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## **CHOW TAI FOOK JEWELLERY GROUP LIMITED**

**周大福珠寶集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 1929

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014**

#### **HIGHLIGHTS**

- Revenue decreased by 22.4% to HK\$29,319.5 million compared to HK\$37,768.1 million over the same period last year.
- Overall Same Store Sales<sup>(1)</sup> recorded a decline of 31.2%, among which Mainland China and Hong Kong, Macau and Taiwan recorded a decline of 20.4% and 40.9% respectively.
- Gross profit decreased by 6.5% to HK\$9,327.9 million from HK\$9,978.4 million in the same period last year.
- Profit attributable to shareholders of the Company amounted to HK\$2,692.8 million, a decrease of 23.3% compared to HK\$3,509.1 million in the same period last year.
- Basic earnings per share were HK26.9 cents.
- Interim dividend declared is HK13.0 cents per share.
- Retail network expanded to 2,191 POS as at 30 September 2014, with a net addition of 114 POS during the period.

<sup>(1)</sup> "Same Store Sales" for 1HFY2015 is the revenue from the self-operated points of sale ("POS") existing as at 30 September 2014 and which have been opened prior to 1 April 2013. Revenue from wholesale and other channels are excluded

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

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 2014 (“1HFY2015”), together with comparative figures for the six months ended 30 September 2013 (“1HFY2014”) as follows:

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

For the six months ended 30 September 2014

		Six months ended 30 September	
		2014	2013
	Notes	HK\$ million (unaudited)	HK\$ million (unaudited)
Revenue	2	29,319.5	37,768.1
Cost of goods sold		(19,991.6)	(27,789.7)
<b>Gross profit</b>		<b>9,327.9</b>	9,978.4
Other income		207.9	150.1
Other gains and losses		(17.3)	78.5
Selling and distribution costs		(4,753.4)	(4,593.4)
Administrative expenses		(1,046.9)	(1,002.1)
Other expenses		(91.1)	(2.1)
Finance costs		(183.5)	(77.7)
Share of results of a joint venture		(2.9)	(1.3)
<b>Profit before taxation</b>	3	<b>3,440.7</b>	4,530.4
Taxation	4	(704.4)	(927.7)
<b>Profit for the period</b>		<b>2,736.3</b>	3,602.7
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		17.6	284.3
Share of translation reserve of a joint venture		1.5	–
Other comprehensive income for the period		19.1	284.3
<b>Total comprehensive income for the period</b>		<b>2,755.4</b>	3,887.0

		<b>Six months ended 30 September</b>	
	<i>Note</i>	<b>2014</b>	2013
		<b>HK\$ million</b>	<b>HK\$ million</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Profit for the period attributable to:</b>			
Shareholders of the Company		<b>2,692.8</b>	3,509.1
Non-controlling interests		<b>43.5</b>	93.6
		<hr/> <b>2,736.3</b> <hr/>	<hr/> 3,602.7 <hr/>
<b>Total comprehensive income for the period attributable to:</b>			
Shareholders of the Company		<b>2,711.9</b>	3,776.5
Non-controlling interests		<b>43.5</b>	110.5
		<hr/> <b>2,755.4</b> <hr/>	<hr/> 3,887.0 <hr/>
<b>Earnings per share — Basic</b>	<b>5</b>	<hr/> <b>HK26.9 cents</b> <hr/>	<hr/> HK35.1 cents <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 September 2014*

	<i>Note</i>	At 30 September 2014 <i>HK\$ million</i> (unaudited)	At 31 March 2014 <i>HK\$ million</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment		3,720.0	3,054.1
Prepaid lease payments		168.0	174.6
Investment properties		544.9	–
Goodwill		670.3	–
Deposits paid for acquisition of property, plant and equipment		372.2	283.6
Interest in a joint venture		9.5	10.9
Loan receivables		33.8	36.5
Deferred tax assets		840.1	703.1
		6,358.8	4,262.8
<b>Current assets</b>			
Inventories	7	39,050.6	42,543.7
Trade and other receivables		5,083.5	4,872.7
Loan receivables		4.1	144.5
Convertible bonds		20.3	21.5
Pledged bank deposits		8.7	5.3
Short-term bank deposits		–	500.0
Bank balances and cash		8,683.8	9,466.6
		52,851.0	57,554.3
<b>Current liabilities</b>			
Trade and other payables		3,664.6	4,128.3
Amounts due to non-controlling shareholders of subsidiaries		226.2	228.2
Taxation payable		1,126.4	1,064.0
Bank borrowings		7,343.7	6,299.6
Gold loans		6,828.3	10,786.8
		19,189.2	22,506.9
<b>Net current assets</b>		<b>33,661.8</b>	35,047.4
<b>Total assets less current liabilities</b>		<b>40,020.6</b>	39,310.2

