CHOW TAI FOOK JEWELLERY GROUP LIMITED
周大福珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1929

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

FINANCIAL HIGHLIGHTS

- Revenue grew 6.5% to HK$25,436.0 million compared with HK$23,874.5 million in the same period last year.
- Overall Same Store Sales[1] fell 1.7%, among which Mainland China grew 3.4% and Hong Kong, Macau and Taiwan fell 6.3%.
- Gross profit declined 6.1% when compared to the same period last year to HK$6,705.7 million. Gross margin decreased from 29.9% in 1HFY2012 to 26.4% in 1HFY2013. The effect of unrealised hedging loss on gold loans and bullion forward contracts caused the gross margin to decrease by approximately 2.7% (1HFY2012: increase by approximately 1.2%). If this effect is excluded, the adjusted gross margin would have been 29.1% (1HFY2012: 28.7%).
- Net profit for the period decreased 32.9% when compared to the same period last year to HK$1,892.6 million.
- Earnings per share were HK18.2 cents.
- Interim dividend declared is HK6.0 cents per share.[2]

(1) *"Same Store Sales" for 1HFY2013 is the revenue from the self-operated points of sale ("POS") (including stand-alone stores, concessionaire counters and joint-venture POS) existing as at 30 September 2012 and which have been opened prior to 1 April 2011. Revenue from wholesale channel (i.e. franchisee sales) and other direct sales (such as sales from promotional events) are excluded.*

(2) *The interim dividend payout ratio is 32.9% which is derived from the profit in the first half of FY2013.*

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

The board of directors (the "Board" or "Directors") of Chow Tai Fook Jewellery Group Limited (the "Company" or "Chow Tai Fook") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2012 ("1HFY2013"), together with comparative figures for the six months ended 30 September 2011 ("1HFY2012") as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

		Six months ended 30 September	
		2012	2011
	Notes	***HK$ million***	*HK$ million*
		(unaudited)	(audited)
Revenue	*2*	**25,436.0**	23,874.5
Cost of goods sold		**(18,730.3)**	(16,733.6)
Gross profit		**6,705.7**	7,140.9
Other income		**160.0**	124.9
Other gains and losses		**(11.4)**	79.1
Selling and distribution costs		**(3,332.1)**	(2,864.4)
Administrative expenses		**(812.4)**	(709.6)
Other expenses		**(0.2)**	(36.2)
Finance costs		**(213.3)**	(116.7)
Profit before taxation	*3*	**2,496.3**	3,618.0
Taxation	*4*	**(603.7)**	(797.1)
Profit for the period		**1,892.6**	2,820.9
Other comprehensive income			
— exchange differences arising on translation		**(108.6)**	243.8
— share of translation reserve of an associate		**–**	3.6
		(108.6)	247.4
Total comprehensive income for the period		**1,784.0**	3,068.3
Profit for the period attributable to:			
Owners of the Company		**1,824.7**	2,691.5
Non-controlling interests		**67.9**	129.4
		1,892.6	2,820.9
Total comprehensive income attributable to:			
Owners of the Company		**1,721.5**	2,925.8
Non-controlling interests		**62.5**	142.5
		1,784.0	3,068.3
Earnings per share — Basic	*5*	**HK18.2 cents**	HK30.1 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2012

	Note	**30 September 2012** *HK$ million* **(unaudited)**	31 March 2012 *HK$ million* (audited)
Non-current assets			
Property, plant and equipment		**1,859.1**	1,687.5
Prepaid lease payments		**89.4**	95.7
Deposits paid for acquisition of property, plant and equipment		**450.3**	349.7
Interest in an associate		**10.1**	10.1
Loan receivables		**11.3**	13.0
Deferred tax assets		**84.8**	–
		2,505.0	2,156.0
Current assets			
Inventories	*7*	**31,705.8**	29,694.2
Trade and other receivables		**5,044.9**	5,323.4
Loan receivables		**139.0**	163.8
Convertible bonds		**24.8**	24.8
Derivative financial instruments		**–**	47.3
Pledged bank deposits		**19.2**	17.0
Bank balances and cash		**5,371.3**	9,987.8
		42,305.0	45,258.3
Current liabilities			
Trade and other payables		**1,838.3**	1,838.4
Amounts due to non-controlling shareholders of subsidiaries		**481.7**	400.3
Derivative financial instruments		**71.9**	–
Taxation payable		**736.1**	598.5
Bank borrowings — due within one year		**2,831.1**	5,574.2
Gold loans		**8,372.0**	5,806.6
		14,331.1	14,218.0
Net current assets		**27,973.9**	31,040.3
Total assets less current liabilities		**30,478.9**	33,196.3

