

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2016

HIGHLIGHTS

- Revenue decreased by 12.0% to HK\$56,591.5 million when compared to HK\$64,277.0 million recorded in FY2015.
- Same Store Sales⁽¹⁾ ("SSS") of jewellery business in Mainland China and Hong Kong and Macau recorded a decline of 10.3% and 21.7%, respectively.
- Revenue from gem-set jewellery as a percentage of revenue increased by 0.4% points to 27.4% in FY2016.
- Gross profit decreased by 18.0% to HK\$15,641.4 million from HK\$19,072.4 million in FY2015.
- Core operating profit⁽²⁾ decreased by 24.5% to HK\$5,050.0 million from HK\$6,690.8 million recorded in FY2015.
- Basic earnings per share were HK29.4 cents, a decrease of 46.1% when compared to HK54.6 cents in FY2015.
- Proposed final and special dividends are HK8.0 cents and HK22.0 cents per share, respectively⁽³⁾.
- Retail network expanded to 2,319 POS as at 31 March 2016, with a net addition of 62 POS in FY2016.

(1) "Same Store Sales" for FY2016 is the revenue, measures at constant exchange rates, from the self-operated POS existing as at 31 March 2016 and which have been opened prior to 1 April 2014. 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 FY2016, excluding special dividend, is approximately 54.4% on a full year basis.

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

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 2016 ("FY2016"), together with comparative figures for the year ended 31 March 2015 ("FY2015") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Notes	2016 HK\$ million	2015 HK\$ million
Revenue	2	56,591.5	64,277.0
Cost of goods sold		<u>(40,950.1)</u>	<u>(45,204.6)</u>
Gross profit		15,641.4	19,072.4
Other income		306.2	301.5
Selling and distribution costs		(9,196.8)	(9,935.8)
General and administrative expenses		(2,426.6)	(2,408.6)
Other gains and losses		(244.9)	(35.9)
Other expenses		(51.2)	(94.7)
Share of results of an associate		(3.6)	–
Share of results of a joint venture		–	(10.8)
Interest income		154.6	151.5
Finance costs		<u>(243.0)</u>	<u>(380.5)</u>
Profit before taxation	3	3,936.1	6,659.1
Taxation	4	<u>(957.2)</u>	<u>(1,123.3)</u>
Profit for the year		<u>2,978.9</u>	<u>5,535.8</u>
Other comprehensive (expense) income:			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
— remeasurement of defined benefit scheme		<u>(2.1)</u>	<u>(19.0)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Continued)
For the year ended 31 March 2016

	Note	2016 HK\$ million	2015 HK\$ million
<i>Items that may be reclassified subsequently to profit or loss:</i>			
— exchange differences arising on translation		(1,010.7)	21.1
— share of translation reserve of an associate		(0.7)	–
— share of translation reserve of a joint venture		–	(0.1)
		<u>(1,011.4)</u>	<u>21.0</u>
Other comprehensive (expense) income for the year		<u>(1,013.5)</u>	<u>2.0</u>
Total comprehensive income for the year		<u><u>1,965.4</u></u>	<u><u>5,537.8</u></u>
Profit for the year attributable to:			
Shareholders of the Company		2,941.4	5,456.0
Non-controlling interests		37.5	79.8
		<u>2,978.9</u>	<u>5,535.8</u>
Total comprehensive income (expense) attributable to:			
Shareholders of the Company		1,979.3	5,456.2
Non-controlling interests		(13.9)	81.6
		<u>1,965.4</u>	<u>5,537.8</u>
Earnings per share — Basic	5	<u><u>HK29.4 cents</u></u>	<u><u>HK54.6 cents</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2016

	Note	2016 HK\$ million	2015 HK\$ million
Non-current assets			
Property, plant and equipment		4,749.7	4,442.5
Land use rights		211.6	237.9
Investment properties		272.9	508.9
Goodwill		257.8	257.8
Other intangible assets		407.5	397.2
Deposits paid for acquisition of property, plant and equipment		132.6	294.1
Interest in an associate		39.7	–
Amount due from an associate		82.8	–
Interest in a joint venture		–	–
Loan receivables		37.6	39.8
Deferred tax assets		478.2	860.1
		<u>6,670.4</u>	<u>7,038.3</u>
Current assets			
Inventories	7	31,376.5	39,797.6
Trade and other receivables		4,605.2	5,785.4
Loan receivables		4.1	4.3
Convertible bonds		17.8	17.9
Pledged bank deposits		–	0.4
Bank balances and cash		13,001.4	8,477.1
		<u>49,005.0</u>	<u>54,082.7</u>
Current liabilities			
Trade and other payables		4,336.1	3,997.9
Amounts due to non-controlling shareholders of subsidiaries		161.2	197.3
Taxation payable		433.4	595.8
Bank borrowings		7,320.0	6,750.6
Gold loans		6,513.3	8,338.3
		<u>18,764.0</u>	<u>19,879.9</u>
Net current assets		<u>30,241.0</u>	<u>34,202.8</u>
Total assets less current liabilities		<u>36,911.4</u>	<u>41,241.1</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*At 31 March 2016*

	2016 <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Non-current liabilities		
Bank borrowings	600.0	–
Retirement benefit obligations	243.4	243.3
Deferred tax liabilities	318.1	457.0
	<u>1,161.5</u>	<u>700.3</u>
Net assets	<u>35,749.9</u>	<u>40,540.8</u>
Share capital	10,000.0	10,000.0
Reserves	<u>24,904.3</u>	<u>29,429.5</u>
Equity attributable to shareholders of the Company	34,904.3	39,429.5
Non-controlling interests	<u>845.6</u>	<u>1,111.3</u>
	<u>35,749.9</u>	<u>40,540.8</u>

NOTES

1. BASIS OF PREPARATION

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

Amendments to IAS 19	Defined benefit plans: Employee contributions
Amendments to IFRSs	Annual improvements to IFRSs 2010–2012 cycle
Amendments to IFRSs	Annual improvements to IFRSs 2011–2013 cycle

The application of the above 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 revised IFRSs in issue but not yet effective

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

IFRS 9	Financial instruments ³
IFRS 15	Revenue from contracts with customers ³
IFRS 16	Leases ⁴
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to IFRS 15	Clarifications to IFRS 15 “Revenue from contracts with customers” ³
Amendments to IAS 1	Disclosure initiative ¹
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to IFRSs	Annual improvements to IFRSs 2012–2014 cycle ¹
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants ¹
Amendments to IAS 27	Equity method in separate financial statements ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception ¹
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁵
Amendments to IAS 7	Disclosure initiative ²
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses ²

¹ Effective for annual periods beginning on or after 1 January 2016.

² Effective for annual periods beginning on or after 1 January 2017.

³ Effective for annual periods beginning on or after 1 January 2018.

⁴ Effective for annual periods beginning on or after 1 January 2019.

⁵ Effective for annual periods on or after a date to be determined.

IFRS 9 Financial instruments

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company are in the process of assessing the impact of application of IFRS 9.

1. BASIS OF PREPARATION (Continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees. However, the standard does not significantly change the accounting of lessors.

Application of IFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of many of the Group's lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments to these financial statements. The directors of the Company anticipate that the application of IFRS 16 in the future will have a material impact on the Group's consolidated financial statements; however, it is not practicable to provide a reasonable estimate of the effect until the Group performs 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.

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 year ended 31 March 2015 included three segments, namely (i) jewellery business in the Mainland China, (ii) watch business in the Mainland China and (iii) business in Hong Kong, Macau and other markets. During the year ended 31 March 2016, for the purposes of better assessment of performance from each location and operation, the Group has further separated the business of Hearts On Fire Company, LLC ("Hearts On Fire"), where the operational decisions are made by the local management in the United States (the "US"), from business in Hong Kong, Macau and other markets. Comparative figures have been restated to conform with the current year's presentation. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

(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		Hearts On Fire (note i)		Total	
	Jewellery business		Watch business		2016	2015	2016	2015	2016	2015
	2016	2015	2016	2015						
Revenue										
External sales										
— Retail	24,657.8	26,768.4	1,814.8	1,931.0	21,700.5	25,874.2	152.4	87.2	48,325.5	54,660.8
— Wholesale (note ii)	7,197.8	9,142.8	-	-	465.2	159.8	603.0	313.6	8,266.0	9,616.2
Segment/group revenue	31,855.6	35,911.2	1,814.8	1,931.0	22,165.7	26,034.0	755.4	400.8	56,591.5	64,277.0
Inter-segment sales (note iii)	419.6	560.6	-	-	2,272.0	3,094.9	2.1	20.1	2,693.7	3,675.6
	32,275.2	36,471.8	1,814.8	1,931.0	24,437.7	29,128.9	757.5	420.9	59,285.2	67,952.6
Adjusted gross profit	9,485.7	10,616.0	354.9	472.1	5,883.9	7,909.6	350.4	184.8	16,074.9	19,182.5
Inter-segment eliminations	(7.4)	(68.2)	-	-	299.7	(380.6)	-	-	292.3	(448.8)
	9,478.3	10,547.8	354.9	472.1	6,183.6	7,529.0	350.4	184.8	16,367.2	18,733.7
Other income	221.1	241.7	32.2	12.3	52.9	47.5	-	-	306.2	301.5
Selling and distribution costs and general and administrative expenses	(6,275.4)	(7,040.3)	(447.2)	(456.2)	(4,431.6)	(4,593.4)	(469.2)	(254.5)	(11,623.4)	(12,344.4)
Core operating profit (loss)	3,424.0	3,749.2	(60.1)	28.2	1,804.9	2,983.1	(118.8)	(69.7)	5,050.0	6,690.8
Unrealised hedging (loss)										
gain on gold									(725.8)	338.7
Others (note iv)									(299.7)	(141.4)
Interest income									154.6	151.5
Finance costs									(243.0)	(380.5)
Profit before taxation									3,936.1	6,659.1

Notes:

- (i) Being operations managed by the management in the US.
- (ii) Wholesale mainly represents sales 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, share of results of an associate and a joint venture.

Core operating profit represents the profit generated from each segment without allocation of unrealised hedging (loss) gain on gold, other gains and losses, other expenses, share of results of an associate and a joint venture, interest income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

	2016 <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Sales of		
— Gem-set jewellery	15,495.7	17,378.9
— Gold products	31,301.2	34,214.2
— Platinum/karat gold products	6,974.5	9,256.3
— Watches	2,785.5	3,427.6
Service income from franchisees	34.6	—
	<u>56,591.5</u>	<u>64,277.0</u>

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

3. PROFIT BEFORE TAXATION

	2016 <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration	47.7	80.4
Staff's retirement benefits scheme contributions	643.1	598.7
Staff costs	3,189.7	3,377.5
	<u>3,880.5</u>	<u>4,056.6</u>
Allowance for doubtful debts	19.5	—
Amortisation of other intangible assets	41.4	24.0
Amortisation of land use rights	14.9	14.1
Auditors' remuneration		
— audit services	8.9	8.3
— non-audit services	6.1	4.2
Concessionaire fees	1,949.2	2,257.1
Cost of inventories recognised as expenses	39,153.6	43,847.5
Depreciation of property, plant and equipment	837.0	730.6
Depreciation of investment properties	21.3	17.5
Donations (included in other expenses)	9.8	72.2
Fair value loss (gain) of gold loans (included in cost of goods sold)	542.1	(418.0)
Impairment of inventories (included in cost of goods sold)	74.2	—
Operating lease rentals in respect of rented premises	2,078.4	1,840.0

4. TAXATION

	2016 <i>HK\$ million</i>	2015 <i>HK\$ million</i>
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax ("EIT") in Mainland China	377.1	842.8
Hong Kong Profits Tax	128.9	472.9
Macau complementary tax	54.3	82.1
Taxation in other jurisdictions	1.9	2.0
	<u>562.2</u>	<u>1,399.8</u>
(Over)underprovision in prior years:		
EIT in Mainland China	(22.7)	0.1
Hong Kong Profits Tax	(0.9)	(1.2)
Macau complementary tax	–	4.4
	<u>(23.6)</u>	<u>3.3</u>
Deferred tax charge (credit)	<u>388.2</u>	<u>(307.8)</u>
Withholding tax*	<u>30.4</u>	<u>28.0</u>
	<u>957.2</u>	<u>1,123.3</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 (2015: 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

	2016 <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Dividends recognised as distribution during the year:		
2016 Interim — HK50.0 cents (2015: 2015 Interim — HK13.0 cents) per share	5,000.0	1,300.0
2015 Final — HK15.0 cents (2015: 2014 Final — HK19.0 cents) per share	<u>1,500.0</u>	<u>1,900.0</u>
	<u><u>6,500.0</u></u>	<u><u>3,200.0</u></u>

Subsequent to the end of the reporting period, a final dividend of HK8.0 cents per share and a special dividend of HK22.0 cents per share, totalling approximately HK\$3,000.0 million in respect of the year ended 31 March 2016 (2015: a final dividend of HK15.0 cents per share, totalling approximately HK\$1,500.0 million) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

7. INVENTORIES

	2016 <i>HK\$ million</i>	2015 <i>HK\$ million</i>
Raw materials for:		
Gem-set jewellery	4,757.6	6,705.6
Gold products	415.7	1,040.5
Platinum/karat gold products	<u>111.0</u>	<u>174.6</u>
	<u>5,284.3</u>	<u>7,920.7</u>
Finished goods:		
Gem-set jewellery	13,000.2	14,061.3
Gold products	7,773.8	10,723.1
Platinum/karat gold products	2,496.4	3,492.8
Watches	<u>2,689.7</u>	<u>3,447.2</u>
	<u>25,960.1</u>	<u>31,724.4</u>
Packing materials	<u>132.1</u>	<u>152.5</u>
	<u><u>31,376.5</u></u>	<u><u>39,797.6</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Mainland China has shown a sign of economic slowdown after achieving a remarkable pace of growth in the past two decades, with its GDP growth moderated to 6.9% in 2015. Volatility in capital market also impacted the luxury retail sentiment. Besides, the increasingly affluent and sophisticated Chinese consumers continue to look for more personalised products and shopping experience. Lifestyle and leisure spending becomes the trend, with strong outbound tourism boosting the consumption abroad. However, taking into account the relatively stable fundamentals, continuous urbanisation and the ever-growing middle-class in the region, we believe that Mainland China will stay the course on sustainable growth.