	<b>At 30 September 2014 <i>HK\$ million</i> (unaudited)</b>	<b>At 31 March 2014 <i>HK\$ million</i> (audited)</b>
<b>Non-current liabilities</b>		
Retirement benefit obligations	220.8	225.0
Deferred tax liabilities	728.2	632.8
	<u>949.0</u>	<u>857.8</u>
<b>Net assets</b>	<u>39,071.6</u>	<u>38,452.4</u>
<b>Share capital</b>	10,000.0	10,000.0
<b>Reserves</b>	<u>27,985.2</u>	<u>27,173.3</u>
<b>Equity attributable to shareholders of the Company</b>	37,985.2	37,173.3
<b>Non-controlling interests</b>	<u>1,086.4</u>	<u>1,279.1</u>
	<u>39,071.6</u>	<u>38,452.4</u>

## NOTES

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended 31 March 2014.

The investment properties of the Group are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC* - INT 21	Levies

\* IFRIC represents the IFRS Interpretations Committee.

The application of the above new interpretations and amendments of 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 derived from each location of operations is further analysed into those from retail and wholesale markets when reviewed by CODM. This is the basis upon which the Group is arranged and organised. In addition, the segment “Mainland China” is further separated into jewellery business (including gem-set jewellery, gold products and platinum/karat gold products) and watch business for better resource allocation and performance assessment. Therefore, the Group’s operating and reportable segments under IFRS 8 are jewellery business and watch business located in Mainland China, and operations located in Hong Kong, Macau and other markets. 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 six months ended 30 September 2014 (unaudited)

	Mainland China		Hong Kong, Macau and other markets	Subtotal	Elimination	Total
	Jewellery business	Watch business				
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Revenue						
External sales						
— Retail	11,599.4	1,022.6	12,187.4	24,809.4	—	24,809.4
— Wholesale <sup>#</sup>	4,389.3	—	120.8	4,510.1	—	4,510.1
	<u>15,988.7</u>	<u>1,022.6</u>	<u>12,308.2</u>	<u>29,319.5</u>	<u>—</u>	<u>29,319.5</u>
Inter-segment sales <sup>*</sup>	267.8	—	2,060.3	2,328.1	(2,328.1)	—
	<u>16,256.5</u>	<u>1,022.6</u>	<u>14,368.5</u>	<u>31,647.6</u>	<u>(2,328.1)</u>	<u>29,319.5</u>
Segment profit	<u>1,876.0</u>	<u>27.1</u>	<u>1,988.7</u>	<u>3,891.8</u>	<u>(350.9)</u>	<u>3,540.9</u>
Interest income						83.3
Finance costs						(183.5)
Profit before taxation						<u>3,440.7</u>

For the six months ended 30 September 2013 (unaudited)

	Mainland China		Hong Kong, Macau and other markets	Subtotal	Elimination	Total
	Jewellery business	Watch business				
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Revenue						
External sales						
— Retail	13,912.0	645.4	18,267.0	32,824.4	—	32,824.4
— Wholesale <sup>#</sup>	4,820.1	38.4	85.2	4,943.7	—	4,943.7
	<u>18,732.1</u>	<u>683.8</u>	<u>18,352.2</u>	<u>37,768.1</u>	<u>—</u>	<u>37,768.1</u>
Inter-segment sales <sup>*</sup>	263.7	—	1,372.5	1,636.2	(1,636.2)	—
	<u>18,995.8</u>	<u>683.8</u>	<u>19,724.7</u>	<u>39,404.3</u>	<u>(1,636.2)</u>	<u>37,768.1</u>
Segment profit	<u>1,940.8</u>	<u>49.6</u>	<u>2,555.1</u>	<u>4,545.5</u>	<u>4.5</u>	<u>4,550.0</u>
Interest income						58.1
Finance costs						(77.7)
Profit before taxation						<u>4,530.4</u>

\* Inter-segment sales are charged at a price mutually agreed by both parties.

# Wholesale mainly represents sales to franchisees.

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.