	30 September 2012 *HK$ million* **(unaudited)**	31 March 2012 *HK$ million* (audited)
Non-current liabilities		
Retirement benefit obligations	**193.1**	196.9
Bank borrowings — due after one year	**–**	3,426.4
	193.1	3,623.3
Net assets	**30,285.8**	29,573.0
Share capital/paid-in capital	**10,000.0**	10,000.0
Reserves	**19,699.8**	18,978.3
Equity attributable to owners of the Company	**29,699.8**	28,978.3
Non-controlling interests	**586.0**	594.7
	30,285.8	29,573.0

NOTES

1. Significant Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, and in accordance with International Financial Reporting Standards ("IFRSs"). The principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 March 2012.

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

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. Revenue and segment information

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

Information reported to the chief operating decision maker (the "CODM") which comprises executive directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the locations of the operations. In addition, revenue from retail and wholesale markets are reviewed by CODM. This is also the basis upon which the Group is arranged and organised. The Group's operating and reportable segments under IFRS 8 are operations located in the Group's places of domicile in Mainland China, and Hong Kong, Macau and other Asian markets. The revenue generated by each of the operating segments is mainly derived from sales of jewellery products and watches.

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

For the six months ended 30 September 2012 (unaudited)

	Mainland China *HK$ million*	**Hong Kong, Macau and other Asian Markets** *HK$ million*	**Subtotal** *HK$ million*	**Elimination** *HK$ million*	**Total** *HK$ million*
Revenue					
External sales					
— Retail	**10,850.1**	**11,157.3**	**22,007.4**	**–**	**22,007.4**
— Wholesale[#]	**3,188.0**	**240.6**	**3,428.6**	**–**	**3,428.6**
	14,038.1	**11,397.9**	**25,436.0**	**–**	**25,436.0**
Inter-segment sales*	**285.5**	**1,149.4**	**1,434.9**	**(1,434.9)**	**–**
	14,323.6	**12,547.3**	**26,870.9**	**(1,434.9)**	**25,436.0**
Segment profit	**1,235.2**	**1,429.7**	**2,664.9**	**(28.2)**	**2,636.7**
Interest income					**72.9**
Finance costs					**(213.3)**
Profit before taxation					**2,496.3**

* *Inter-segment sales are charged at prevailing market rates.*

\# *Wholesale mainly represents sales to franchisees.*

For the six months ended 30 September 2011 (audited)

	Mainland China HK$ million	Hong Kong, Macau and other Asian Markets HK$ million	Subtotal HK$ million	Elimination HK$ million	Total HK$ million
Revenue					
External sales					
— Retail	9,212.8	10,398.5	19,611.3	–	19,611.3
— Wholesale[#]	4,158.6	104.6	4,263.2	–	4,263.2
	13,371.4	10,503.1	23,874.5	–	23,874.5
Inter-segment sales*	–	1,714.2	1,714.2	(1,714.2)	–
	13,371.4	12,217.3	25,588.7	(1,714.2)	23,874.5
Segment profit	1,903.7	1,798.7	3,702.4	(5.3)	3,697.1
Interest income					37.6
Finance cost					(116.7)
Profit before taxation					3,618.0

Segment profit represents the profit generated from each segment without allocation of interest income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

* *Inter-segment sales are charged at prevailing market rates.*

\# *Wholesale mainly represents sales to franchisees.*

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

	Six months ended 30 September	
	2012	2011
	HK$ million	*HK$ million*
	(unaudited)	(audited)
Sales of		
— Gem-set jewellery	**5,779.3**	5,642.7
— Gold products	**14,123.1**	12,690.4
— Platinum/karat gold products	**4,026.9**	3,713.9
— Watches	**1,506.7**	1,827.5
	25,436.0	23,874.5

3. Profit before taxation

	Six months ended 30 September	
	2012	2011
	HK$ million	*HK$ million*
	(unaudited)	(audited)
Profit before taxation has been arrived at after charging:		
Staff costs	**1,396.0**	1,369.5
Amortisation of prepaid lease payments	**5.5**	4.6
Depreciation	**225.7**	153.6
Fair value changes of gold loans (included in cost of goods sold)	**515.2**	343.4
Net loss on bullion forward contracts (included in cost of goods sold)	**47.7**	151.7
Operating lease rentals in respect of rented premises	**422.4**	284.7
Concessionaire fee	**971.4**	950.2