In Hong Kong and Macau where we have been maintaining our leading position for many years, the persistently weak retail sentiment and the decline in tourist visitations, particularly the Mainland tourists, as a result of the strengthening US dollar and evolving travel preference continue to affect our operation in FY2016. Mainland tourist arrivals in Hong Kong and Macau fell 8.6% and 3.7%, respectively during the financial year. We expect the market environment for the region to remain challenging in the year ahead.

Despite the challenges ahead, we are dedicated to further enhancing our product portfolio such as introducing Hearts On Fire brand and diamond fashion jewellery in response to the changing customer preferences towards more lifestyle and design-oriented.

In response to the ever-changing market environment, we launched the “Smart+” initiatives with the objective to enable the long-term sustainable growth of our business. As retail operations continue to be the core of our business, we leverage the Internet, technological tools and innovative products, new sales platforms and new way of serving to satisfy customers’ personalised requirements and fulfill technological retail and smart service.

Since the launch of our “Smart+” initiatives, we are committed to dedicating ourselves to elevate our brand and competitiveness through innovation and the use of technology for the sake of achieving sustainable development. Going forward, we strive to further develop our business and improve our efficiency, with specific targets set out in the following five major areas: market development, customer service and marketing, products and production, operations and management and financials.

MARKET DEVELOPMENT

The luxury retail market is challenging this year amid volatile macroeconomic environment in Greater China. In response to these headwinds, we are taking a pragmatic and proactive approach to reinforce our leading position in the jewellery market.

While strengthening our foothold across the Greater China region, we are extracting more online-to-offline synergies and innovative channels to expand our customer base and satisfy our evolving customers' preferences through our "Smart+" initiatives.

Strategies in Mainland China

- More selective and targeted approach in POS opening
- Focus on store differentiation to target different customer segments, uplift brand image and enhance customer experience
- Explore e-commerce opportunities and other new sales channels

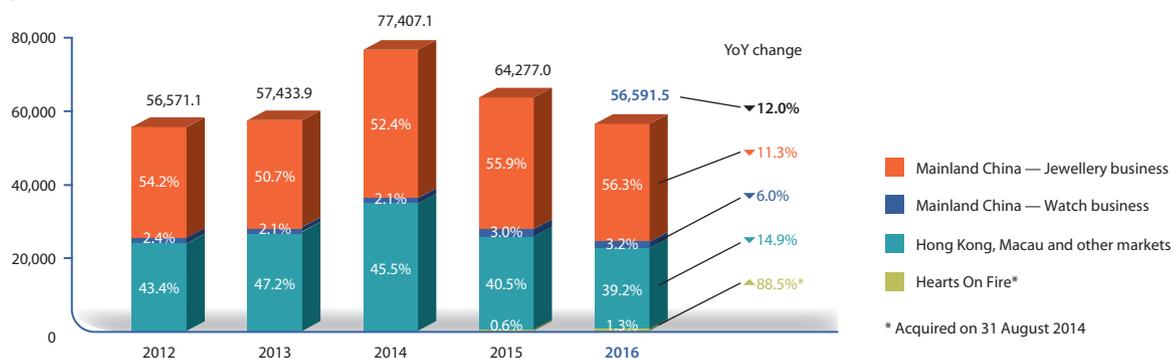
Strategies in Hong Kong, Macau and other markets

- Enhance store productivity through POS consolidation
- Expand footprint in overseas market to grasp opportunities from the booming Chinese outbound tourism

Revenue and SSSG

Revenue by reportable segment

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



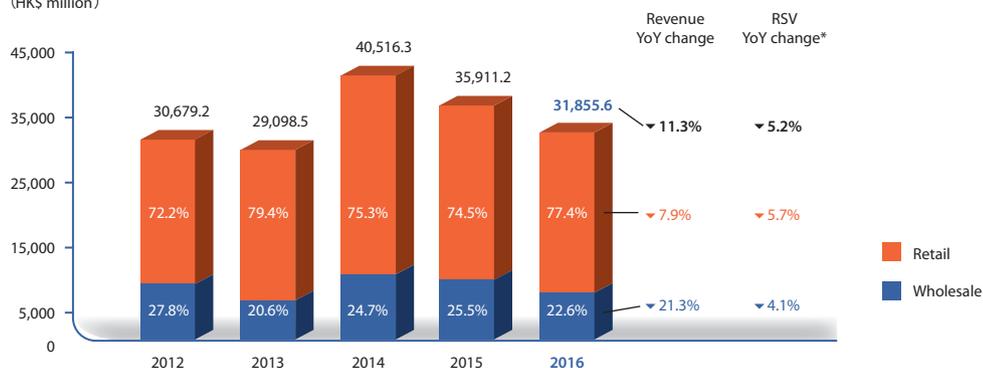
Mainland China — Jewellery business

Revenue

Revenue by operation model

For the year ended 31 March

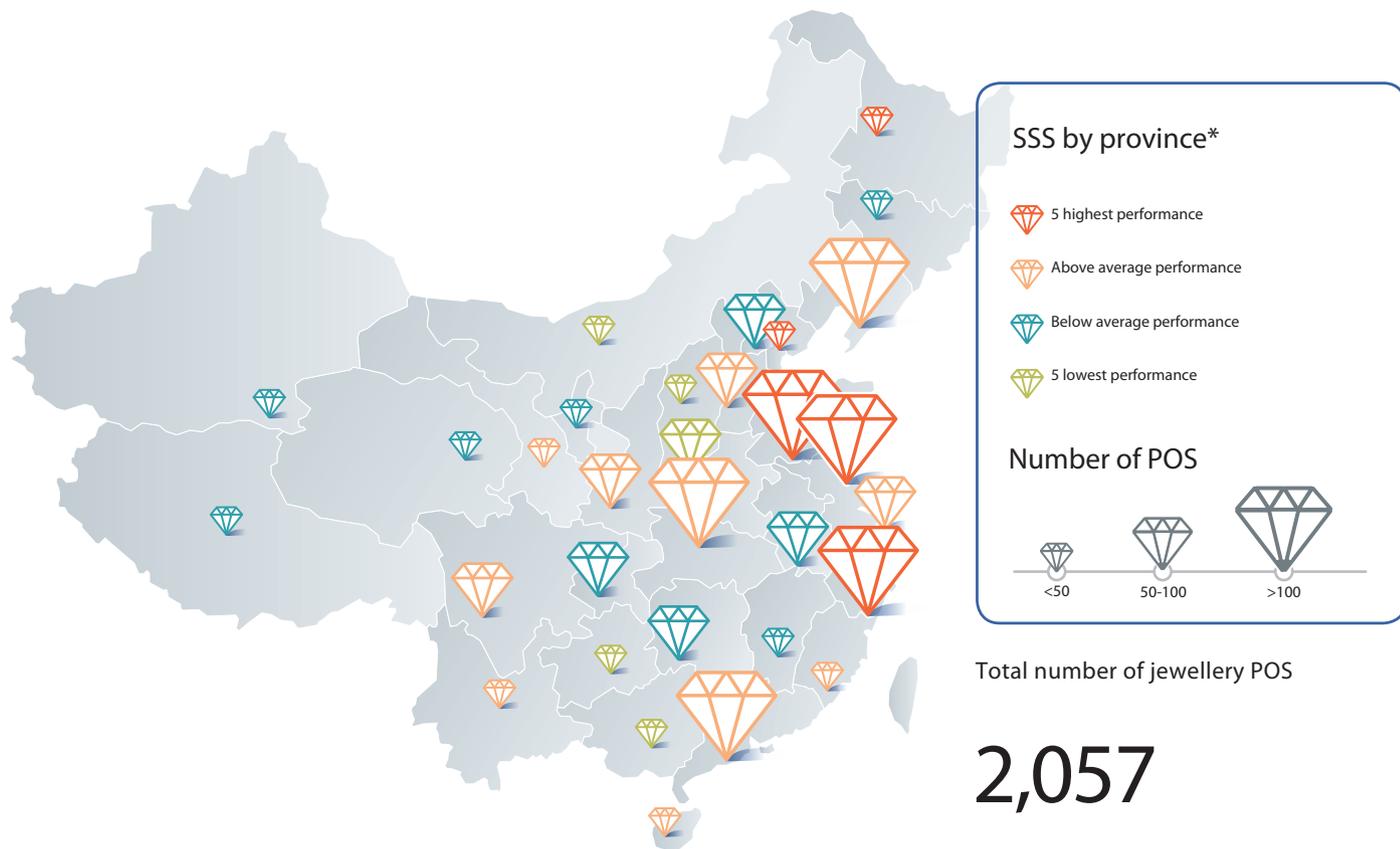
(HK\$ million)



* Measured at constant exchange rates

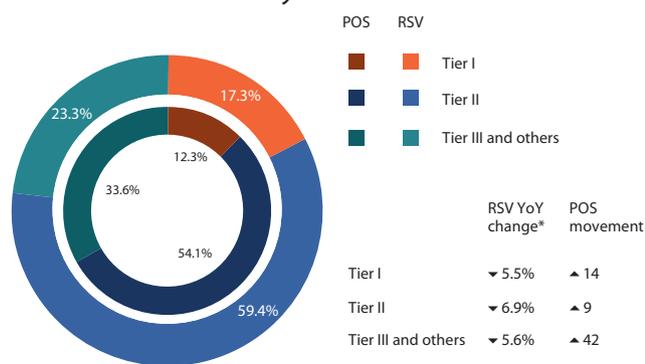
- Our retail revenue represents sales from self-operated POS, e-commerce and other direct channels while wholesale revenue represents sales and provision of services to franchisees.
- A decline in revenue and RSV in FY2016 was mainly attributable to the softness in spending by customers amid the slowdown of economic growth.
- Our franchisee's progressive adoption of the inventory ownership unification program, which brought about timing difference in revenue recognition, resulted in a revenue drop of 21.3% while RSV fell by only 4.1%.

RSV and SSSG and POS network



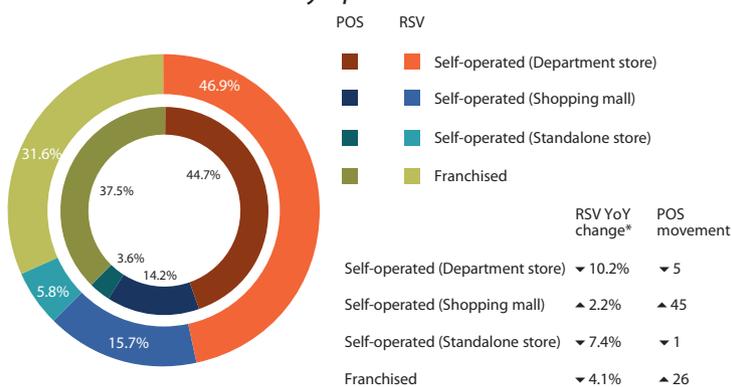
* To give a better understanding of the relationship between our sales performance and POS network, the above illustration included the performance of our franchised POS.

FY2016 RSV and POS by tier of cities



* Measured at constant exchange rates

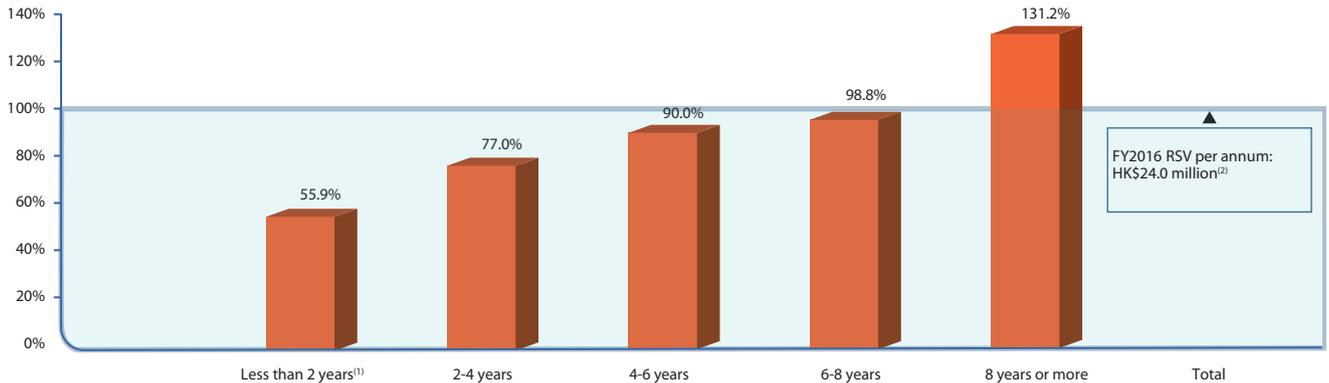
FY2016 RSV and POS by operation model



- RSV performance in Tier I cities was more resilient as supported by a stable fundamental and consumer sentiment.
- A net of 45 POS were opened in shopping malls during the year in light of the changing retail landscape in Mainland China.

