due to inventory ownership unification programme.
  - (iii) A relatively low gold price level has been seen in recent years.
- Under the new approach, our gold inventory is classified as (i) base inventory, (ii) seasonal inventory, and (iii) consigned inventory and others.

Seasonal and consigned inventories are 100% hedged as they are more short-term and volatile in nature and usually have thinner margins. By taking a fully hedged position, our profit margin could be protected.

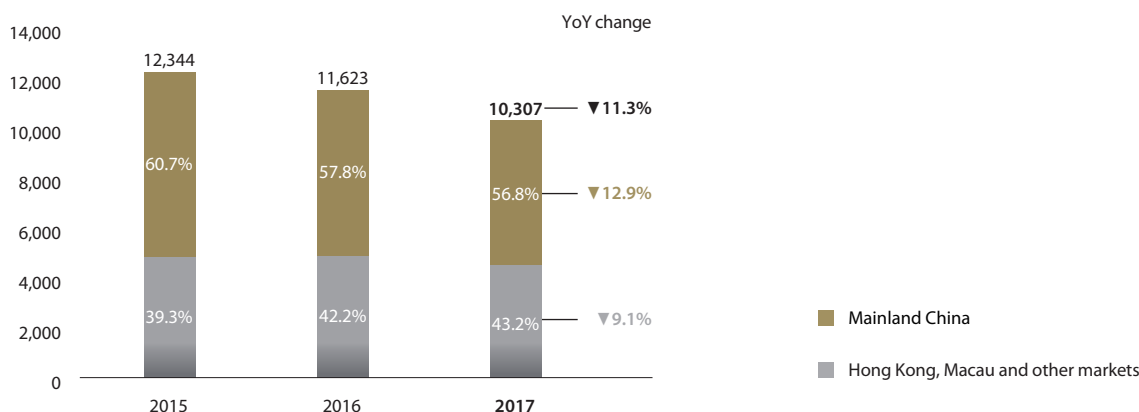
Base inventory, which is the inventory needed for the normal course of business, is regarded as our long-term cost of capital. Short-term fluctuation in commodity price is not a concern to our continuing operations. Thus, no hedging is applied on base inventory. As at 31 March 2017, base inventory accounted for around 75% of gold inventory balances.

- With this approach, the hedging ratio would change from a constant 70% to a floating ratio ranging from 20–50%. With a lower hedging ratio, volatility on the reported earnings and finance costs arisen from gold loans would be reduced.
- This new approach has been gradually implemented since 2HFY2017. The hedging ratio was around 35% as at 31 March 2017. Full implementation of the new hedging mechanism is expected in FY2018.

## SG&A

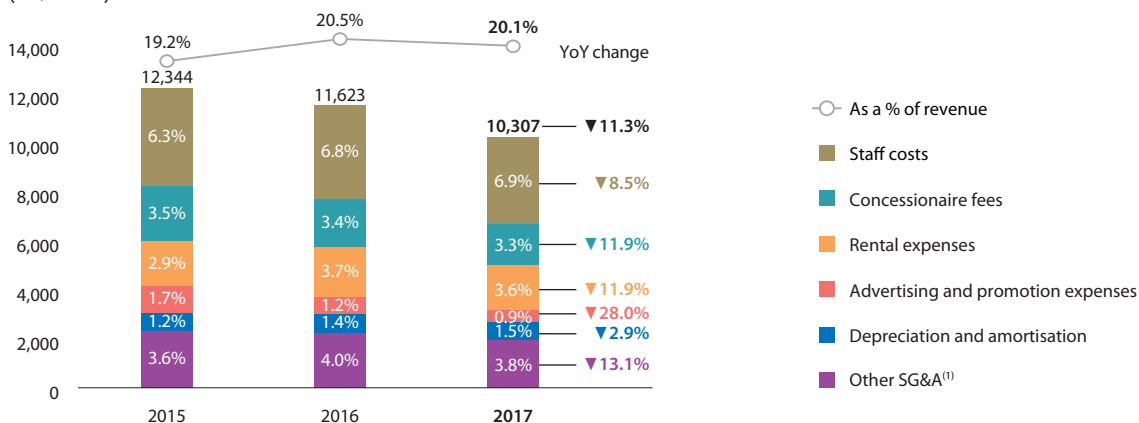
### SG&A by reportable segment

For the year ended 31 March  
(HK\$ million)