4. Taxation

	Six months ended 30 September	
	2012	2011
	HK$ million	*HK$ million*
	(unaudited)	(audited)
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax ("EIT") in Mainland China	**465.1**	406.1
Hong Kong Profits Tax	**180.0**	316.2
Macau complementary tax	**34.6**	47.7
	679.7	770.0
Under-provision in prior years:		
Hong Kong Profits Tax	**–**	27.1
	–	27.1
Deferred tax		
Current period	**(85.1)**	–
Withholding tax on license income from Mainland China	**9.1**	–
	603.7	797.1

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

Under the Enterprise Income Tax Law (the "EIT Law") of the People's Republic of China ("PRC") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in Mainland China is 25% from 1 January 2008 onwards, while Chow Tai Fook Jewellery Company (Shenzhen) Limited is under progressive tax rates from 18% to 25% over 5 years from 1 January 2008.

Pursuant to relevant laws and regulations in Mainland China, Lida Noble Metal Technology and Development (Shenzhen) Limited and Foshan Shunde Yuda Jewellery Manufacturing Limited were entitled to exemption from PRC income tax for two years commencing from the year ended 31 December 2007 and 31 December 2008, their first profit-making year, followed by a 50% reduction from the year ended 31 December 2009 and 31 December 2010 for three years respectively.

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

No provision for taxation has been made for the operation in Taiwan as there was no assessable profit for the period.

5. Earnings per share

The calculation of the basic earnings per share for the period is based on the condensed consolidated profits attributable to owners of the Company for the period and on the weighted average number of 10,000,000,000 (six months ended 30 September 2011: 8,950,000,000) shares in issue during the period on the assumption that the Group Reorganisation and the capitalisation issue have been in effective on 1 April 2011.

No dilutive earnings per share is presented as there were no potential dilutive shares during both periods.

6. Dividends

	Six months ended 30 September	
	2012	2011
	HK$ million	*HK$ million*
	(unaudited)	(audited)
Final dividend of HK10.0 cents per share for the year ended 31 March 2012	**1,000.0**	–
Dividends to shareholders prior to the Group Reorganisation *(Note)*	**–**	3,331.4
	1,000.0	3,331.4

Note: During the six months ended 30 September 2011, the Group distributed interim dividends totalling HK$3,331.4 million, of which 3,300.0 million was settled by a related company, to their shareholders prior to the Group Reorganisation.

On 29 November 2012, the directors of the Company have determined to declare an interim dividend of HK6.0 cents per share, totalling HK$600.0 million for the six months ended 30 September 2012.

7. Inventories

	At 30 September 2012 *HK$ million* **(unaudited)**	At 31 March 2012 *HK$ million* (audited)
Raw materials for:		
Gem-set jewellery	**5,646.9**	7,387.5
Gold products	**2,032.5**	896.9
Platinum/karat gold products	**477.4**	589.6
	8,156.8	8,874.0
Finished goods:		
Gem-set jewellery	**11,069.6**	8,537.5
Gold products	**7,874.2**	7,909.8
Platinum/karat gold products	**2,311.0**	2,289.6
Watches	**2,279.6**	2,055.0
	23,534.4	20,791.9
Packing materials	**14.6**	28.3
	31,705.8	29,694.2

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the first six months of the financial year 2013 (1HFY2013), the Group recorded a revenue of HK$25,436.0 million (1HFY2012: HK$23,874.5 million), representing an increase of 6.5% over the same period last year. The growth in this period was mainly fuelled by the expansion of its retail network and increasing demand for mass luxury jewellery, especially for event-driven and festive celebrations.

The Mainland China business segment recorded a revenue of HK$14,038.1 million (1HFY2012: HK$13,371.4 million), posting a growth of 5.0% from 1HFY2012, while Hong Kong, Macau and other Asian markets recorded a revenue of HK$11,397.9 million (1HFY2012: HK$10,503.1 million), increased 8.5% from the same period last year.

The Mainland China market continued to represent the Group's major source of revenue, accounting for 55.2% (1HFY2012: 56.0%) of the total revenue. Given the increasing number of Mainland tourists in Hong Kong and Macau and the steady rise in their per capita disposable income, Mainland tourists constituted the largest customer group of the Group, as evidenced by the fact that 52.8% (1HFY2012: 49.3%) of the total revenue in Hong Kong and Macau was settled through China UnionPay or in RMB (cash). As such, the Group believes 78.9% (1HFY2012: 77.7%) of its total revenue was originated from Mainland Chinese customers.