Self-operated POS

RSV per store by store age



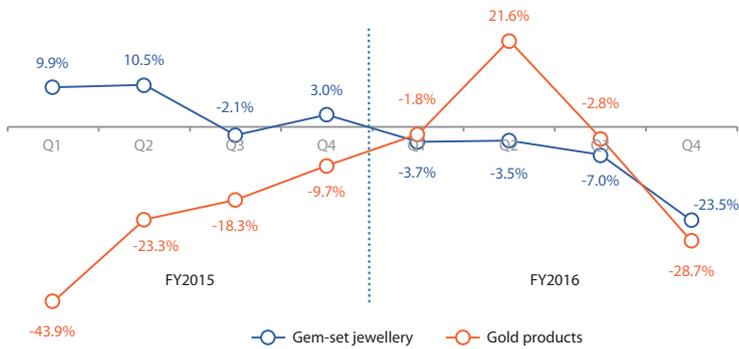
POS opening date	4/2014–3/2016	4/2012–3/2014	4/2010–3/2012	4/2008–3/2010	3/2008 or before	Total
POS	311	276	258	143	298	1,286
% of POS	24.1%	21.5%	20.1%	11.1%	23.2%	100.0%

■ Ratio of annual sales per store to average SSS per store

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

(2) Included value-added tax

SSSG



FY2016

SSSG

▼10.3%

Gem-set jewellery SSSG

▼10.4%

Gold products SSSG

▼6.3%

SSS Volume Growth

▼8.9%

ASP

HK\$6,300

(FY2015: HK\$6,600)

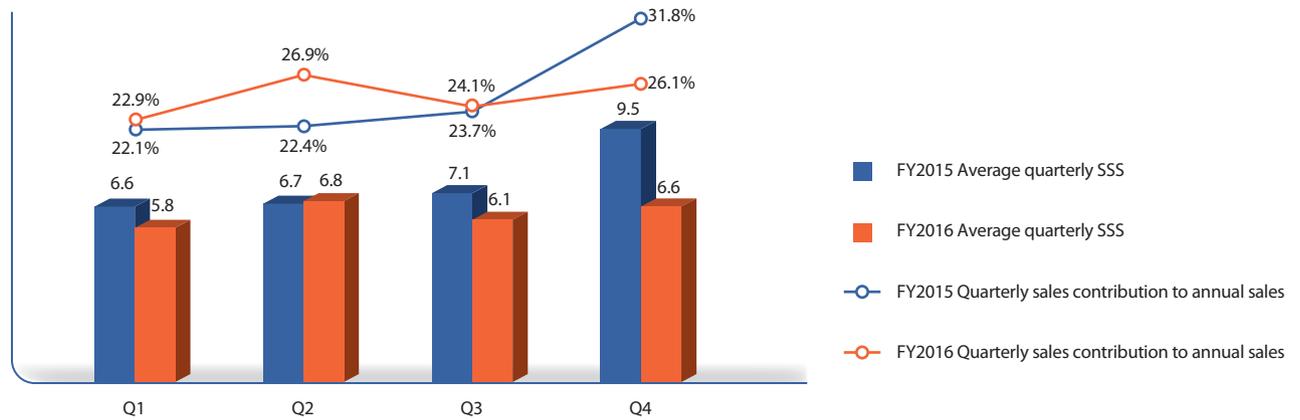
ASP

HK\$3,200

(FY2015: HK\$3,300)

Average quarterly sales and its contribution to annual sales

(HK\$ million)

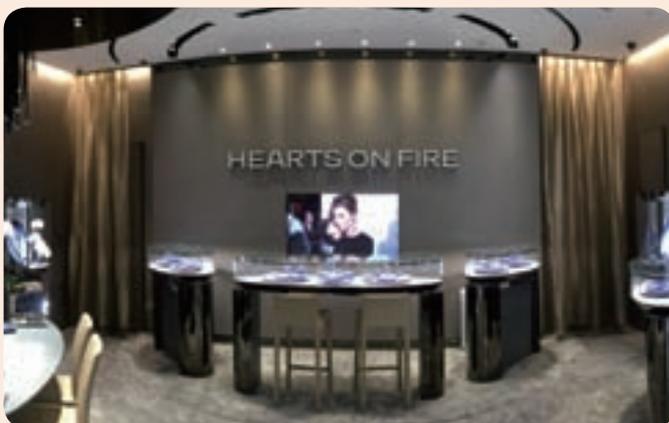


- Our Q2 sales contribution in FY2016 outperformed as a result of the mini gold rush triggered by the drop in international gold price in July and August 2015.
- Q4 of our financial year used to be our peak season where most of the festive events, such as Chinese New Year and Valentine’s Day, fall in the quarter, yet in FY2016, our Q4 performance was worse than our normal course of business due to the sequential softness in the market.



Hearts On Fire in Mainland China

- Leveraging Chow Tai Fook’s extensive retail network and customer base, we introduced Hearts On Fire, the premium diamond brand, to Mainland China.
- A net of 3 Hearts On Fire POS and 118 shop-in-shop and counter-in-shop were opened during the year to cater for the sophisticated and design-oriented customers.



Hearts On Fire POS in Nanjing and shop-in-shop in Shenyang were opened during FY2016

E-commerce

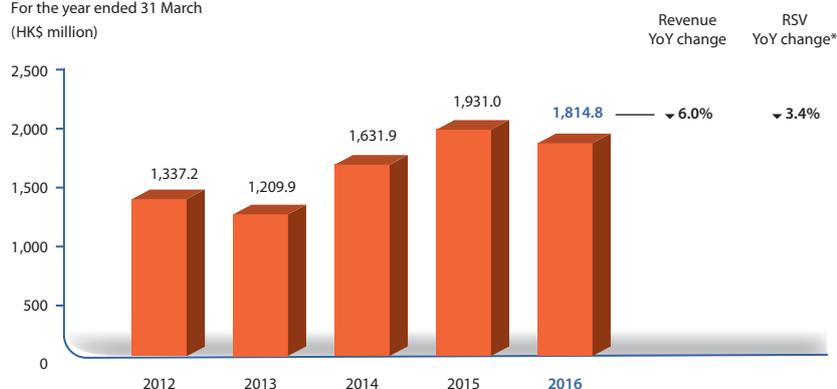


- We integrated our online and offline resources to direct traffic to our distribution channels through omni-channel strategy empowered by digital marketing.
- Leveraging on our established e-commerce platforms and expanding e-tail network, we recorded a remarkable sales performance on “Single’s Day”, the online shopping festival in Mainland China, and were ranked No. 1 at Tmall in terms of sales of jewellery.
- We had an encouraging development in e-commerce this year through strengthening the co-operation with existing online platforms and exploring other new sales channels.
- Adhering to the spirit in our core business, we are exploring other new platforms to deliver seamless shopping experience to our customers.
- With our solid e-commerce strategy, we were ranked No.1 in digital competence out of all luxury brands in Mainland China according to L2’s Digital IQ Index in 2016.

Mainland China — Watch business

Revenue

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



* Measured at constant exchange rates

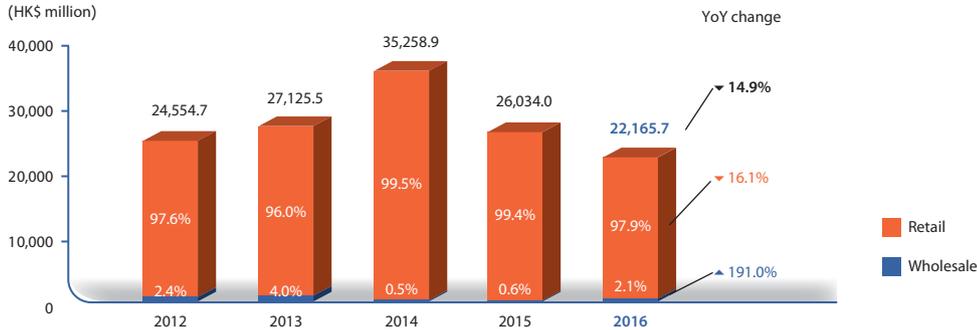
- Revenue and RSV performance dropped slightly on a year-on-year basis.
- SSSG was 1.6% with SSS volume up by 27.9%.

Hong Kong, Macau and other markets

Revenue

Revenue by operation model

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

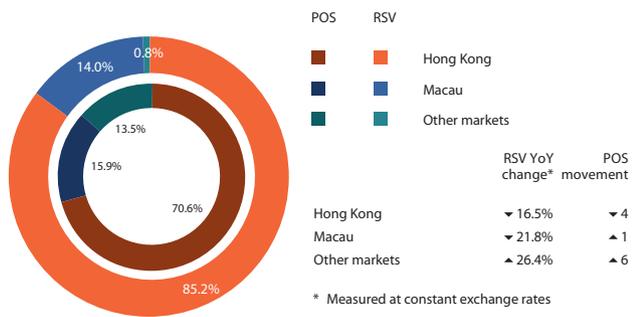


- The decline in revenue in FY2016 was largely affected by the stagnant consumer sentiment and a decline in Mainland tourist visitations in Hong Kong and Macau, where the impact was more prominent in the touristic area.
- Apart from boosting store productivity in Hong Kong and Macau markets, we expanded abroad to capture the Chinese outbound tourism opportunities and achieved a 26.4% RSV growth in other markets this year.
- To enhance our product portfolio and widen our product offerings, we introduced 18 Hearts On Fire shop-in-shop and counter-in-shop to our existing retail network during the year.

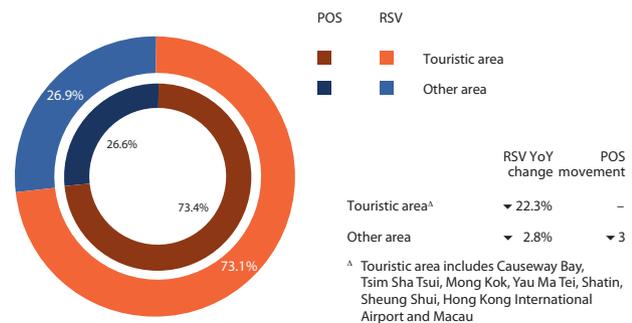


New POS were opened in Shin Kong Mitsukoshi in Taiwan and Hearts On Fire shop-in-shop in K11, Tsim Sha Tsui during the year

FY2016 RSV and POS by geography



FY2016 RSV and POS by touristic area in Hong Kong and Macau



Hong Kong and Macau market performance in FY2016

Retail sales of jewellery industry in Hong Kong[#] ▼17.1%

Number of Mainland tourists[^] to:

- Hong Kong ▼8.6%
- Macau ▼3.7%

Our Hong Kong and Macau performance in FY2016

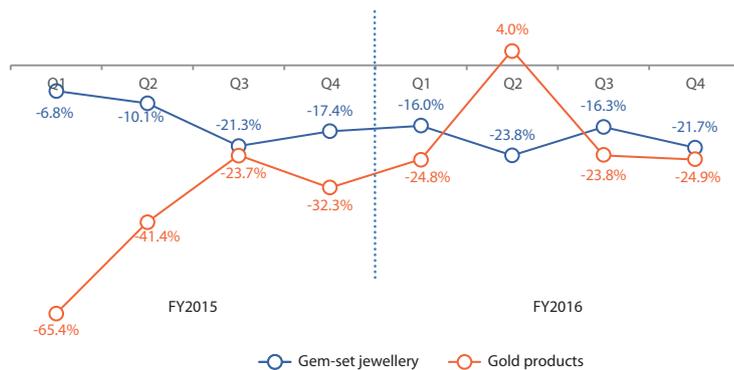
YoY change in customer traffic at POS: ▼26.0%

RSV settled by China UnionPay / RMB 52.6% (FY2015 56.9%)

[#] Being the value of retail sales of jewellery, watches and clocks, and valuable gifts in Hong Kong. Data are sourced from Census and Statistics Department of Hong Kong

[^] Data are sourced from Commerce and Economic Development Bureau of Hong Kong, and the Macau Statistics and Census Service

SSSG in Hong Kong and Macau



FY2016

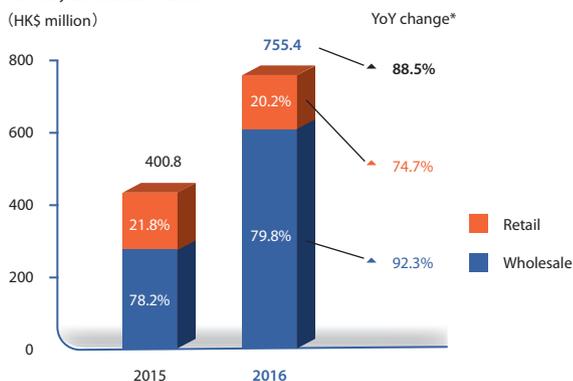
SSSG	▼21.7%	SSS Volume Growth	▼23.9%
Gem-set jewellery SSSG	▼19.3%	ASP	HK\$12,100 (FY2015: HK\$12,100)
Gold products SSSG	▼17.6%	ASP	HK\$5,700 (FY2015: HK\$5,300)

Hearts On Fire

Revenue

Revenue by operation model

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



POS network

As at 31 March 2016	Total
Taiwan	12
The United States	2
Total	14
Retail partner locations	544

- The revenue of Hearts On Fire, if consolidated on an annualised basis, would increase 2.6%.
- A net opening of 4 POS and 20 net additions of retail partner locations were mainly in Europe and Ireland in FY2016.
- Around 70% of the retail partner locations are in North America and the rest are mainly situated in the United Kingdom, Ireland, Caribbean and Asia-Pacific region.
- We are honored to partner strategically with the renowned United States luxury department stores, Saks Fifth Avenue, this year, with 12 additions of retail partner locations. We endeavor to seek more opportunities for introducing this premium brand and its perfectly cut diamonds to our customers.