### SG&A to revenue ratio

For the year ended 31 March  
(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 staff welfare

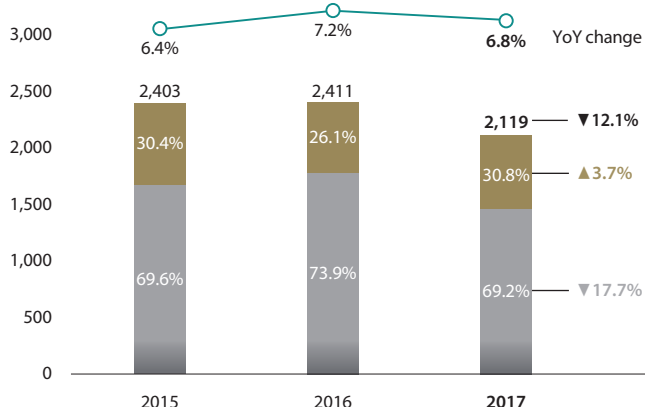
- Our Mainland China segment contributed over half of SG&A over the past 3 years.
- With effective cost saving measures, we managed to trim SG&A expenses by 11.3% to HK\$10,307 million in FY2017 with both segments and all expense components recording a year-on-year drop.
- Advertising and promotion expenses were reduced by 28.0% as some marketing activities have been deferred.
- Thanks to the sales rebound during 2HFY2017, SG&A ratio fell to 18.1% in 2HFY2017 from 23.0% in 1HFY2017. On a full-year basis, SG&A ratio improved slightly by 40 basis points to 20.1%.

## Major SG&A components

### Staff costs

#### Mainland China

For the year ended 31 March  
(HK\$ million)

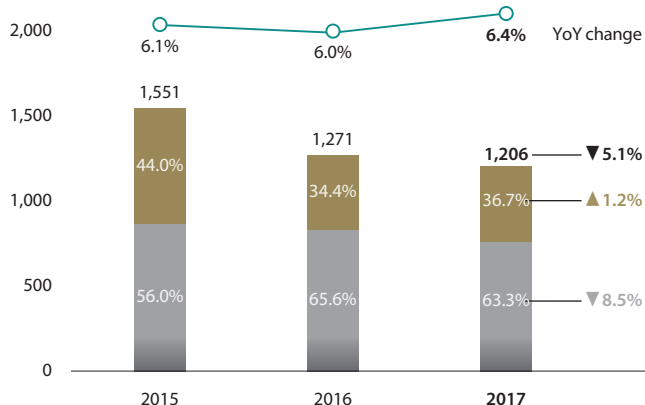


FY2017  
25,270 average number of employees  
▼10.4% YoY change

○ As a % of respective revenue  
■ Variable proportion  
■ Fixed proportion

#### Hong Kong and Macau

For the year ended 31 March  
(HK\$ million)



FY2017  
3,570 average number of employees  
▼13.6% YoY change

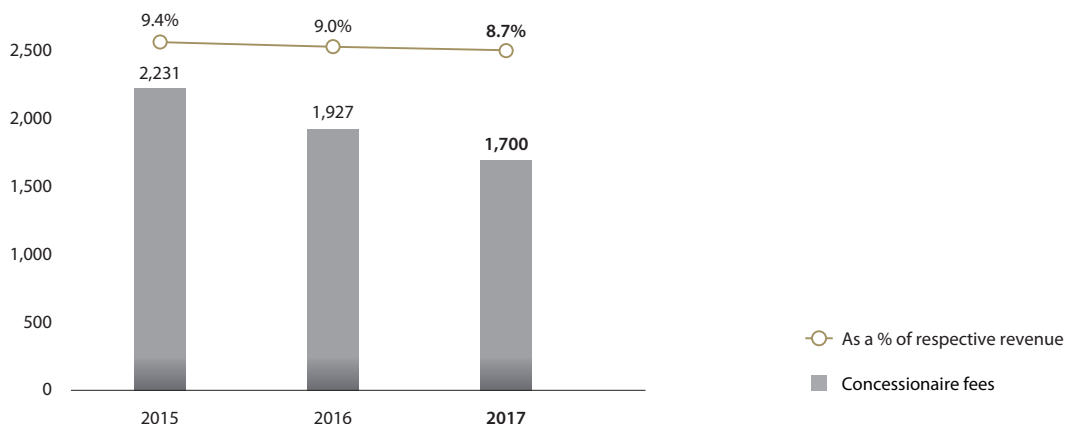
○ As a % of respective revenue  
■ Variable proportion  
■ Fixed proportion