The Group recorded a decline in overall Same Store Sales of 1.7% for 1HFY2013 (1HFY2012: an increase of 61.9%). Among which, Same Store Sales in Mainland China increased 3.4% (1HFY2012: 45.3%) and Same Store Sales in the Hong Kong, Macau and Taiwan segment fell 6.3% (1HFY2012: an increase of 78.5%). The decline in Same Store Sales Growth for 1HFY2013 was mainly attributable to the weak consumer sentiment and the high base of comparison in the same period last year.

Sales of the Group's principal products, namely gem-set jewellery and gold products, accounted for 22.7% (1HFY2012: 23.6%) and 55.5% (1HFY2012: 53.1%) of the total revenue, respectively. Sales of gem-set jewellery rose 2.4% to HK$5,779.3 million (1HFY2012: HK$5,642.7 million), while sales of gold products increased 11.3% to HK$14,123.1 million (1HFY2012: HK$12,690.4 million). Meanwhile, the portion of sales of watches decreased from 7.7% in 1HFY2012 to 5.9% in 1HFY2013, which was mainly due to a reduction of watch POS from 85 in 1HFY2012 to 78 in 1HFY2013.

The Group's gross profit declined 6.1% from HK$7,140.9 million for 1HFY2012 to HK$6,705.7 million for 1HFY2013, while the gross margin decreased to 26.4% (1HFY2012: 29.9%). The decrease in gross margin was mainly attributable to the unrealised hedging loss in gold loans and bullion forward contracts.

The Group hedges the commodity price risk of gold by entering into short positions, including gold loans and bullion forward contracts. Changes in the fair value of gold loans and bullion forward contracts affect the Group's cost of goods sold, as these hedging instruments are used to hedge against gold price fluctuations in the Group's gold inventories. 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, the Group may experience a short timing difference between the time when any losses on hedging instruments are charged to the cost of goods sold and the time when sales of hedged gold inventories are recognised, when the Group takes a snap-shot position at the end of a particular reporting period. In practice, however, losses on hedging instruments in a particular period would be recovered by corresponding gains in the subsequent periods.

As there were rapid increases in gold prices in the month before the end of 1HFY2013 (the price of gold as at the end of 1HFY2013 was approximately 8% higher than the average purchase price of the Group's corresponding gold inventories), the abovementioned timing difference caused the gross margin of the Group to decrease by approximately 2.7% for 1HFY2013 (1HFY2012: increase by approximately 1.2%). If this effect is excluded, the Group's gross margin would have been 29.1% (1HFY2012: 28.7%).

The Group's selling and distribution costs and administrative expenses increased to HK$4,144.5 million (1HFY2012: HK$3,574.0 million) in 1HFY2013, representing 16.3% of total revenue (1HFY2012: 15.0%). Advertising and promotional expenses increased to HK$403.9 million (1HFY2012: HK$273.3 million), representing 1.6% of total revenue (1HFY2012: 1.1%). The Group's advertising and promotional activities were strategically increased as the management believes that such marketing efforts will help the Group to increase market share as the market recovers. Rental expenses also increased to HK$422.4 million in 1HFY2013 (1HFY2012: HK$284.7 million), representing 1.7% of total revenue (1HFY2012: 1.2%), which was mainly caused by opening of new POS and the renewal of some rental contracts with higher rent in Hong Kong during 1HFY2013. However, rental cost as a percentage of total revenue was still maintained at a relatively low level.

Due to the factors above, the Group's net profit for the period decreased 32.9%, from HK$2,820.9 million in 1HFY2012 to HK$1,892.6 million in 1HFY2013. The net margin decreased from 11.8% in 1HFY2012 to 7.4% in 1HFY2013.

Basic earnings per share for 1HFY2013 were HK18.2 cents (1HFY2012: HK30.1 cents). The Board resolved to declare an interim dividend of HK6.0 cents per share (1HFY2012: N/A).

BUSINESS REVIEW

Overview

The first half of FY2013 was undoubtedly full of challenges for the jewellery industry. The global economy was weak and volatile, due to the European sovereign-debt crisis and the continued global economic slowdown. Meanwhile, the growth of Mainland China weakened as exports was slower than expected and imports fell. These indicated lower confidence in domestic consumption and investment, as well as slowing retail sales growth in Mainland China and Hong Kong. All these factors affected the purchase sentiment of luxury goods, especially in the high-end gem-set jewellery category. Consumers either restrained themselves from spending or lowered their budget. Despite the aforesaid unfavourable macro-economic conditions and an extraordinarily high base of comparison from last year, the Group was still able to achieve a revenue growth of 6.5% in 1HFY2013 as compared to 1HFY2012.