Synergies from Integration with Hearts On Fire

- **Rollout in Mainland China, Hong Kong and Macau:** Hearts On Fire was brought to Mainland China, Hong Kong and Macau via “shop-in-shop” and “counter-in-shop” strategies. As at 31 March 2016, we have a total of 5 POS and 136 shop-in-shop/counter-in-shop in those regions.
- **Complementary to our product offerings:** We introduced the exclusive and unique Hearts On Fire jewellery into our existing distribution network. The strategy complements Chow Tai Fook brand by widening the spectrum of our product offerings and uplifting our brand equity.
- **Procurement cost efficiencies:** We enhanced our cost efficiencies by leveraging on our strong production and procurement capabilities.

CUSTOMER SERVICE AND MARKETING



With our 87 years of brand heritage as backbone, we leverage the emerging marketing opportunities while continue our effort in enhancing customer experience along different stages of shopping cycle.

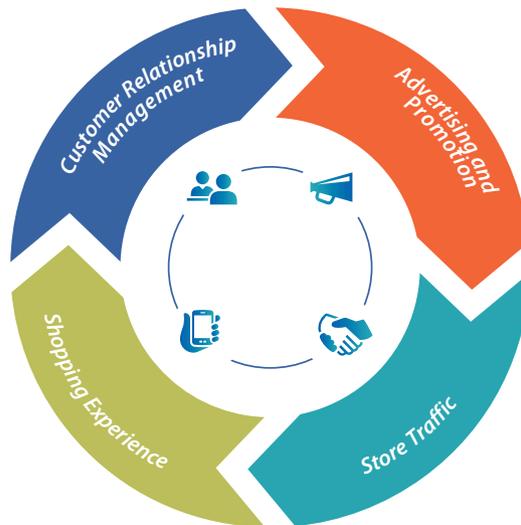
Our brand “Chow Tai Fook”, serves as one of our most important assets, and with this prestige brand image vividly recallable by customers through our 87 years of heritage and our branding campaigns, we have taken a step further to lever on the emerging marketing opportunities while continuing our effort in enhancing customer experience along different stages of shopping cycle.

P 30–31

- Stay connected with our members and offer them different kinds of exclusive and privileged lifestyle experience

P 28–30

- Lever on innovation and technology to create a unique and personalised shopping experience to our customers



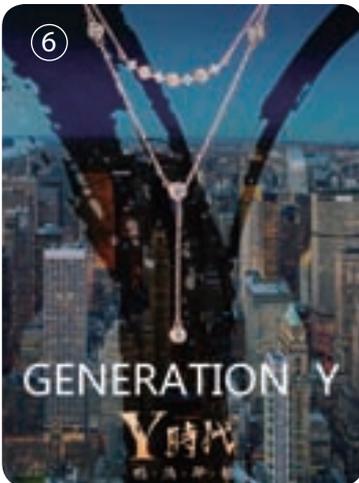
P 24–26

- Focus on effective advertising and promotional campaigns, while continuing to strengthen our brand awareness and prestige image

P 26–28

- Extract online-to-offline synergies by collaborating with various business partners and in tapping customers

Advertising and Promotion



1. *Preview of annual high jewellery collection*

- Hosted a private preview of our annual high jewellery collection in Hong Kong in April 2016 and unveiled the one-of-a-kind “Le Labyrinthe Artistique” Collection. More than 400 guests were invited to attend the event. The collection was inspired by the great abstract artists, celebrating iconic geometric oeuvres of the modern period.
- A total of 13 breath-taking jewellery sets of the collection will be put up for auction in November 2016.

2. *“A Heritage in Bloom”*

- Our Cullinan Masterpiece “A Heritage in Bloom” was unveiled in September 2015.
- The masterpiece is centered upon 24 diamonds, with the largest piece in 104 carats D-colour internally flawless, cut from the Cullinan Heritage, an exceptionally rare 507 carat rough diamond we acquired in 2010.

3. *Expo Milano 2015*

- We were invited as the official global partner of the China Pavilion at Expo Milano 2015.
- “Expo Milano 2015” Collection was showcased in the Expo in response to the Pavilion’s core concept of “Heaven, Earth, Humans and Harmony”.

4. *Collaboration with Stephen Webster for jewellery design*

- As an ongoing effort in brand building and market development, Hearts On Fire and Stephen Webster, an acclaimed British jewellery designer, join hands to offer opportunity to five elite Rock Vault designers (the British Fashion Council’s fine jewellery initiative) to create breath-taking jewellery with Hearts On Fire’s diamonds.
- Their masterpieces were showcased in the “IGNITE INSPIRATION EXHIBITION” at K11 Art Mall in Hong Kong in November 2015.

5. *Hearts On Fire “Ignite Something” marketing campaign*

- First ever global marketing campaign, started in the U.S. and Taiwan in September 2015, followed by Mainland China and Hong Kong in November.
- A total of 7 stories were released in rotation throughout the year to strengthen the brand image and raise the brand awareness.

6. *Generation Y marketing campaign*

- Promote mix and match of fashion jewellery to gauge the needs of younger generation.
- Collaborate with key opinion leader (KOL) to launch featured promotional video of the series, and received over 2 million views in the first 20 days following the launch.

7. "Freely on Silk Road" campaign

- Successful candidates started their journey in July 2015 and arrived in Italy, the final destination, in September 2015.
- More than 400 million views were recorded and forward actions in social media platforms.
- The second "Freely on Silk Road" campaign – "Revisit of Maritime Silk Road" was launched in March 2016.

Store Traffic

Collaboration with Ctrip to boost target customer traffic from online to offline

- Target the market of Mainland tourists of Individual Visit Scheme.
- Collaborated with Ctrip, a leading online travel agent in Mainland China, to launch "Shopping Chic with Ctrip" in various regions in Mainland China and overseas to tap the large potential of the consumer group. Ctrip customers, upon online booking of travel service, will receive information of our stores and will be directed to the nearest one.
- We were ranked top among all jewellery retail brands with the highest rebate amount according to Ctrip.



Collaboration with MiaoJie to provide new shopping experience at shopping mall

- Collaborated with MiaoJie, an application of Alibaba, to provide customers with a new shopping experience through the combination of the Internet and retailing to enhance the interaction with users, in response to the new commercial mode of shopping mall under the emerging "Internet +" trend.
- Customers receive updates of the promotional activities in the shopping malls through MiaoJie before shopping, and receive the latest news of the events of our stores while shopping in the mall. With the indoor navigation function, they will be directed to the nearby store. In addition, customers may enjoy convenient and one-stop shopping experience through mobile payment.
- We are currently one of the best retailers in MiaoJie.



Collaboration with Baidu Nuomi to expand in local life services market

- Collaborated with Baidu Nuomi, a mobile group purchasing platform under Baidu (the world's largest search engine in Chinese language), to make use of the search and navigating functions of Baidu in expanding our coverage to potential customers in the young generation.
- Customers who enjoy local services through Baidu Nuomi may search our promotion activities at store level and purchase coupons online. They will be directed to the nearby POS for offline purchases.



Store events organised to attract customer traffic

- Customer traffic is essential to our retail business, and it has been our continuous endeavor to attract customer traffic via store promotional events, especially at heavy traffic areas and during holiday occasions, to engage our customers in an interactive and dynamic way.



Shopping Experience

Innovations in store image

- Introduced brand new store layout with a refreshing store image. One of our latest store designs segmented our store area and product display by customer needs instead of the traditional way which segmented products by the type of materials used.



Experiential POS

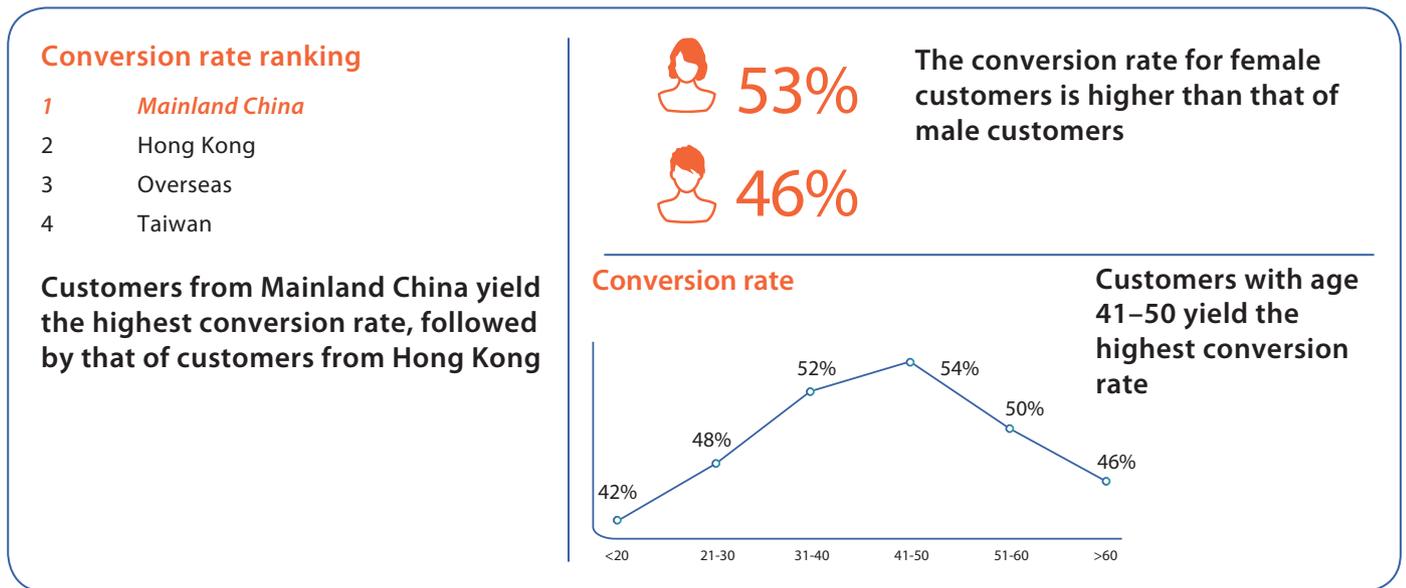
With “Smart+” concept in mind, our experiential POS aim at infusing energetic, stylish and innovative elements in our stores through technological devices and infrastructure, so that customers can interact and enjoy unique shopping experience. As at 31 March 2016, we had 18 experiential POS in Mainland China.



Smart Tray

- Our self-developed Smart Tray enables us to understand customer preferences and tastes by automatically capturing of valuable data such as age, gender, nationality and average customer serving time during a customer visit. From there, we can generate conversion rate and other analysis.
- All these findings can enhance our ability in formulating strategies and making decisions in areas such as product offerings, product display, inventory stocking and staff development and training etc.

- We had Smart Tray in place in 74 POS in Hong Kong and Macau as at 31 March 2016. Below are the highlights from the data collected from the Smart Tray during the year:



Convenient payment service

- We continue to enhance customers' shopping experience. Through co-operating with Alipay (the world's largest mobile payment merchant) and Wechat payment platform, convenient payment services are provided in our POS to simplify the transaction processes. As such, we are able to lay a foundation for our online-to-offline operation through connecting online to offline activities.
- As at 31 March 2016, approximately one tenth of our POS support WeChat payment or Alipay payment services.

Customer Relationship Management



- To stay connected with our members and provide them with exclusive experience that match with their privileged status, we cater their needs in every detail and invited them to various activities and events.



Mainland China

Number of members

1,104,000

Members' Repeat Purchase as a % of RSV

29.0%

(FY2015: 29.2%)

Number of Fans members

7,873,000

Hong Kong and Macau

Number of members

362,000

Members' Repeat Purchase as a % of RSV

26.0%

(FY2015: 19.3%)

PRODUCTS AND PRODUCTION



With 87 years' heritage in promoting jewellery culture and enhancing industry standards, our product design and craftsmanship have been evolving all the time. These enable us to create unique products for customers.