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

	<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2013</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Sales of		
— Gem-set jewellery	<b>8,287.3</b>	6,640.8
— Gold products	<b>14,528.1</b>	24,634.0
— Platinum/karat gold products	<b>4,726.1</b>	4,991.3
— Watches	<b>1,778.0</b>	1,502.0
	<b>29,319.5</b>	37,768.1

3. PROFIT BEFORE TAXATION

	<b>Six months ended 30 September</b>	
	<b>2014</b>	<b>2013</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit before taxation has been arrived at after charging (crediting):		
Staff costs	<b>2,003.2</b>	2,085.7
Amortisation of prepaid lease payments	<b>6.7</b>	6.7
Depreciation	<b>365.1</b>	310.4
Fair value gain on gold loans (included in cost of goods sold), including unrealised fair value gain of HK\$390.8 million (unrealised fair value gain for the six months ended 30 September 2013: HK\$96.3 million)	<b>(374.5)</b>	(479.5)
Operating lease rentals in respect of rented premises	<b>859.3</b>	656.7
Concessionaire fees	<b>1,026.6</b>	1,197.2



#### 4. TAXATION

	<b>Six months ended 30 September</b>	
	<b>2014</b>	2013
	<i><b>HK\$ million</b></i>	<i>HK\$ million</i>
	<b>(unaudited)</b>	(unaudited)
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax (“EIT”) in Mainland China	<b>398.3</b>	438.9
Hong Kong Profits Tax	<b>274.4</b>	335.4
Macau complementary tax	<b>23.4</b>	63.7
	<b>696.1</b>	838.0
Under(over)-provision in prior years:		
EIT in Mainland China	<b>17.7</b>	19.8
Hong Kong Profits Tax	<b>(0.6)</b>	–
	<b>17.1</b>	19.8
Deferred tax (credit) charge	<b>(24.8)</b>	60.4
Withholding tax*	<b>16.0</b>	9.5
	<b>704.4</b>	927.7

\* Withholding tax mainly represents withholding tax on intra-group licence income and interest income from Mainland China.

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

Under the Enterprise Income Tax Law (the “EIT Law”) of the People’s Republic of China and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in Mainland China is 25% for both periods.

For certain subsidiaries of the Company in Mainland China, they are entitled to the tax incentives in connection with the development of the western part of Mainland China. The applicable tax rate is 15% for both periods.

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

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

#### 5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the consolidated profits attributable to shareholders of the Company for the period and on the number of 10,000,000,000 (six months ended 30 September 2013: 10,000,000,000) shares in issue during the period.

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

## 6. DIVIDENDS

	<b>Six months ended 30 September</b>	
	<b>2014</b>	2013
	<i>HK\$ million</i>	<i>HK\$ million</i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
2014 Final — HK19.0 cents (2013: HK16.0 cents) per share	<b>1,900.0</b>	1,600.0

On 25 November 2014, the directors of the Company have determined to declare an interim dividend of HK13.0 cents per share, totalling HK\$1,300.0 million for the six months ended 30 September 2014.

## 7. INVENTORIES

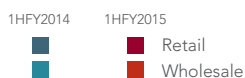
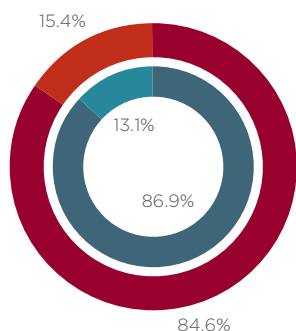
	<b>At</b>	At
	<b>30 September</b>	31 March
	<b>2014</b>	2014
	<i>HK\$ million</i>	<i>HK\$ million</i>
	<b>(unaudited)</b>	<b>(audited)</b>
Raw materials for:		
Gem-set jewellery	<b>6,762.6</b>	7,431.4
Gold products	<b>2,122.5</b>	2,321.2
Platinum/karat gold products	<b>293.5</b>	333.1
	<b>9,178.6</b>	10,085.7
Finished goods:		
Gem-set jewellery	<b>14,355.0</b>	11,625.6
Gold products	<b>8,270.4</b>	13,215.9
Platinum/karat gold products	<b>3,814.7</b>	3,695.9
Watches	<b>3,338.4</b>	3,859.1
	<b>29,778.5</b>	32,396.5
Packing materials	<b>93.5</b>	61.5
	<b>39,050.6</b>	42,543.7