- We strive for staff costs optimisation by enhancing productivity of our employees. The average number of frontline staff per self-operated POS decreased by approximately 12% for both Mainland China market and Hong Kong and Macau market as compared to last year.
- In Mainland China, staff costs contracted by 12.1% to HK\$2,119 million, generally in line with the reduction of average number of employees during the year.
- In Hong Kong and Macau, staff costs dropped by 5.1% while average number of employees reduced by 13.6% as a result of POS consolidation.

## Concessionaire fees and rental expenses

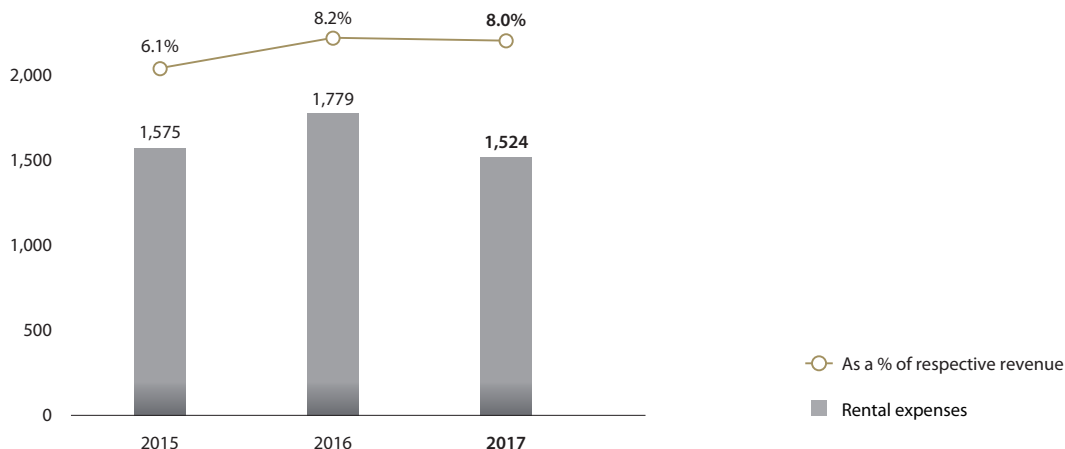
### Mainland China

For the year ended 31 March  
(HK\$ million)



### Hong Kong and Macau

For the year ended 31 March  
(HK\$ million)



- In Mainland China, concessionaire fees dropped by 11.8% as a result of revenue decline as well as the reduction of concessionaire fees by product during the year. The slight decline in concessionaire fees ratio was mainly due to lower concessionaire fees by product.
- In Hong Kong and Macau, rental expenses were down by 14.3% due to consolidation of POS and rental renewal reduction. Rental expenses ratio also edged down slightly by 20 basis points to 8.0% in FY2017, helped by a stabilising business environment. We achieved an average reduction on rental renewal of approximately 35% in FY2017.

### Other income, other gains and losses and other expenses

For the year ended 31 March	2015 HK\$ million	2016 HK\$ million	2017 HK\$ million	2017 vs 2016 YoY change
Other income	302	306	<b>330</b>	▲ 7.6%
Other gains and losses	(36)	(245)	<b>(286)</b>	▲ 16.7%
Other expenses	(95)	(51)	<b>(215)</b>	▲ 318.9%

- 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\$273 million (FY2016: HK\$229 million) due to the devaluation of RMB.
- An impairment loss on investment, amount due from an associate and amount due from a joint venture amounted to an aggregate of HK\$164 million was recognised and included in “other expenses” during the year.