Building on our strength in the mass luxury jewellery market, we constantly broaden our product offerings to satisfy customer needs.

- Further develop gem-set jewellery products and maintain our market leadership in gold products, through more advanced craftsmanship and better fulfillment of customers' emotional appeal.
- Introduce high-end and one-of-a-kind auction jewellery collections to further uplift our brand equity.
- Introduce diamond fashion jewellery collections and licensed collections through collaboration with well-known movies, animations or characters to offer creative and diversified product selection to customers.

- Continue develop wedding jewellery products to seize market opportunities.
- Capitalise on our vertically integrated business model and unique technology to provide reliable, innovative and distinctive product offerings to our customers.

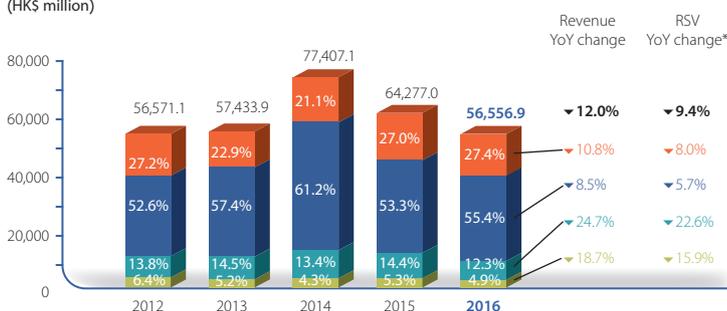
Product offerings

As a world-class jewellery specialist, we provide a wide range of products to our customers. Our products are categorised into four types namely gem-set jewellery, gold products, platinum/karat gold products and watches.

Our jewellery product selection covers high-end jewellery, mass luxury jewellery and youth line products.

Revenue by product

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



Gold products and gem-set jewellery contribute more than 80% of our revenue.

- Gem-set jewellery
- Gold products
- Platinum/Karat gold products
- Watches

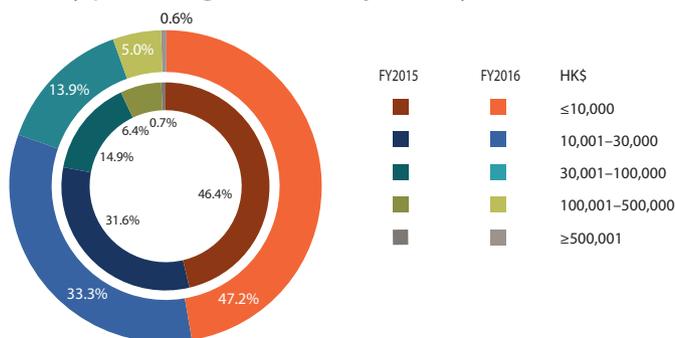
* Measured at constant exchange rates

Note: The revenue excludes the amount of service income from franchisees

Product price range

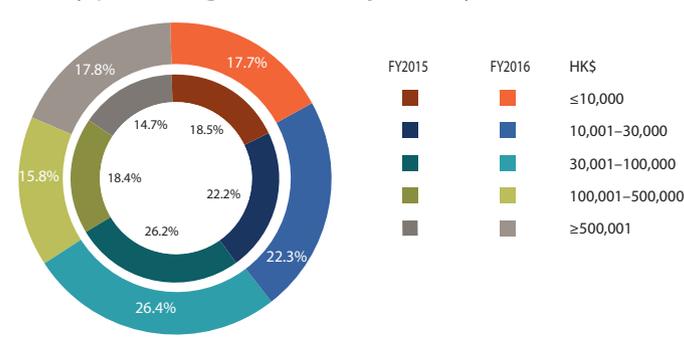
Mainland China

RSV by price range – Gem-set jewellery



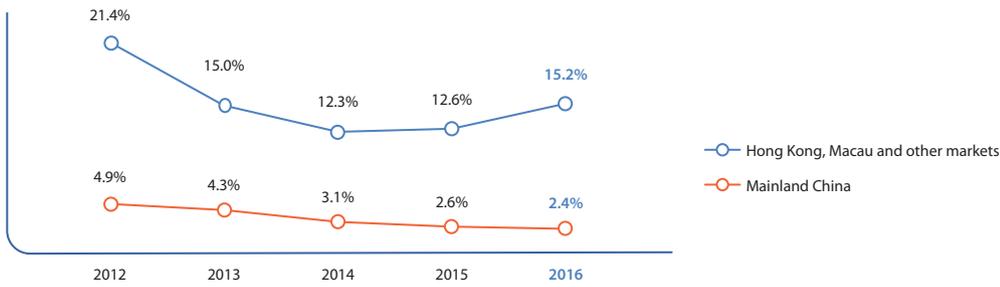
Hong Kong, Macau and other markets

RSV by price range – Gem-set jewellery



Contribution of high-end jewellery* to respective RSV

For the year ended 31 March



* Selling price > HK\$100,000

High-end and one-of-a-kind jewellery products

Introduction of high-end and one-of-a-kind jewellery to further uplift our brand equity.



"Le Labyrinthe Artistique" Collection



"The Palace Museum" Collection



Licensed products

Collaboration with well-known movies, animations or characters to offer creative and diversified products to customers.



Disney "Star Wars" Collection



RSV of gem-set jewellery of FOREVERMARK, Rio Tinto Group and Disney licensed products, as a % of gem-set jewellery RSV

12.9%
(FY2015: 11.8%)

Wedding products

Continual effort in bridal products to seize market opportunities.



"Bridal" Collection



RSV of gem-set jewellery of wedding product as a % of gem-set jewellery RSV

51.8%
(FY2015: 52.2%)

Hearts On Fire products

Introduction of Hearts On Fire products to broaden our product offerings.



"ILLA" Collection



"AERIAL" Collection



Procurement and Production

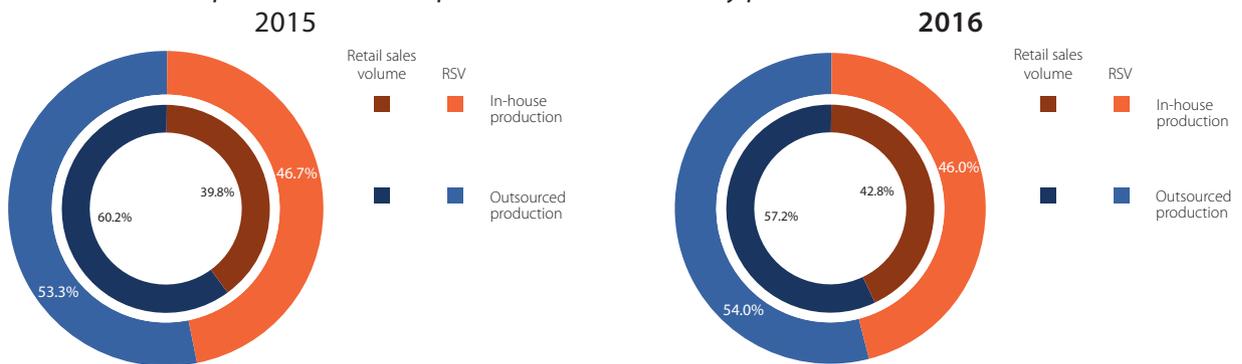
Steady supply of raw materials and first-class production capabilities are crucial for us to maintain competitive advantages.

Our diamond processing capabilities and our well-established relationships with De Beers, Rio Tinto Group, ALROSA and other suppliers provide us with a stable supply of raw materials.

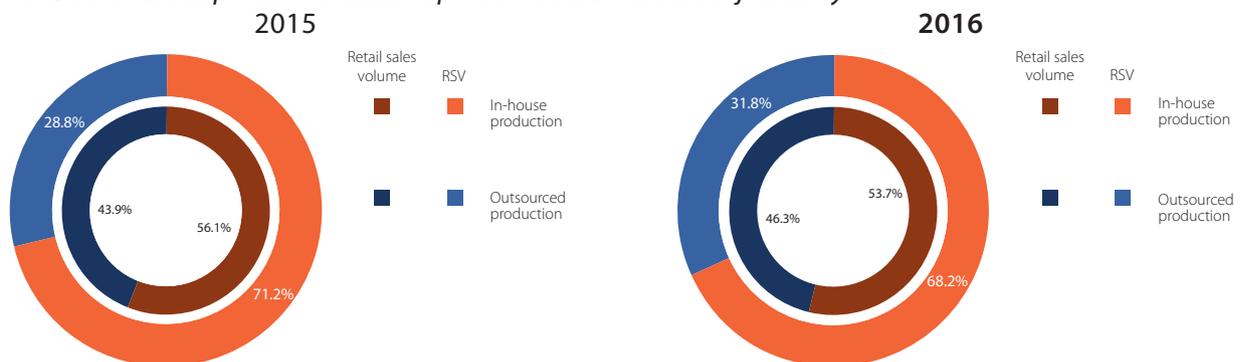
We continue to make investment and expand our research and development, design and production capabilities according to our business needs so as to meet market demand for our products and reduce production costs.

For the year ended 31 March

In-house/outsourced production mix of products sold – Jewellery products



In-house/outsourced production mix of products sold – Gem-set jewellery



OPERATIONS AND MANAGEMENT



We are committed to offering value-for-money products and quality services in our continuous pursuit of maintaining industry-leading operation capabilities and preserving our heritage and edges in human capital.

We continue to develop, improve and expand our operation capabilities and human capital according to business needs to underpin our steady development and seize new market opportunities in the future.

- Unify ownership of inventories in our retail network to facilitate inventory pooling and better management of price risk of gold inventories.
- Embark on different development projects to expand our operation capacities and to enhance our operation efficiencies.
- Optimise our operations and management model to sustain our responsiveness and flexibility towards market development.
- Set up Chow Tai Fook Academy and organise series of designated training courses to provide progressive development opportunities to every level of our staff.

Inventory Ownership Unification

In order to promptly address our customers' needs and strengthen the stability of our retail network, we have been optimising our inventory management mechanism.

- Inventories are dispatched to franchised POS upon the receipt of deposits at value equivalent to the prescribed inventory level.
- We retain inventory ownership until sales transactions are completed with retail customers, upon which wholesale revenue is recognised at the prevailing price.
- Inventories at self-operated and franchised POS would be unified in an inventory pool and the related price risk on gold inventories is mitigated by our gold hedging mechanism.
- Up to 31 March 2016, 274 franchised POS (accounting for approximately 40.0% of our franchised POS) were under the new mechanism, holding inventories valued at approximately HK\$970.0 million, representing 3.1% of total inventories of the Group as at 31 March 2016.

Development Projects

To meet the need of our future business growth, we have embarked on the development of Chow Tai Fook Jewellery Park in Wuhan, Hubei and a logistic and distribution centre in Shunde.

Chow Tai Fook Jewellery Park

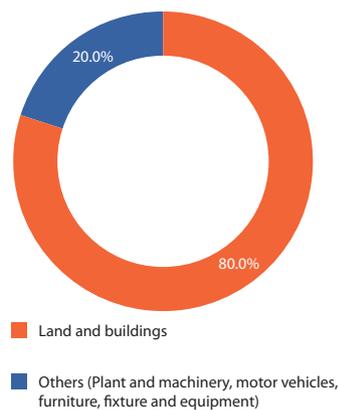
- Taking into account of the second land parcel acquired in FY2015, the development has a gross floor area of approximately 750,000 square metres on a land parcel of approximately 386,000 square metres.
- Eight buildings of a total gross floor area of approximately 180,000 square metres were completed in FY2015. In addition, the construction of another five buildings with a total gross floor area of approximately 80,000 square metres started in FY2016 and is expected to be completed in FY2018.
- Production operation had commenced progressively since FY2015. It is expected the annual jewellery production capacity would reach 2.4 million pieces by the end of FY2017.

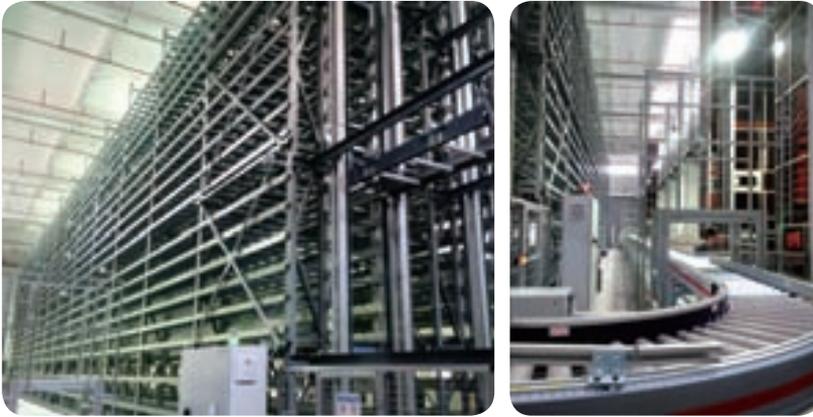
Capital investments in the Jewellery Park for which specific plans have been made amount to approximately HK\$2.6 billion, of which approximately HK\$840.0 million has been spent up to the end of FY2016.



Scene of the Chow Tai Fook Jewellery Park — April 2016

Capital investment classification (with specific plans)





Scene of the Logistic and distribution centre

Logistic and distribution centre

We strive to enhance operating capabilities of our supply chain. The logistic and distribution centre, situated in our Shunde production site, will process our products manufactured in the South China region on a consolidated basis.