## MANAGEMENT DISCUSSION AND ANALYSIS

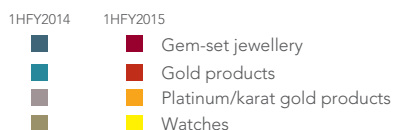
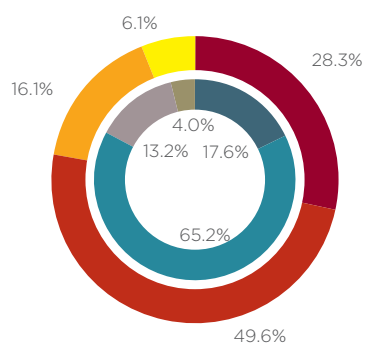
### Financial Review

#### Revenue overview

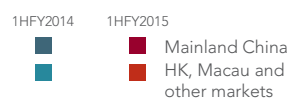
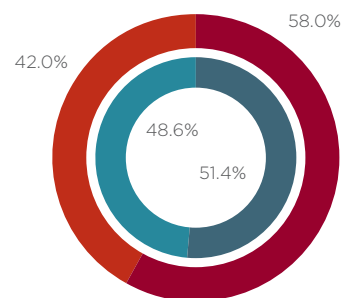
##### Revenue by operation model



##### Revenue by product



##### Revenue by geography



*Note:* The percentages calculated are subject to minor rounding differences

During the period under review, the Group recorded a revenue of HK\$29,319.5 million (1HFY2014: HK\$37,768.1 million), representing a decrease of 22.4% over the same period last year. Such decrease was mainly due to the high base effect resulting from the increase in sales of gold products following a sharp decrease of international gold price during 1HFY2014.

#### Revenue by geography

Both the business in Mainland China and Hong Kong, Macau and other markets recorded a decline in revenue over the same period last year. The revenue from Mainland China market was HK\$17,011.3 million (1HFY2014: HK\$19,415.9 million), representing a decrease of 12.4% over that of 1HFY2014; while the revenue from Hong Kong, Macau and other markets was HK\$12,308.2 million (1HFY2014: HK\$18,352.2 million), representing a decrease of 32.9% compared to that of 1HFY2014.

Mainland China market continued to represent our major source of revenue, accounting for 58.0% (1HFY2014: 51.4%) of our revenue.

The revenue contribution from Hearts On Fire Company, LLC (“Hearts On Fire”), which we acquired on 31 August 2014 and contributed to our revenue since then, was relatively immaterial in the current period.

### ***Revenue by product***

Sales of gem-set jewellery and gold products comprised 28.3% (1HFY2014: 17.6%) and 49.6% (1HFY2014: 65.2%) of revenue, respectively. Sales of gem-set jewellery increased by 24.8% to HK\$8,287.3 million (1HFY2014: HK\$6,640.8 million), while sales of gold products decreased by 41.0% to HK\$14,528.1 million (1HFY2014: HK\$24,634.0 million), when compared to that of the same period last year.

The decrease in sales of gold products and its contribution to our revenue was mainly due to the high base effect resulting from the increase in sales of gold products following a sharp decrease of international gold price during 1HFY2014.

### ***Gross profit and unrealised hedging gain or loss***

Our gross profit decreased by 6.5% from HK\$9,978.4 million in 1HFY2014 to HK\$9,327.9 million in 1HFY2015, while gross profit margin increased by 5.4% from 26.4% in 1HFY2014 to 31.8% in 1HFY2015. If effect of unrealised hedging gain or loss on gold loans was excluded, the adjusted gross profit margin for 1HFY2015 would be 30.1%, increased by 3.3% when compared to 26.8% in 1HFY2014. Such increase was mainly attributable to the increase in sales contribution of gem-set jewellery.

### ***Selling and distribution costs and administrative expenses***

Our selling and distribution costs and administrative expenses increased to HK\$5,800.3 million (1HFY2014: HK\$5,595.5 million), representing an increase of 3.7% over that of 1HFY2014.

The table below sets forth the major items in the selling and distribution costs and administrative expenses, their respective percentages to revenue, and their changes when compared to the same period last year:

	1HFY2014		1HFY2015		Increase/ (decrease)
	HK\$ million	% of revenue	HK\$ million	% of revenue <sup>(6)</sup>	
Staff costs <sup>(1)</sup>	2,085.7	5.5%	2,003.2	6.8%	(4.0)%
Concessionaire fees <sup>(2)</sup>	1,197.2	3.2%	1,026.6	3.5%	(14.2)%
Rental expenses <sup>(3)</sup>	656.7	1.7%	859.3	2.9%	30.9%
Advertising and promotion expenses <sup>(4)</sup>	477.5	1.3%	592.6	2.0%	24.1%
Depreciation <sup>(5)</sup>	298.1	0.8%	326.5	1.1%	9.5%
Others	880.3	2.3%	992.1	3.4%	12.7%
Total	5,595.5	14.8%	5,800.3	19.8%	3.7%