### Interest income, finance costs and taxation

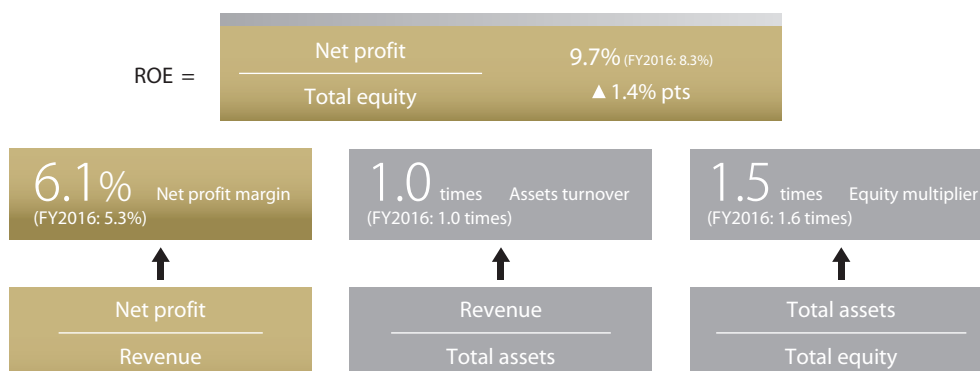
For the year ended 31 March	2015 HK\$ million	2016 HK\$ million	2017 HK\$ million	2017 vs 2016 YoY change
Interest income from banks	125	112	<b>122</b>	▲ 9.0%
Other interest income	26	43	<b>18</b>	▼ 57.7%
Finance costs on bank borrowings	149	69	<b>93</b>	▲ 36.0%
Finance cost on gold loans	232	174	<b>143</b>	▼ 17.8%
Taxation	1,123	957	<b>1,227</b>	▲ 28.2%

- Effective tax rate increased from 24.3% in FY2016 to 28.0% in FY2017 due to higher profit contribution from Mainland China, where higher tax rate applied, and as more tax expenses were incurred during the year for the dividends distributed from the subsidiaries in Mainland China for paying the special dividend declared by the Group.

### Return on equity

- We use return on equity (“ROE”) to measure the efficiency of generating profits from each unit of shareholder equity.

- Net profit margin increased by 80 basis points to 6.1% due to an expanded reported gross profit margin and operating leverage as fundamentals improved. As a result, ROE improved by 140 basis points to 9.7%.