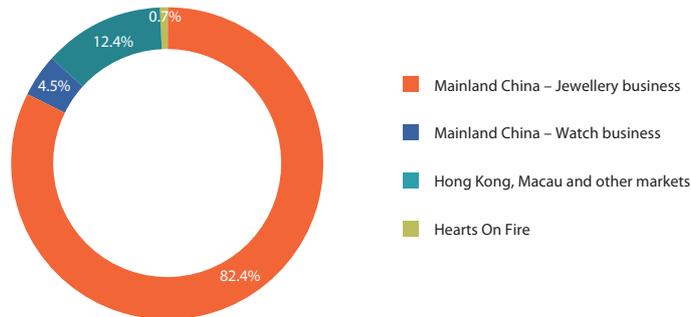
With our automation facilities and inventory movement analysis mechanism, the accuracy and efficiency of our product distribution would be enhanced further. This enables in-time inventory replenishment to our retail network.

- System installation has substantially completed.
- System tuning and test run are in progress.
- Operation is expected to start in FY2017.

Human Resources and Management

Number of employees by reportable segment

As at 31 March 2016



Total number of employees

32,170

YoY change

▼12.6%

The decrease in the number of employees was mainly due to our effort in enhancing efficiency.

We optimise our operation and management model by giving more autonomy to the regional management. We believe this will help us to cope with market changes promptly and improve our efficiency by leveraging on their local knowledge. We also established the Data Intelligence Space during the year to equip the management team with data analysis tools to facilitate business decision making.



Data Intelligence Space — A workspace, combining data analytics and business intelligence

Training and Development

Human resources is our greatest asset and we believe that human resources investment is vital to the sustainable development of our business.

Chow Tai Fook Academy

- In June 2015, we established Chow Tai Fook Academy to provide more professional and systematic training courses.
- Management from various departments were invited to share in-house expertise and knowledge with other staff so as to enhance continuous learning atmosphere.
- Professional jewellery related technical training, such as Gemological Institute of America class and Certificate in Advanced Level of Gemstone knowledge, were launched in FY2016.



Training Data

Number of classes

>3,600

Number of hours

>739,000

iLearning

- In order to have more flexibility in training arrangements, we implemented the online learning platform.
- Online courses include Putonghua, jewellery knowledge etc.

Training Program for Management

Project Management Training Program

In FY2016, we developed the Project Management Training Program for selected frontline and back office staff members from operational to managerial grades. This training programme aims to foster all-round development of staff. Courses regarding professional knowledge of jewellery products, customer service, selling technique and management skills were provided to enhance their professional knowledge.

Strategic Acumen and Ambidextrous Leadership Program

In April 2016, we engaged Ivey Business School of the University of Western Ontario to provide a 3-day training at Hong Kong Convention and Exhibition Centre for our senior executives including directors. The program aims to stimulate actionable plans on internationalisation, customer level innovation and to inculcate anchoring attitude and skills to exploit existing advantages and explore future opportunities in this highly competitive environment.

FINANCIALS

We strive for an optimal capital structure and capital efficiency to create long-term value and return to our shareholders.

We are committed to creating long-term value and return to our shareholders by setting our payout policy, investment strategies and financing plans carefully, which help to maintain an optimal capital structure to finance our profitable operations and prosperous development:

- Pursue cost optimisation by increasing efficiency and initiating cost savings in alignment with the Group's business strategy
- Optimise capital structure and minimise our cost of financing
- Balance between maintaining an adequate cushion of liquidity and fulfilling working capital and investment needs
- Create long-term value and return to shareholders via dividend payments

Gross Profit Margin

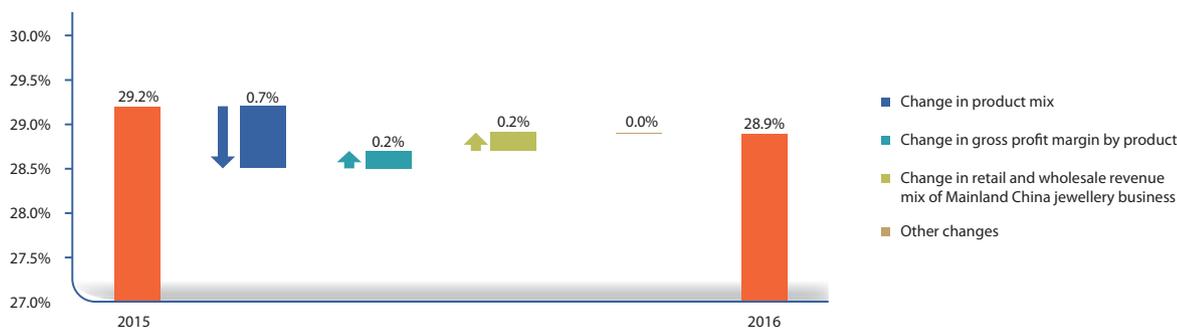
Unrealised hedging gain/loss

For the year ended 31 March	2014	2015	2016
Gross profit margin	27.3%	29.7%	27.6%
Unrealised hedging loss/(gain) on gold loans	0.4%	(0.5)%	1.3%
Adjusted gross profit margin	<u>27.7%</u>	<u>29.2%</u>	<u>28.9%</u>

- Unrealised hedging gain/loss for the year represents the net effect of (i) the reversal of the gain/loss recorded due to the timing difference in recognising the effect of long and short position in gold when we take a snap-shot position at the end of the previous financial year; and (ii) the gain/loss 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 gain/loss may arise due to a short-term timing difference between the time when a gain/loss on gold loans recorded in the cost of goods sold and the time when sales of hedged gold inventories are recognised, when we take a snap-shot position at the end of the reporting period.

Changes in adjusted gross profit margin

For the year ended 31 March



- Changes in adjusted gross profit margin of the Group was due to the combination of: (i) the reduction of gross profit margin as a result of the change in the product mix with increased sale of relatively lower-margin gold products, (ii) the improvement of gross profit margin by product; and (iii) improvement of gross profit margin following the increase in retail revenue mix of Mainland China's jewellery business.
- Other changes in adjusted gross profit margin included the effect of impairment of watch inventories amounting to HK\$74.2 million, which was made after considering the conditions and latest market values of such inventories.

Selling and Distribution Costs and General and Administrative Expenses ("SG&A")

For the year ended 31 March

SG&A by reportable segment

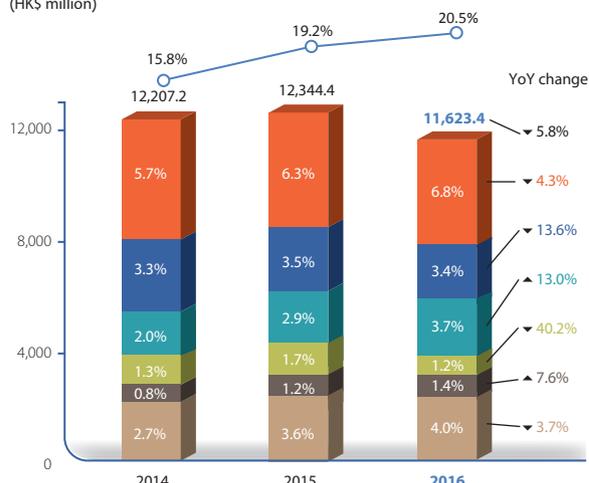
(HK\$ million)



- Mainland China — Jewellery business
- Mainland China — Watch business
- Hong Kong, Macau and other markets
- Hearts On Fire⁽¹⁾

SG&A to revenue ratio

(HK\$ million)



- Staff costs
- Concessionaire fees
- Rental expenses
- Advertising and promotion expenses
- Depreciation and amortisation
- Other SG&A⁽²⁾
- As a % of respective revenue

⁽¹⁾ Hearts On Fire was acquired on 31 August 2014

⁽²⁾ 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

Note: The percentages calculated are subject to minor rounding differences

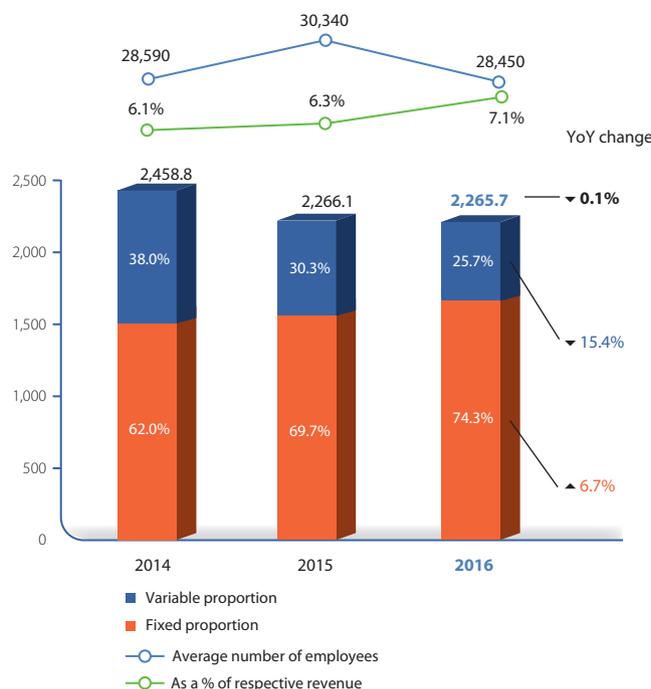
- Pursue cost optimisation by increasing efficiency and initiating cost savings in alignment with the Group's business strategy.
- The focus of our continuous effort of cost optimisation including staff productivity enhancement, concessionaire fee rates and rental expenses reduction and cost containment of ineffective promotional campaigns during the year. Our SG&A dropped 5.8% as benefited from certain of these cost saving initiatives, coupled with the decreased variable SG&A as revenue declined.
- Nevertheless our SG&A ratio increased as a significant portion of our expenses, including basic salary, rental expenses and depreciation and amortisation, was fixed in nature and did not slide with revenue at the same pace.
- Depreciation and amortisation expenses recorded a considerable growth following the completion of Mainland China headquarters building in Shenzhen and the acquisition of the new operation centre in Hong Kong as well as the new POS openings in FY2015.
- Decline in SG&A of jewellery business in Mainland China was due to the decrease in concessionaire fees and advertising and promotion expenses.
- SG&A of Hong Kong, Macau and other markets decreased modestly by 3.5% as it has a relatively higher fixed proportion of SG&A such as rental expenses.
- We acquired Hearts On Fire on 31 August 2014 and consolidated its results since then. On an annualised basis, the SG&A year-on-year change of Hearts On Fire and the Group would be 19.0% and -6.9%, respectively. The SG&A structure of Hearts On Fire is different from the rest of our reportable segments. While its gross profit margin is much higher than other segments, it requires more resources on advertising and promotion. During the year, it launched the global marketing campaign "Ignite Something" to raise its brand awareness as we are extending our footprint progressively.

Mainland China — Jewellery business

For the year ended 31 March

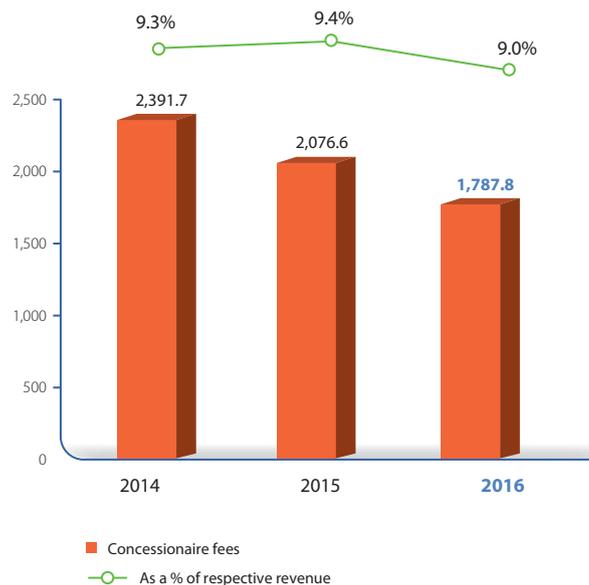
Staff costs

(HK\$ million)



Concessionaire fees

(HK\$ million)



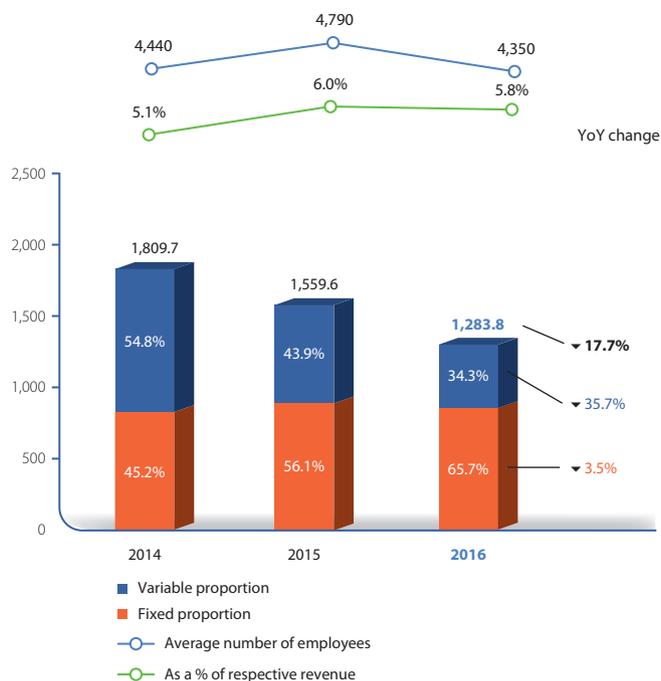
- An increase in the fixed proportion of staff costs was mainly attributable to the revision of staff remuneration package during the year in order to attract and retain talents. We strive for staff costs optimisation by enhancing productivity of our employees. The average number of frontline staff per self-operated POS decreased by approximately 10.0% as compared with that of last year.
- Significant portion of self-operated POS situated at department stores and shopping malls incur concessionaire fees. Concessionaire fees ratio, which measures the concessionaire fees to the respective revenue, declined due to the reduction of concessionaire fees by product, and the sales mix shifted towards gold products which generally are subject to lower rates.