*Notes:*

- (1) Within our staff costs, 37.7% (1HFY2014: 46.0%) was performance based and the decrease was in line with our revenue, while the remaining portion of the staff costs was mostly fixed in nature and its increase was in line with the number of our employees
- (2) The decrease in concessionaire fees was generally in line with the decrease in sales in Mainland China
- (3) The increase was mainly due to the openings of POS in touristic area and the renewal of rental contracts in Hong Kong and Macau
- (4) The advertising and promotion expenses increased as the management believed such marketing efforts would help us in gaining market share as the market recovers
- (5) The increase was mainly due to the openings of POS
- (6) The percentages calculated are subject to minor rounding differences

***Other expenses***

Other expenses increased to HK\$91.1 million from HK\$2.1 million in 1HFY2014. The increase was mainly due to the increase in charitable donation and the transaction costs related to the acquisition of Hearts On Fire during the period.

***Net profit, profit attributable to shareholders of the Company, basic earnings per share and dividend***

Our profit for the period decreased by 24.0%, from HK\$3,602.7 million in 1HFY2014 to HK\$2,736.3 million in 1HFY2015, with net profit margin decreased from 9.5% in 1HFY2014 to 9.3% in 1HFY2015.

Profit attributable to shareholders of the Company amounted to HK\$2,692.8 million (1HFY2014: HK\$3,509.1 million), decreased by 23.3% over the same period last year.

For 1HFY2015, basic earnings per share were HK26.9 cents (1HFY2014: HK35.1 cents). The Board resolved to declare an interim dividend of HK13.0 cents per share (1HFY2014: HK17.0 cents), representing a dividend payout ratio of approximately 48.3% (1HFY2014: 48.4%).

## *Inventories*

Our inventories as at 30 September 2014 amounted to HK\$39,050.6 million, decreased by 8.2% when compared to that as at 31 March 2014 (HK\$42,543.7 million). The table below sets forth the inventory balances by products as at 30 September and 31 March 2014, respectively:

	As at 31 March 2014 <i>HK\$ million</i>	As at <b>30 September</b> <b>2014</b> <i>HK\$ million</i>	Increase/ (decrease)
Gem-set jewellery	19,057.0	<b>21,117.6</b>	10.8%
Gold products	15,537.1	<b>10,392.9</b>	(33.1)%
Platinum/karat gold products	4,029.0	<b>4,108.2</b>	2.0%
Watches	3,859.1	<b>3,338.4</b>	(13.5)%
Packing materials	61.5	<b>93.5</b>	52.0%
Total	<u>42,543.7</u>	<u><b>39,050.6</b></u>	<u>(8.2)%</u>

## *Liquidity, financial resources and capital structure*

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, including cash flow from operations, bank borrowings and gold loans. Gold loans and bullion forward contracts are also used to hedge against the financial impact of the price fluctuations in the Group's gold inventories.

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

The Group's income and expenditure were mostly denominated in Hong Kong dollar and Renminbi, while its assets and liabilities were mostly denominated in Hong Kong dollar, Renminbi and United States dollar.

The table below sets forth the information regarding the bank balances and cash, and bank deposits, bank borrowings, gold loans, amounts due to non-controlling shareholders of subsidiaries, working capital, total equity and net gearing ratio as at 30 September and 31 March 2014, and operating cash flows before movements in working capital for 1HFY2015 and 1HFY2014, respectively:

	31 March 2014 <i>HK\$ million</i>	30 September 2014 <i>HK\$ million</i>	Denominated currency <sup>(1)</sup>	Interest rate structure <sup>(1)</sup>	Maturity <sup>(1)</sup>
Bank balances and cash, and bank deposits <sup>(2)</sup>	9,971.9	<b>8,692.5</b>	Hong Kong dollar, Renminbi, and United States dollar	Variable interest rate	N/A
Total borrowings	17,314.6	<b>14,398.2</b>	N/A	N/A	N/A
Bank borrowings	6,299.6	<b>7,343.7</b>	Hong Kong dollar, Renminbi, and United States dollar	Variable interest rate	Within 12 months
Gold loans <sup>(3)</sup>	10,786.8	<b>6,828.3</b>	Renminbi and United States dollar	Fixed interest rate	Within 12 months
Amounts due to non-controlling shareholders of subsidiaries	228.2	<b>226.2</b>	Hong Kong dollar, Renminbi, and United States dollar	Non-interest bearing	On demand
Working capital <sup>(4)</sup>	35,047.4	<b>33,661.8</b>	N/A	N/A	N/A
Total equity	38,452.4	<b>39,071.6</b>	N/A	N/A	N/A
Net gearing ratio <sup>(5)</sup>	18.5%	<b>14.0%</b>	N/A	N/A	N/A