The Group's reputation for delivering high quality and authentic jewellery products over 80 years is a key factor in its continued success and widespread brand recognition. The Group offers a full range of products, ranging from mass luxury products that constitute the bulk of its sales, high-end luxury jewellery, to trendy products tailored to the youth. The mass luxury segment is absolutely core to the Group and accounts for most of Mainland China's jewellery market, while the high-end luxury segment is created specifically for affluent and discerning customers. The Group's quality designs and craftsmanship strive to cater to Chinese customers' increasing demand for sophisticated products. In addition, the Group has also created products for the younger generation to capture their growing consumption power and demand for jewellery products. The wide variety of jewellery provided through these three product lines enables the Group to reach an extensive range of customers across different age groups.

The Mainland China market

The Mainland China segment contributed 55.2% (1HFY2012: 56.0%) of the Group's total revenue in 1HFY2013, amounting to HK$14,038.1 million (1HFY2012: HK$13,371.4 million). This proportion is expected to further increase, which is attributable to the country's continual urbanisation, the growing affluence of the Mainland Chinese in terms of increasing per capita disposable income and growing demand for luxury goods. In recent years, the Group has focused on POS expansion in Tier II to IV inland cities in order to achieve a faster and broader coverage. These cities which experience higher economic growth, are in general more resilient to global economic fluctuations and see rapid expansion in their jewellery markets. At the same time, the Group upgraded the positioning and branding of its POS in Tier I and II cities to cater to the sophisticated consumers in these cities.

In line with the Group's strategy to continuously grow its market share in Mainland China, the Group opened a net of 101 new POS in Mainland China in 1HFY2013, to further penetrate into other lower tier inland cities. Among the new POS in Mainland China, 53.5% are located in Tier III and lower tier cities, while 40.6% are located in Tier II cities.

As of 30 September 2012, the Group's total number of POS in Mainland China increased to 1,633 (31 March 2012: 1,532), representing 94.3% of its total POS (31 March 2012: 94.2%).

Hong Kong, Macau and other Asian markets

In 1HFY2013, revenue contribution from Hong Kong, Macau and other Asian markets accounted for 44.8% (1HFY2012: 44.0%) of the Group's total revenue, amounting to HK$11,397.9 million (1HFY2012: HK$10,503.1 million). Despite the global economic slowdown which affected the consumption sentiment of luxury goods, especially in the high-end gem-set jewellery product category, as well as the high comparison base in 1HFY2012, the Group still achieved a steady sales growth of 8.5% in 1HFY2013.

Due to the recent economic slowdown, the Hong Kong and Macau markets inevitably faced considerable business challenges in 1HFY2013. In general, consumption sentiment of both Hong Kong locals and Mainland Chinese visitors weakened and consumers became more cautious in spending in view of the unfavourable economic environment. In light of this, it appears that consumers have switched their spending to a higher ratio of jewellery items necessary for special events and festive celebrations such as gold wedding jewellery. Their purchases also shifted from high-end luxury pieces to mass luxury products with an average selling price (ASP) of HK$2,000 to HK$100,000. The increase in sales volume of mass luxury jewellery products was the main driver of revenue growth during the reporting period.

As at 30 September 2012, the Group had a retail network of 99 POS (31 March 2012: 95) with a net increase of 4 POS opened in Hong Kong, Macau and other Asian markets. The Group has also started to consolidate its POS network in Hong Kong and relocated some POS to areas with higher customer traffic so as to capture more sales opportunities and enhance POS performance and efficiency.

Marketing and Branding

The Group is well aware of customers' changing demand for jewellery and consumption habits in Mainland China and Hong Kong. There is a growing demand for gem-set jewellery products and stronger preference for more stylish and contemporary designed jewellery pieces. In response to the gradual change in customer appetite, the Group has spearheaded the offer of a broader series of jewellery collections including gem-set, platinum and karat gold jewellery products.

The Group adopted the use of quick-response (QR) code for mobile marketing during the Mid-Autumn Festival promotion in Mainland China in September 2012 and received an overwhelming response from its existing members and their friends and relatives. The Group believes these initiatives would become an important marketing channel to attract more customers in particular the youth going forward.

Mass luxury segment

Wedding and Diamond Collections

The wedding market is booming and the Group strives to seize this valuable business opportunity by strengthening its marketing efforts to promote "The Perfect One Wedding Collection". This collection, introduced in May 2012, was extensively promoted through a series of advertising channels including print and online media, TV commercial and outdoor billboard, etc. These promotions were highly effective and received encouraging customer response. In addition, to further its aspiration to become the most trustworthy diamond specialist, the Group launched the "Revolving Charm Collection" and promoted "The Perfect Mark Collection" in August 2012. The sales of wedding-related jewellery and diamond products contributed a significant share to the Group's total sales in 1HFY2013.