Hong Kong, Macau and other markets

For the year ended 31 March

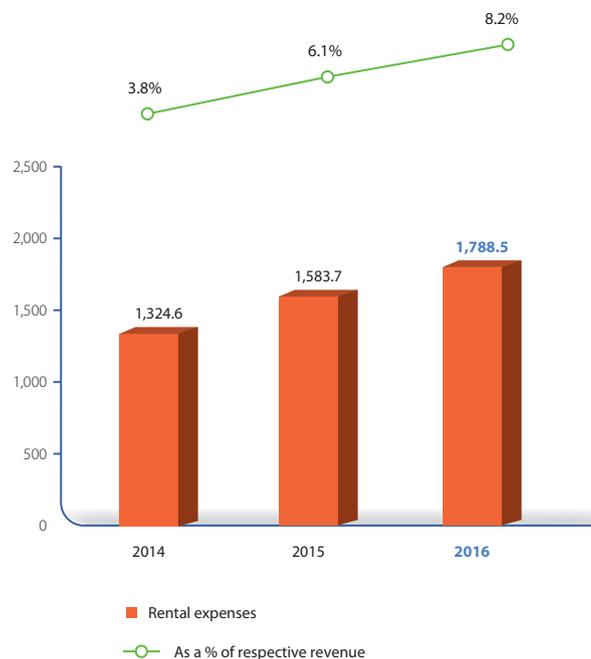
Staff costs

(HK\$ million)



Rental expenses

(HK\$ million)

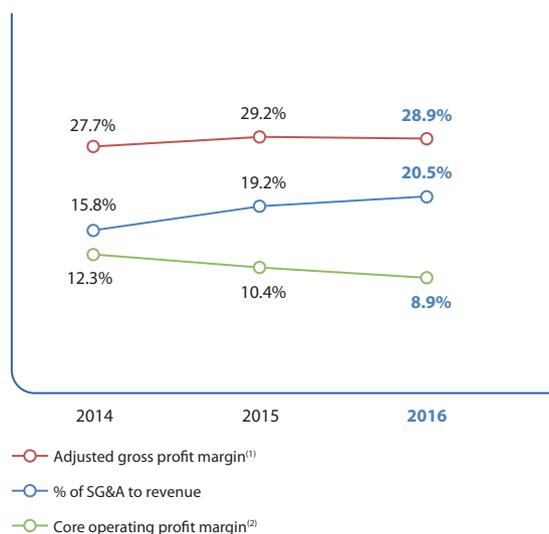


- Decrease in staff costs was due to the decline in average number of employees, mainly through attrition, as well as the decline in variable component of staff costs along with the drop of sales. The average number of frontline staff per self-operated POS decreased by approximately 13.0% to boost the productivity.
- Rental expenses increased 12.9% mainly due to the new POS openings in FY2015. Our cost saving measures in this area included POS consolidation and negotiation with landlords for rental reduction. We achieved approximately 13.0% rental reduction on average for rental renewed during the year. As a result, the rising pressure on rental expenses was eased in the second half of the year, compared with 18.9% growth recorded in first half of FY2016. We expect the impact of our efforts in reducing rental expenses shall become more obvious in the near future.

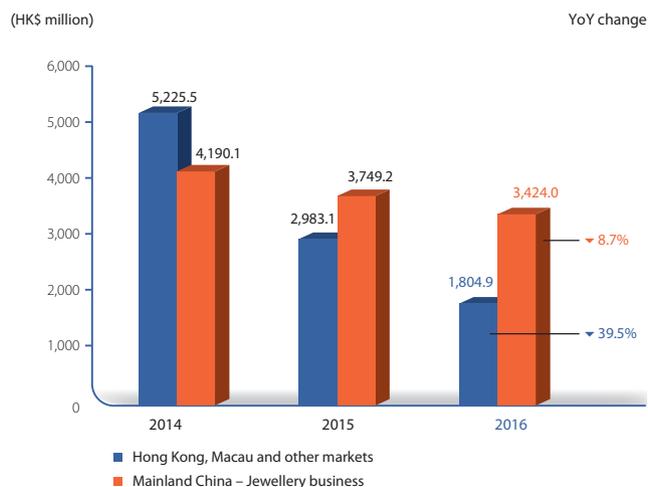
Profitability, Basic Earnings per Share and Dividend per Share

For the year ended 31 March

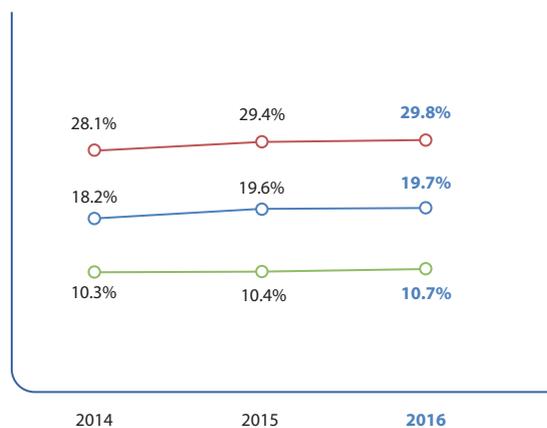
Overall



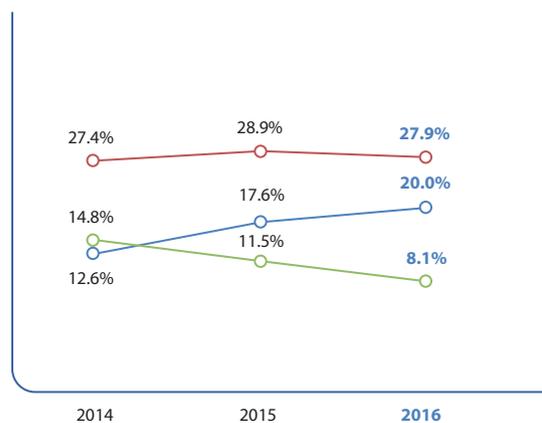
Core operating profit⁽²⁾ of major reportable segments



Mainland China - Jewellery business



Hong Kong, Macau and other markets



⁽¹⁾ Adjusted gross profit 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

⁽²⁾ Core operating profit and the corresponding margin, a non-IFRS measure, being the aggregate of gross profit and other income, less 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

- Core operating profit margin shrank by 150 basis points to 8.9% as a result of the drop in adjusted gross profit margin mainly due to the shift of product mix towards relatively lower-margin gold products and the worsened SG&A ratio due to operating leverage.
- The jewellery business in Mainland China has earned importance recently with profit contribution to the Group continuing to increase, thanks to its relatively stable adjusted gross profit margin and SG&A ratio. A slight improvement in adjusted gross profit margin for FY2016 was mainly benefited from the increase in retail revenue mix which outweighed the drop in margin due to the increase in sales mix of gold products.
- Profitability of Hong Kong, Macau and other markets was under pressure due to the decline in adjusted gross profit margin following a significant growth in wholesale revenue mix and increased SG&A ratio as a result of operating leverage.
- Watch business in Mainland China suffered core operating losses of HK\$60.1 million (FY2015: core operating profit of HK\$28.2 million) mainly due to the decline in revenue and gross profit margin.
- Core operating losses of Hearts On Fire expanded by 70.4% to HK\$118.8 million (FY2015: HK\$69.7 million, represented the post-acquisition results since 31 August 2014) which was attributable to the additional advertising expenses for the global marketing campaign. Notwithstanding the core operating losses, we believe the positive effect from the synergy brought about by Hearts On Fire to the Group, including widening the spectrum of our product offerings and the optimisation of resources allocation, funding and raw materials procurement, will be materialised gradually in the medium-term.

For the year ended 31 March	2014 <i>HK\$ million</i>	2015 <i>HK\$ million</i>	2016 <i>HK\$ million</i>	2016 vs 2015 YoY change
Core operating profit ⁽¹⁾	9,499.5	6,690.8	5,050.0	(24.5)%
Net profit	7,449.2	5,535.8	2,978.9	(46.2)%
Profit attributable to shareholders of the Company	7,272.0	5,456.0	2,941.4	(46.1)%
Basic earnings per share (HK cent)	72.7	54.6	29.4	(46.1)%
Dividend per share (HK cent)				
Interim	17.0	13.0	8.0	(38.5)%
Final	19.0	15.0	8.0	(46.7)%
Full year	36.0	28.0	16.0	(42.9)%
First special	–	–	42.0	N/A
Second special	–	–	22.0	N/A

⁽¹⁾ Core operating profit, a non-IFRS measure, being the aggregate of gross profit and other income, less 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

- Net profit tumbled as compared to that of last year. The decrease was mainly attributable to the decline in revenue and the reduced gross profit margin owing to the unrealised hedging loss on gold loans (while it was an unrealised hedging gain last year) and the increased revenue mix of gold products.
- Net profit margin decreased by 330 basis points as a result of the drop of gross profit margin and deteriorated SG&A ratio due to operating deleverage.
- Apart from the net exchange loss recognised in other gains and losses, the fluctuations of Renminbi (“RMB”) during the year also adversely affected the operating results of the Group as we translate the results and financial position of our Mainland China’s operation from RMB to Hong Kong dollar (“HKD”), being the Group’s presentation currency, when preparing consolidated financial statements.
- Special dividend was declared to return the excess cash to shareholders after considering the working capital requirement and business growth outlook in the near term.

Other Income, Other Gains and Losses and Other Expenses

For the year ended 31 March	2014 <i>HK\$ million</i>	2015 <i>HK\$ million</i>	2016 <i>HK\$ million</i>	2016 vs 2015 YoY change
Other income	218.0	301.5	306.2	1.6%
Other gains and losses	130.2	(35.9)	(244.9)	582.2%
Other expenses	<u>(38.0)</u>	<u>(94.7)</u>	<u>(51.2)</u>	<u>(45.9)%</u>

- Other income mainly represented income from franchisees who have yet adopted the new optimised inventory management mechanism.
- Other gains and losses mainly represented a net foreign exchange loss of HK\$229.0 million (FY2015: HK\$12.7 million) due to the fluctuation of RMB during the year.
- Other expenses for the year mainly represented the amortisation of other intangible assets and recurring charitable donation whereas the amount in last year mainly represented non-recurring charitable donation and transaction costs related to the acquisition of Hearts On Fire.

Interest Income, Finance Costs and Taxation

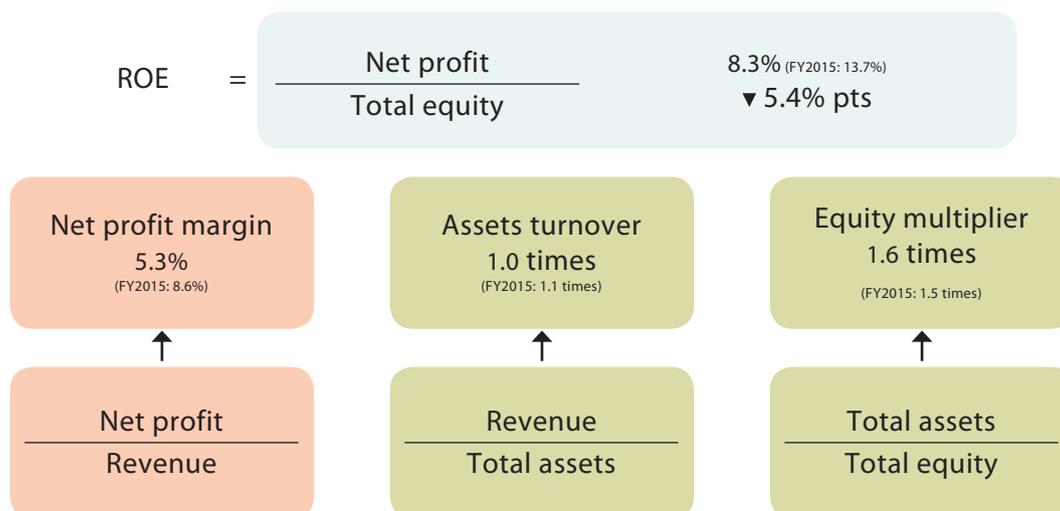
For the year ended 31 March	2014 HK\$ million	2015 HK\$ million	2016 HK\$ million	2016 vs 2015 YoY change
Interest income from banks	115.2	125.1	111.8	(10.6)%
Other interest income	18.5	26.4	42.8	(62.1)%
Finance costs on bank borrowings	37.1	148.9	68.6	(53.9)%
Finance costs on gold loans	185.7	231.6	174.4	(24.7)%
Taxation	1,713.8	1,123.3	957.2	(14.8)%

- The decrease in finance costs on gold loans was due to the decrease in average gold loan balances corresponded to the drop of gold product inventories.
- Decrease in finance costs on bank borrowings was due to the increase in contribution of average bank borrowings from Hong Kong which in general are subject to relatively lower interest rates.
- The effective tax rate increased from 16.9% in FY2015 to 24.3% in FY2016 which was mainly attributable to an one-off effect of the reversal of excessive withholding tax provision for dividend payments previously recognised by certain subsidiaries of the Group in FY2015 and the increased profit contribution from the jewellery business in Mainland China, where higher tax rates are generally applied.