	1HFY2014 <i>HK\$ million</i>	1HFY2015 <i>HK\$ million</i>
Operating cash flows before movements in working capital	4,389.8	<b>3,553.1</b>

Notes:

- (1) Information about denominated currency, interest rate structure and maturity related to the condition as at 30 September 2014
- (2) Include pledged bank deposits, short-term bank deposits and bank balances and cash. As at 31 March 2014, the Group had HK\$500.0 million of short-term bank deposits with original maturity of 12 months, carrying fixed interest rate at 1.5% per annum. Such deposits matured during 1HFY2015, and as at 30 September 2014, the Group did not have any short-term bank deposits. The Group will monitor the interest rates for bank deposits periodically and leverage the opportunity to enjoy a higher interest rate on idle funds

- (3) The decrease in gold loan was mainly due to the decrease in gold products inventories
- (4) Being net current assets
- (5) Aggregate of bank borrowings, gold loans, net of pledged bank deposits, short-term bank deposits and bank balances and cash, divided by total equity

### ***Capital Expenditure***

The Group's capital expenditure incurred during 1HFY2015 amounted to HK\$1,696.8 million (1HFY2014: HK\$835.0 million), and was primarily used for the expansion of our POS network, improvements at existing POS, and the acquisition of a property which amounted to HK\$850.0 million. Prior to the acquisition, the Group has been leasing approximately one-third of the floor area of the property as jewellery workshop and operation center.

### **Business Review**

#### ***Overview***

In 1HFY2015, due to the slowdown in the sales of gold products compared to the high base resulting from the sharp decrease of international gold price in 1HFY2014, we recorded a decrease of 22.4% in revenue over the same period last year.

	1HFY2014		1HFY2015		Increase/ (decrease)
	Revenue <i>HK\$ million</i>	% of total	Revenue <i>HK\$ million</i>	% of total	
Mainland China					
— Jewellery business	18,732.1	49.6%	<b>15,988.7</b>	<b>54.5%</b>	(14.6)%
Mainland China					
— Watch business	683.8	1.8%	<b>1,022.6</b>	<b>3.5%</b>	49.5%
Hong Kong, Macau and other markets	18,352.2	48.6%	<b>12,308.2</b>	<b>42.0%</b>	(32.9)%
Total	<u>37,768.1</u>	<u>100.0%</u>	<u><b>29,319.5</b></u>	<u><b>100.0%</b></u>	<u>(22.4)%</u>

*Note:* The percentages calculated are subject to minor rounding difference



In terms of Retail Sales Value, which measures the sales in self-operated and franchised POS at prices sold to end customers, we recorded a decrease of 21.9% over the same period last year. Retail Sales Value, an important indicator of our overall market share, captures the total sales of products in our POS network, regardless of the operation model of the POS, and therefore enabling a holistic analysis on our sales performance.

	1HFY2014		1HFY2015		Increase/ (decrease)
	Retail Sales Value <i>HK\$ million</i>	% of total	Retail Sales Value <i>HK\$ million</i>	% of total	
Mainland China					
— Jewellery business	23,225.1	55.1%	<b>19,507.6</b>	<b>59.3%</b>	(16.0)%
Mainland China					
— Watch business	763.8	1.8%	<b>1,185.9</b>	<b>3.6%</b>	55.3%
Hong Kong, Macau and other markets	18,163.7	43.1%	<b>12,216.6</b>	<b>37.1%</b>	(32.7)%
Total	<u>42,152.6</u>	<u>100.0%</u>	<u><b>32,910.1</b></u>	<u><b>100.0%</b></u>	<u>(21.9)%</u>

The gold rush in 1HFY2014 following the unprecedented slump in international gold price has created an exceptionally high base for 1HFY2015. As customers' demand for gold products resumed gradually to normal, we responded to the changing market conditions and managed to improve our product mix by capturing the growth potentials for gem-set jewellery. While our operating environments as well as customer preferences never stop revolving, we remain confident in extending our leading position through our valuable experience and knowledge in Greater China's jewellery markets.