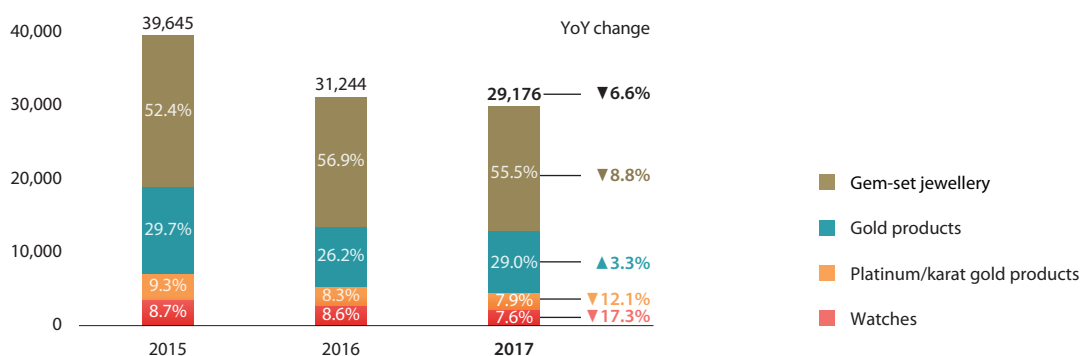


## Inventory turnover and capital structure

### Inventory balances and turnover period

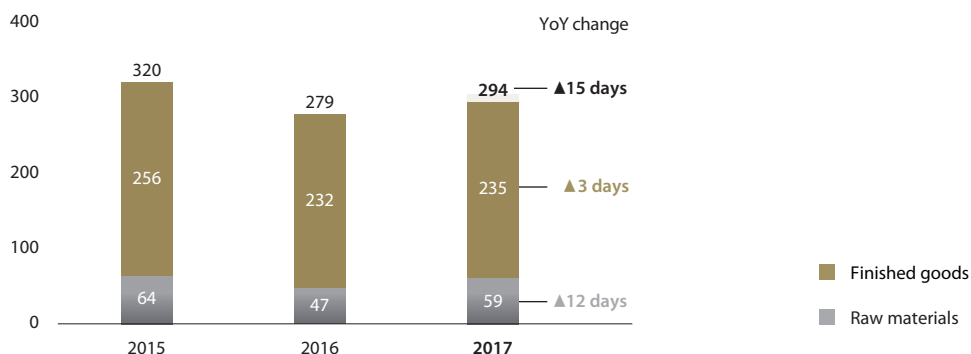
#### Inventory balances by product<sup>(1)</sup>

As at 31 March  
(HK\$ million)



#### Inventory turnover period by category<sup>(2)</sup>

For the year ended 31 March  
(Day)



(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 year, multiplied by 365/366

- Inventory balances, excluding packing materials, decreased over the past 2 years and stood at HK\$29,176 million as at 31 March 2017.
- The reduction was partly attributable to our continual optimisation of inventory balances and partly related to the reclassification of certain high value unique collectibles into “Non-current assets — Jewellery Collectibles” on our consolidated statement of financial position. As at 31 March 2017, jewellery collectibles amounted to HK\$967 million.
- On a full year basis, inventory turnover period was 294 days, 15 days longer than last year.

### Capital structure

As at 31 March	2016 HK\$ million	% to total equity	2017 HK\$ million	% to total equity	Increase/ (decrease) HK\$ million	Denominated currency <sup>(1)</sup>	Interest rate structure <sup>(1)</sup>
Non-current assets	6,670	18.7%	7,133	21.9%	463	N/A	N/A
Inventories	31,377	87.8%	29,259	90.0%	(2,118)	N/A	N/A
Bank deposits and cash equivalents <sup>(2)</sup>	13,001	36.4%	7,943	24.4%	(5,058)	Mainly HKD, RMB and USD	Mainly variable interest rate
Total borrowings <sup>(3)</sup>	14,433	40.4%	10,009	30.8%	(4,424)		
Bank borrowings	7,920	22.2%	6,793	20.9%	(1,127)	HKD and RMB	Variable interest rate
Gold loans	6,513	18.2%	3,216	9.9%	(3,297)	RMB and USD	Fixed interest rate
Net debt <sup>(4)</sup>	1,432	4.0%	2,066	6.4%	634	N/A	N/A
Working capital <sup>(5)</sup>	30,241	84.6%	26,480	81.5%	(3,761)	N/A	N/A
Total equity	35,750	100.0%	32,502	100.0%	(3,248)	N/A	N/A

(1) Information about denominated currency and interest rate structure related to the condition as at 31 March 2017

(2) Bank balances and cash included

(3) As at 31 March 2017, bank borrowings amounted to HK\$6,193 million and all the gold loans would be matured within 12 months while bank borrowings amounted to HK\$600 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 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 United States dollar "USD".

#### *Effect of RMB fluctuation*

- RMB continued to devalue during FY2017. As at 31 March 2017, RMB further went down by around 6% as compared to 31 March 2016. As part of our business operation was in Mainland China, the devaluation of RMB affected 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 year.
- The table below illustrates the impact to our financial performance due to RMB fluctuation:

For the year ended 31 March	2016		2017	
	As reported	Constant exchange rate basis	As reported	Constant exchange rate basis
Revenue YoY change	▼12.0%	▼10.5%	▼9.4%	▼6.0%
Net profit YoY change	▼46.2%	▼41.0%	▲5.8%	▲11.8%
Inventory balances YoY change	▼21.2%	▼19.0%	▼6.7%	▼6.4%
Bank balances and cash YoY change	▲53.4%	▲57.3%	▼38.9%	▼37.3%