Mass luxury gem-set jewellery products maintained a sustainable growth in sales as nowadays customers purchase jewellery products not only for wedding and gifting, but also as self-rewards. Sales contribution of gem-set jewellery products with ASP below HK$100,000 increased during 1HFY2013.

High-end luxury segment

"L'histoire de Couleurs" Fine Jewellery Private Preview

In August 2012, the Group held the "L'histoire de Couleurs" Fine Jewellery Private Preview in Hong Kong to showcase the HK$3 billion worth of private collection of the Group's Honourary Chairman, Dato' Dr. Cheng Yu-Tung, GBM. It was an exclusive event for Chow Tai Fook's selected members and prestigious guests. The spectacular 102.88 carat round-cornered square step cut fancy vivid yellow diamond was the major highlight among all the precious coloured stones exhibited in the event. The showcase of exceptionally valuable and rare rainbow diamonds was to further exemplify the Group's strength and leading position in Greater China's jewellery market.

"Stars in the Starlight" Jewellery Auction

The 2012 Chow Tai Fook Jewellery Auction "Stars in the Starlight" was held in April 2012 in Hong Kong where 12 sets of jewellery masterpieces were auctioned. This annual event was organised to promote Chow Tai Fook's prestigious image. Only selected Chow Tai Fook members and prestigious guests from Mainland China and Hong Kong were invited to this glittering auction experience.

Youth-line

Bao Bao Family 10th Anniversary

To celebrate the 10th anniversary of the Group's popular in-house designed "Bao Bao Family" collection, the Group has launched 50 sets of a special edition collection designed with coloured diamonds and gemstones. One special edition collection set was donated to the 2012 BAZAAR Stars Charity Night in Beijing for charity auction and helped raise RMB800,000 to aid a charitable organisation in Mainland China.

Chow Tai Fook Membership Programme

In order to build customer loyalty and attract new customers, the Group launched a brand new membership programme on 10 September 2012 in Hong Kong and Macau. It introduces the unprecedented "rebate coupons" as a reward scheme, and delivers special privileges and concierge services to prestigious members so as to encourage repeat purchases. In Mainland China, the membership programme had approximately 800,000 members as of 30 September 2012.

E-commerce

The Group's e-commerce business grew rapidly during the first half of FY2013, as evidenced by a revenue growth of more than three-fold in comparison to 1HFY2012. For 1HFY2013, the average daily traffic of the Group's major e-commerce platforms including Chow Tai Fook eShop, Tmall and 360buy recorded over 78,000 hits, while its official Sina and Tencent Weibo accounts had more than 490,000 followers in total. Chow Tai Fook was continuously ranked the "Best Selling Jewellery Brand" on Tmall. Chow Tai Fook is also constantly ranked among the top five in terms of search rankings on Baidu. The Group believes its e-commerce channels will continue to extend its customer reach, especially to the younger customers, which will enable the Group to enjoy the blend of online and in-store sales channels in the future.

Development Projects

To meet the needs of the changing and growing jewellery retail market and support its future business growth, the Group has embarked on the development of Chow Tai Fook Jewellery Park in Wuhan, Hubei, and a new Mainland China headquarters building in Yantian, Shenzhen. The ground-breaking ceremony of Chow Tai Fook Jewellery Park was held in August 2012. This integrated production and logistics centre will become a large-scale production base covering a production plant, a national distribution centre, a sale exhibition and visitor centre, a craft training centre and other supporting facilities. Upon completion of the first phase in 2016, the Jewellery Park will help enhance production efficiency and capacity and further increase the proportion of self-produced jewellery. The new Mainland China headquarters in Shenzhen is expected to be operational by the end of 2013.

Risk Management Committee

In July 2012, the Group established the Risk Management Committee which is comprised of senior executives of the Group. The Committee is committed to establishing and maintaining a robust and practical risk management framework to manage operational, financial and compliance risks. The Committee aims to ensure that effective internal controls and continuous improvement measures are in place to mitigate risks with respect to the conduct of the Group's business.

Achievement and Recognition

Chow Tai Fook made significant achievements and received various awards in 1HFY2013.