Same Store Sales Growth ("SSSG") is an important indicator to our sales performance, as SSSG shows the growth in sales neglecting the effect of the openings and closings of POS. Therefore SSSG is the base growth of our revenue growth, reflecting the fundamental business momentum and enabling a better analysis and understanding of the growth drivers of our revenue.

Our overall Same Store Sales recorded a decline of 31.2% in 1HFY2015 (1HFY2014: a growth of 33.0%), of which Same Store Sales in Mainland China was a decline of 20.4% (1HFY2014: a growth of 21.0%) and Same Store Sales in Hong Kong, Macau and Taiwan was a decline of 40.9% (1HFY2014: a growth of 47.0%). The table below sets forth the quarterly and half yearly SSSG for FY2015 and FY2014:

	FY2014			FY2015		
	First Quarter	Second Quarter	First Half	First Quarter	Second Quarter	First Half
<b>SSSG</b>						
Mainland China	30.5%	11.0%	21.0%	(27.9)%	(11.7)%	(20.4)%
Hong Kong, Macau and Taiwan	67.3%	26.3%	47.0%	(50.1)%	(28.6)%	(40.9)%
Overall	47.4%	18.1%	33.0%	(39.9)%	(20.3)%	(31.2)%
Gem-set jewellery	7.4%	3.4%	5.3%	1.7%	0.4%	1.1%
Gold products	77.1%	32.2%	56.0%	(56.0)%	(32.9)%	(46.8)%

In 1HFY2015, the Same Store Sales for gem-set jewellery and gold products experienced a growth of 1.1% and a decline of 46.8% respectively. The following table sets forth the relevant average selling price at 1HFY2015 Same Store level:

	1HFY2014 HK\$	1HFY2015 HK\$	Increase/ (decrease)
<b>Average selling price at 1HFY2015</b>			
<b>Same Store level</b>			
Mainland China <sup>(1)</sup>			
Gem-set jewellery <sup>(1)</sup>	6,529	6,700	2.6%
Gold products <sup>(1)</sup>	3,499	3,325	(5.0)% <sup>(2)</sup>
Hong Kong, Macau and Taiwan			
Gem-set jewellery	12,792	12,251	(4.2)%
Gold products	5,645	5,156	(8.7)% <sup>(2)</sup>

Notes:

- (1) Average selling price in Mainland China includes value-added tax (VAT)
- (2) Average selling price for gold products decreased as international gold price remained at a relatively low level throughout 1HFY2015

## POS network

As at	31 March		31 March	During 1HFY2015		30 September
	2014	Reclassification	(Reclassified)	Addition	Reduction	2014
	Total	Adjustment	Total			Total
<b>Mainland China</b>	1,965	–	1,965	158	(61)	<b>2,062</b>
Jewellery POS	1,828	–	1,828	151	(52)	<b>1,927</b>
Tier I cities	234	(4)	230	17	(7)	<b>240</b>
Tier II cities	847	165	1,012	76	(31)	<b>1,057</b>
Tier III and other cities	747	(161)	586	58	(14)	<b>630</b>
Watch POS	137	–	137	7	(9)	<b>135</b>
<b>Hong Kong, Macau and other markets</b>	112	–	112	20	(3)	<b>129</b>
Hong Kong	86	–	86	7	(3)	<b>90</b>
Macau	16	–	16	2	–	<b>18</b>
Other markets <sup>(1)</sup>	10	–	10	11	–	<b>21</b>
<b>Total</b>	<b>2,077</b>	<b>–</b>	<b>2,077</b>	<b>178</b>	<b>(64)</b>	<b>2,191</b>
Hearts On Fire retail partner location <sup>(2)</sup>	N/A	N/A	N/A	523	–	<b>523</b>

### Notes:

- (1) New POS in other markets include eight and two POS directly operated by Hearts On Fire in Taiwan and the United States, along with a POS opened in South Korea under our collaboration with the Shilla Jeju Duty Free Shop
- (2) As we acquired Hearts On Fire on 31 August 2014, we had a global independent retail location network of Hearts On Fire, covering 28 countries as at 30 September 2014

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

In 1HFY2015, our store opening plan was on track. As at 30 September 2014, we had a total of 2,191 POS (31 March 2014: 2,077). Among these, 2,053 were jewellery POS (31 March 2014: 1,938) and 138 were watch POS (31 March 2014: 139), with a net of 114 new POS opened in 1HFY2015 (1HFY2014: 118).