## Cash flows and others

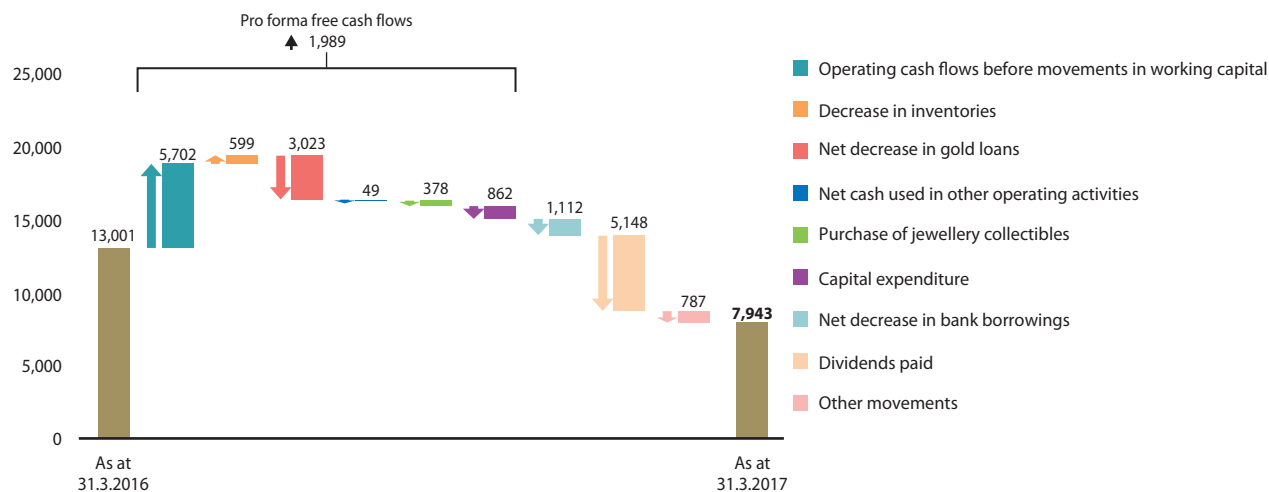
### Cash flows

For the year ended 31 March	2015 HK\$ million	2016 HK\$ million	2017 HK\$ million
Operating cash flows before movements in working capital	7,288	5,787	5,702
Decrease in inventories	3,117	7,499	599
Net change in gold loans	(2,036)	(2,161)	(3,023)
Net cash from/(used in) other operating activities	(2,837)	611	(49)
Purchase of jewellery collectibles	–	–	(378)
Capital expenditure	(2,768)	(1,046)	(862)
<b>Pro forma free cash flows</b>	<b>2,764</b>	<b>10,690</b>	<b>1,989</b>
Net change in bank borrowings	450	1,192	(1,112)
Dividends paid	(3,534)	(6,582)	(5,148)
Net cash outflow used in acquisition of subsidiaries	(1,188) <sup>(1)</sup>	–	–
Other movements	518	(776)	(787)
<b>Net increase/(decrease) in bank balances and cash</b>	<b>(990)</b>	<b>4,524</b>	<b>(5,058)</b>

(1) Cash paid for the respective fixed assets upon acquisition of the subsidiaries were included in "capital expenditure"

### Major cash flows items for FY2017

(HK\$ million)

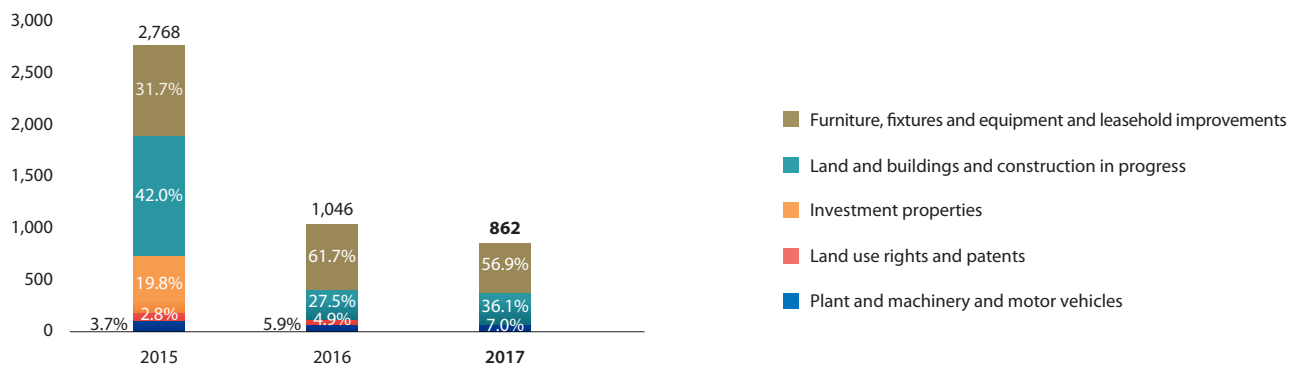


## Capital expenditure

- The Group's capital expenditure incurred during FY2017 amounted to HK\$862 million (FY2016: HK\$1,046 million).