Shortly after being listed in December 2011, Chow Tai Fook was selected as a constituent stock of the Hang Seng Mainland 100 Index and the Hang Seng China 50 Index, in June and September 2012, respectively. Chow Tai Fook is the first and only jeweller selected by the Hang Seng China 50 Index since it was launched in June 2008.

Over the years, the Group has always been devoted to further the advancement of the jewellery industry. This is also the reason why the Group fully supported the newly launched independent and impartial JNA (Jewellery News Asia) Awards held in September 2012 to honour and recognise remarkable achievements, excellent industry practices and outstanding talents within the industry. Among other award-winning companies, the Group was honoured to receive the "3 Decades of Excellence" and "Brand of the Year" awards at the JNA Awards ceremony as recognition of the Group's leadership, creativity and exceptional product quality.

Recently, the Group's Fei Cui Testing Centre, run by a team of professional in-house jewellery gemmologists, was accredited by the Fei Cui (Jadeite Jade) Certification Label Scheme of The Gemmological Association of Hong Kong in June 2012, as well as the Hong Kong Accreditation Service (HKAS) in August 2012 under the Hong Kong Laboratory Accreditation Scheme (HOKLAS) with ISO/IEC 17025:2005. These are recognitions to the testing centre for achieving international competence of testing, calibration and management.

Prospects

Looking ahead, there are still macroeconomic uncertainties in the second half of FY2013. However, the management sees some positive signs in the retail market and believes that consumer confidence, market sentiment and in particular Mainland China's luxury spending will pick up gradually, as evidenced by the strong GDP growth of 7.7% in the first three quarters in 2012 and a growth of 14.5% in retail sales of consumer products in October from the same month last year. In addition, the third round of quantitative easing (QE3) launched by the US government in September 2012 brought positive sentiment and provided the global economy with a number of opportunities, for it helped restore confidence in export demand and draw an inflow of investment, which is good news to Chinese exporters and is expected to boost retail consumption in Mainland China.

Against the backdrop of the volatile macro-environment, the Group's targets of opening net 200 POS per year and reaching a total of 2,000 POS by the end of FY2014 remain unchanged. To facilitate its long-term development, the Group will continue to expand its POS in more lower tier inland cities and enlarge the retail floor area of some POS in selected cities in Mainland China, as well as to relocate some of its POS to areas with higher customer traffic in Hong Kong. The Group continues to pursue a deeper market penetration strategy by offering a wider range of jewellery products, in particular the gem-set jewellery collections through creative design and innovative marketing activities. The Group will also step up its effort in e-commerce and e-marketing to seize the growing opportunities in the youth market. The management believes innovative marketing promotions are appealing to younger customers, which in turn will expand the Group's customer base.

To further enhance the upstream operation of the Group's vertically integrated business model is an important part of Chow Tai Fook's development strategy. The Group is committed to exploring potential partnership with quality raw material suppliers, in particular to secure more reliable sources of quality rough diamonds in support of the Group's business strategy to tap the growing diamond jewellery market in the Greater China region. In November 2012, the Group entered into a two-year rough diamond supply agreement with ALROSA of Russia, one of the world's top three largest diamond producers.

The Group will continue to implement prudent cost control policy and manage its inventory control at a healthy and sustainable level. In addition, through the perseverant efforts of the Board, the internal Reform and Development Committee and the Risk Management Committee, the Group is confident of achieving its three year growth target.

Liquidity and financial resources

As at 30 September 2012, the Group had cash and cash equivalents of HK$5,390.5 million (31 March 2012: HK$10,004.8 million), denominated in Hong Kong dollars, Renminbi, and United States dollars. The Group had total borrowings of HK$11,684.8 million (31 March 2012: HK$15,207.5 million). Current portion of long-term borrowings, short-term borrowings, gold loans and amounts due to non-controlling shareholders of subsidiaries amounted to HK$11,684.8 million (31 March 2012: HK$11,781.1 million).

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, cash flow from operations, bank borrowings and gold loans. The Group's operating cash flows before movements in working capital was HK$3,592.2 million for 1HFY2013 (1HFY2012: HK$4,070.3 million). As at 30 September 2012, the Group's bank borrowings and gold loans amounted to HK$2,831.1 million (31 March 2012: HK$9,000.6 million) and HK$8,372.0 million (31 March 2012: HK$5,806.6 million), respectively. The bank borrowings carried variable interest rates ranging from 1.1% to 1.3% per annum over Hong Kong Interbank Offered Rate ("HIBOR") or 95% to 110% of the People's Bank of China Standard Loan Interest Rate ("PBOC Rate") per annum (31 March 2012: 1.0% to 1.6% over HIBOR per annum, or 98% to 110% of PBOC Rate per annum). As at 30 September 2012, interest rates on the Group's bank borrowings ranged from 1.5% to 7.2% (31 March 2012: 1.4% to 7.2%) per annum, while the gold loans carried fixed interest rates of 1.3% to 3.5% (31 March 2012: 1.3% to 5.5%) per annum. The gold loans are also used to hedge against the financial impact of the price fluctuations in the Group's gold inventories.