Return on Equity, Inventory Turnover and Capital Structure

Return On Equity

We use return on equity ("ROE") to measure the efficiency of generating profits from each unit of shareholder equity by net profit divided by total equity.



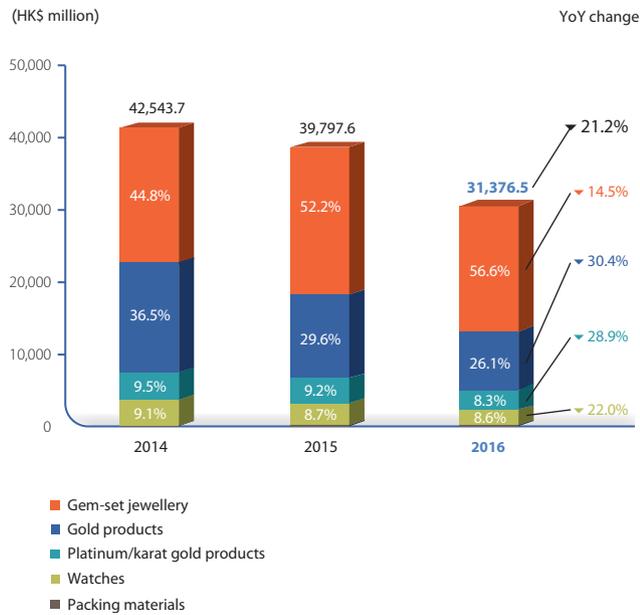
- The drop of ROE by 540 basis points was primarily attributable to the deteriorated net profit margin.

Inventory balances and turnover period

As at 31 March

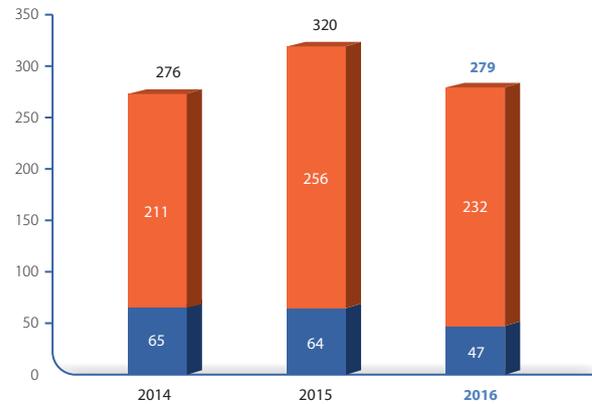
Inventory balances by product

(HK\$ million)



Inventory turnover period⁽¹⁾ by category

(Days)



⁽¹⁾ 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

Note: The percentages calculated are subject to minor rounding differences

- Inventory turnover period improved by 41 days, as compared to that as at 31 March 2015, mainly attributable to the improvement in inventory days of gem-set jewellery and gold products as a result of the decreased inventory balances.

Capital structure

As at 31 March (HK\$ million)	2015	% to total equity	2016	% to total equity	Increase/ (decrease)	Denominated currency ⁽¹⁾	Interest rate structure ⁽¹⁾	Maturity ⁽¹⁾
Non-current assets	7,038.3	17.4%	6,670.4	18.7%	(367.9)	N/A	N/A	N/A
Inventories	39,797.6	98.2%	31,376.5	87.8%	(8,421.1)	N/A	N/A	N/A
Bank deposits and cash equivalents ⁽²⁾	8,477.5	20.9%	13,001.4	36.4%	4,523.9	HKD, RMB and USD	Variable interest rate	N/A
Total borrowings	15,088.9	37.2%	14,433.3	40.4%	(655.6)			
Bank borrowings (short-term)	6,750.6	16.7%	7,320.0	20.5%	569.4	HKD	Variable interest rate	Within 12 months More than 2 years but not exceeding 5 years
Bank borrowings (long-term)	–	–	600.0	1.7%	600.0	HKD RMB and USD	Variable interest rate Fixed interest rate	Within 12 months
Gold loans	8,338.3	20.6%	6,513.3	18.2%	(1,825.0)			
Net debt ⁽³⁾	6,611.4	16.3%	1,431.9	4.0%	(5,179.5)	N/A	N/A	N/A
Working capital ⁽⁴⁾	34,202.8	84.4%	30,241.0	84.6%	(3,961.8)	N/A	N/A	N/A
Total equity	40,540.8	100.0%	35,749.9	100.0%	(4,790.9)	N/A	N/A	N/A

⁽¹⁾ Information about denominated currency, interest rate structure and maturity related to the condition as at 31 March 2016

⁽²⁾ Include bank balances and cash and pledged bank deposits

⁽³⁾ Aggregate of bank borrowings, gold loans, net of bank deposits and cash equivalents

⁽⁴⁾ Being net current assets

Note: The percentages calculated are subject to minor rounding differences

- 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 decrease in gold loans corresponded to the drop of gold product inventories.
- The Group's daily operation was mainly financed by operating cash flows, and relied on short-term borrowings to satisfy inventory financing needs during peak seasons, working capital for future expansion plans and unexpected needs. Our source of financing extended to long-term borrowings during the year which help mitigate the interest rate risk in view of the rising trend of interest rate and spread. 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 fluctuations

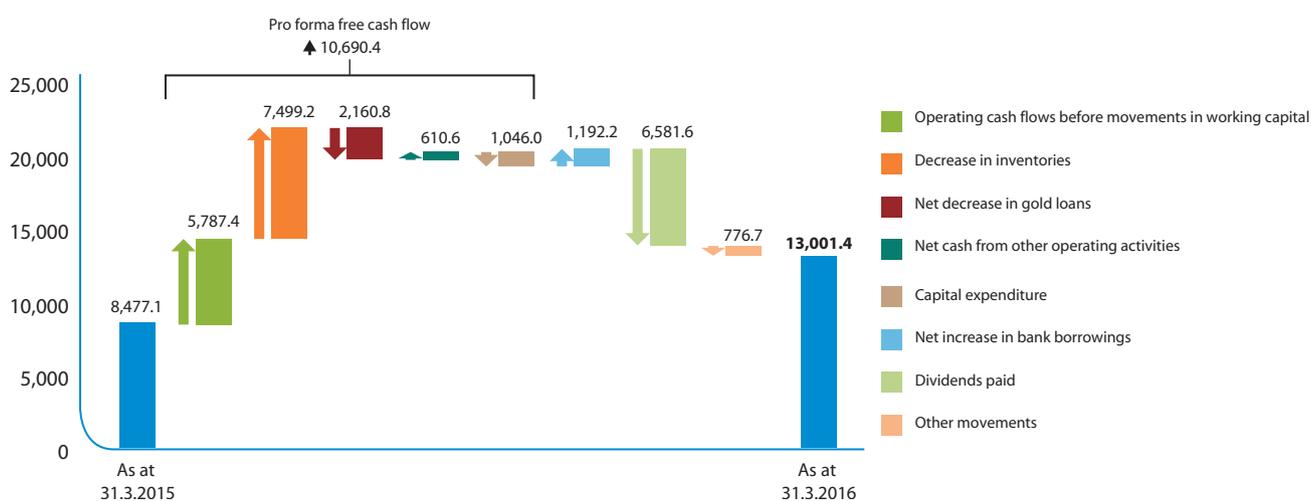
- We recorded a net foreign exchange loss of HK\$229.0 million as certain of our group companies entered into transactions denominated in currencies other than their own functional currencies and when the exchange rate at the reporting date or settlement date differs from the exchange rate on the date they entered into the transactions.
- The fluctuations of RMB also impacted the Group when we prepare the consolidated financial statements as the results and financial position of our operations in Mainland China were translated into the Group's presentation currency of HKD from their functional currency of RMB, resulted in a loss of HK\$960.0 million recognised in translation reserve (a component of equity).
- If a constant exchange rate of RMB were used, the year-on-year change of the revenue and net profit would be -10.5% (-12.0% as reported) and -41.0% (-46.2% as reported), respectively.

Cash Flows

	2014 HK\$ million	2015 HK\$ million	2016 HK\$ million
For the year ended 31 March			
Operating cash flows before movements in working capital	9,464.9	7,287.9	5,787.4
Decrease/(increase) in inventories	(15,072.6)	3,116.9	7,499.2
Net change in gold loans	6,375.8	(2,036.3)	(2,160.8)
Net cash from/(used in) other operating activities	188.2	(2,836.6)	610.6
Capital expenditure	(1,368.3)	(2,767.9)	(1,046.0)
Pro forma free cash flow	(412.0)	2,764.0	10,690.4
Net change in bank borrowings	5,296.9	450.0	1,192.2
Dividends paid	(3,349.5)	(3,534.0)	(6,581.6)
Net cash outflow used in acquisition of subsidiaries	–	(1,187.7)	–
Other movements	(373.6)	518.2	(776.7)
Net increase/(decrease) in bank balances and cash	<u>1,161.8</u>	<u>(989.5)</u>	<u>4,524.3</u>

Major cash flows items for FY2016

(HK\$ million)



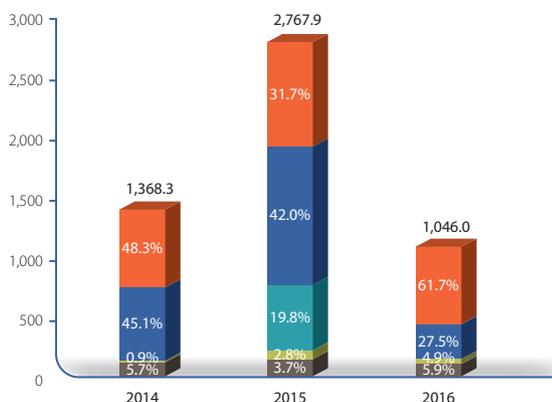
Capital Expenditure

The Group's capital expenditure incurred during the year amounted to HK\$1,046.0 million (FY2015: HK\$2,767.9 million) which was back to our normal level. Capital expenditure of last financial year was mainly driven up by non-recurring projects such as the acquisition of an industrial building in Hong Kong as operation centre and the construction of Chow Tai Fook Jewellery Park in Wuhan.

For the year ended 31 March

Capital Expenditure by nature

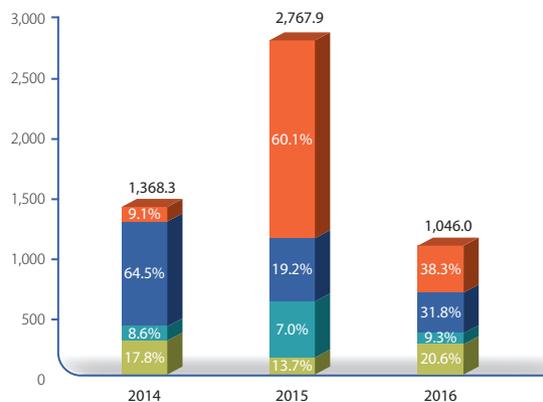
(HK\$ million)



- Furniture, fixtures and equipment and leasehold improvements
- Land and buildings and construction in progress
- Investment properties
- Land use rights and patents
- Plant and machinery and motor vehicles

Capital Expenditure by function

(HK\$ million)



- Projects
- POS
- Productions
- Offices

Note: The percentage calculated are subject to minor rounding differences

FINAL DIVIDEND, SPECIAL DIVIDEND AND ANNUAL GENERAL MEETING

The Board recommended a final dividend of HK8.0 cents per share and a special dividend of HK22.0 cents per share, totalling approximately HK\$3,000.0 million (2015: HK15.0 cents per share, totalling approximately HK\$1,500.0 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 Tuesday, 2 August 2016 and is payable to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 9 August 2016. It is expected that the proposed final and special dividends will be paid on or about 18 August 2016. 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 FY2016.

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 2016 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 2016, 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 for 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 another meeting engagement, Dr. Cheng Kar-Shun, Henry, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 31 July 2015 (the "2015 AGM"). Mr. Wong Siu-Kee, Kent, the Managing Director who took the chair of the 2015 AGM, together with other members of the Board who attended this meeting, were of sufficient calibre for answering questions at the 2015 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 during FY2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold 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, 29 July 2016 to Tuesday, 2 August 2016, 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, 28 July 2016.

In order to establish entitlements to the proposed final and special dividends, the register of members of the Company will be closed on Tuesday, 9 August 2016 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 Monday, 8 August 2016.

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

Hong Kong, 7 June 2016

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.