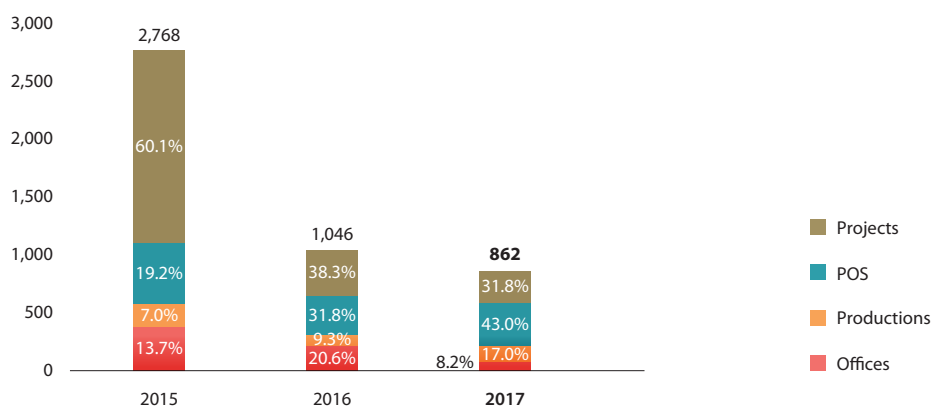
### Capital expenditure by nature

For the year ended 31 March  
(HK\$ million)



### Capital expenditure by function

For the year ended 31 March  
(HK\$ million)



## **Business outlook and strategies**

- Although there is still a long way to a full-fledged recovery, we shall remain focused in striving for sustainable growth in 3 main areas:
  - (i) In view of the changing retail landscape, we shall pay particular attention to market development. We will stay selective in POS openings in Mainland China while continuing to optimise our retail network in Hong Kong and Macau. As a long term initiative, we are reaching out to business prospects in developing wholesale business in the U.S.
  - (ii) To cater to the increasingly sophisticated customers, we shall further enrich the customer experience. Our product offerings will be strengthened with stepped up efforts in CHOW TAI FOOK T MARK, Hearts On Fire and licensed fashion jewellery collections. Store differentiation and multi-brand strategy shall be deployed, and O2O interactions shall be further fostered and encouraged in our business.
  - (iii) We recognise the importance of utilising technology in our operations and shall carry on with our “Smart+” initiatives. We will continue to leverage smart devices to support O2O and seamless shopping experience, while investing on big data and data analytics to get better understanding of customers’ preference.

## **FINAL DIVIDEND, SPECIAL DIVIDEND AND ANNUAL GENERAL MEETING**

The Board recommends the payment of a final dividend of HK10.0 cents per share (FY2016: HK8.0 cents per share) and a special dividend of HK20.0 cents per share (FY2016: HK22.0 cents per share), totalling approximately HK\$3,000 million (FY2016: HK\$3,000 million). Such payment of dividends will be subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 26 July 2017 and is payable to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 2 August 2017. It is expected that the proposed final and special dividends will be paid on or about Friday, 11 August 2017. Notice of the annual general meeting will be published and despatched to shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in due course.

## **REVIEW OF ANNUAL RESULTS**

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements of the Group for FY2017.

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2017 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

## CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2017, 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 during the year ended 31 March 2017.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Friday, 21 July 2017 to Wednesday, 26 July 2017, both days inclusive, during which period no transfer of share of the Company will be registered. 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, 20 July 2017.

In order to establish entitlements to the proposed final and special dividends, the register of members of the Company will be closed on Wednesday, 2 August 2017 and 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, 1 August 2017.

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

Hong Kong, 8 June 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.*