The Group's debts were primarily denominated in Hong Kong dollars, Renminbi, and United States dollars. In respect of the Group's operations in Mainland China, the Group maintains an appropriate level of external borrowings in Renminbi for natural hedging of Renminbi contributed to its business in Mainland China. Apart from this, the Group does not have any material foreign exchange exposure. While the Group relies on short-term borrowings to finance its inventories and expand its POS and product selection, it has maintained good relationships with banks that provide financing. The Group has not experienced any difficulties in repaying its borrowings.

The net gearing ratio as at September 2012, defined as the aggregate of bank borrowings, gold loans, net of pledged bank deposits and bank balances and cash, divided by total equity, was 19.2%, an increase of 3.0% as compared with 16.2% as at 31 March 2012. The increase was mainly due to the increase in gold loans for the financing of additional gold inventories to cope with the demand in the peak seasons in 2HFY2013. As at 30 September 2012, total equity of the Group increased to HK$30,285.8 million, against HK$29,573.0 million as at 31 March 2012. The Group's working capital, being net current assets, was HK$27,973.9 million as at 30 September 2012 (31 March 2012: HK$31,040.3 million).

Change in hedging level for gold inventories

The Group's gold hedging strategies are determined by the Board taking into account a variety of factors and reviewed on a regular basis. The Board has recently decided to relax its hedging level from "almost fully hedged" to "substantially hedged", allowing the Group to employ a short position with a quantity (by weight) that approximate to 70% of the Group's total gold inventories. In arriving the above decision, the Group aims at achieving the following:

— reduce the regulatory risk in relation to the hedging instruments in particular the Mainland China market where the scale of gold hedging activities has been increasing;

— reduce the counterparty and concentration risks in view of the limited number of hedging instruments and financial institutions that are suitable to us; and

— reduce the costs of hedging and financing for gold loans.

The management considers that this relaxation in hedging level will allow a more efficient execution of the gold hedging strategies in the dynamic macro-environment to manage the overall risks portfolio. The management also believes that the adjusted hedging level of approximately 70% of the Group's total gold inventories is a rational level in view of the Group's operating cycles and scale. The Group has implemented a hedging policy that includes procedures, hedging timeframe and approval guidelines that are set out in its internal control policy and the management will keep monitoring and reviewing the policy regularly.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2012.

CORPORATE GOVERNANCE

On 1 April 2012, the Code on Corporate Governance Practices ("Former Code") was amended and renamed as Corporate Governance Code on Corporate Governance Report ("New Code"). The Company has adopted the code provisions ("Code Provisions") as stated in the New Code in substitution for and to the exclusion of the Former Code with effect from 1 April 2012. During the six months ended 30 September 2012, the Company was in full compliance with the Code Provisions set out in both of the Former Code and the New Code, except for the deviation from Code Provision A.4.1.

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term and subject to re-election.

The Company has not fully complied with the code provision. The non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation in accordance with the articles of the Company. The Board does not believe that arbitrary term limits on Director's service are appropriate given that Directors ought to be committed to representing the long-term interests of the shareholders of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 September 2012.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2012 and discussed the financial related matters with the management. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2012 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK6.0 cents per share amounting to approximately HK$600.0 million for the six months ended 30 September 2012 to shareholders whose names appear on the register of members of the Company at the close of business on 18 December 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 December 2012 to Tuesday, 18 December 2012, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to the interim dividend, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Friday, 14 December 2012.

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

Hong Kong, 29 November 2012

As of the date of this announcement, the executive directors are Dr. Cheng Kar-Shun, Henry, Mr. Wong Siu-Kee, Kent, Mr. Cheng Chi-Kong, Adrian, Mr. Cheng Chi-Heng, Conroy, Mr. Chan Sai-Cheong, Mr. Chan Hiu-Sang, Albert, Mr. Cheng Ping-Hei, Hamilton and Mr. Suen Chi-Keung, Peter, the non-executive directors are Dato' Dr. Cheng Yu-Tung, Mr. Cheng Kam-Biu, Wilson and Mr. Koo Tong-Fat 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 Mr. Or Ching-Fai, Raymond.