### *Mainland China — Jewellery business*

	1HFY2014	1HFY2015	Decrease
Revenue (in HK\$ million)	18,732.1	<b>15,988.7</b>	(14.6)%
Retail	13,912.0	<b>11,599.4</b>	(16.6)%
Wholesale	4,820.1	<b>4,389.3</b>	(8.9)%
Retail Sales Value (in HK\$ million)	23,225.1	<b>19,507.6</b>	(16.0)%
Sales volume (in unit)	6,537,000	<b>5,807,000</b>	(11.2)%

Despite the drop in revenue mainly caused by the decrease in sales of gold products, Mainland China was performing better than Hong Kong, Macau and other markets in 1HFY2015 due to a relatively lower base from the same period last year. Fuelled by stable growth in volume, gem-set jewellery maintained its momentum from last year and recorded growth in revenue and Same Store Sales, resulting in significant improvement in product mix. While we saw similar sales performances in our self-operated and franchised POS, the continued growth in gem-set jewellery signaled the gradual improvement in consumer confidence among our retail customers and franchisees throughout 1HFY2015.

We expect the proportion of revenue generated from Mainland China to increase in the long run, attributable to the nationwide continual urbanisation, the growing affluence of Mainland Chinese people in terms of increasing disposable income per capita and growing demand for luxury goods.

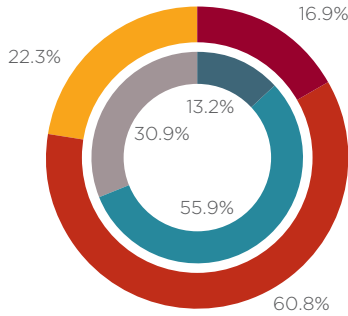
## Retail Sales Value and POS

1HFY2014

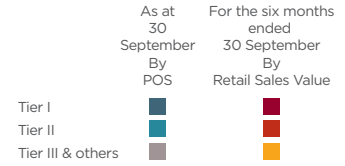
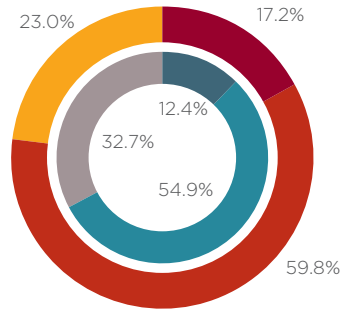
1HFY2015

### By tier of cities (Reclassified)

(Total: 1,734 jewellery POS)

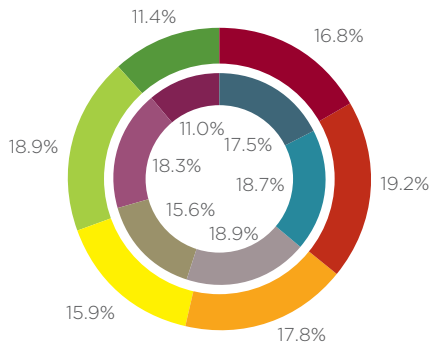


(Total: 1,927 jewellery POS)

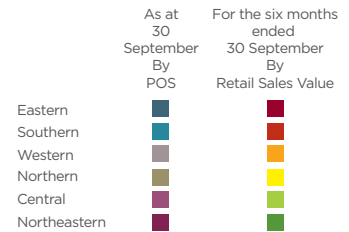
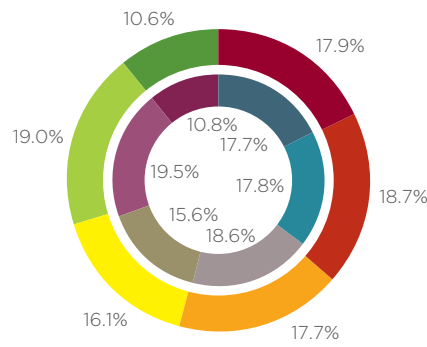


### By geography

(Total: 1,734 jewellery POS)

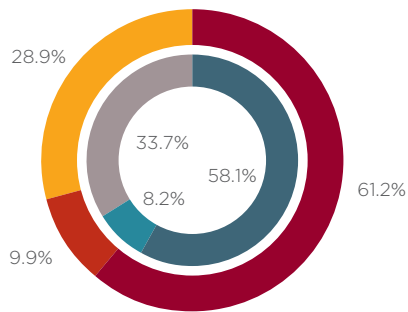


(Total: 1,927 jewellery POS)

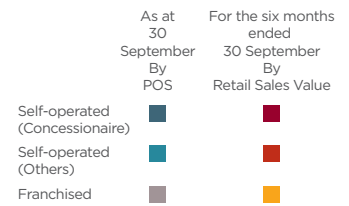
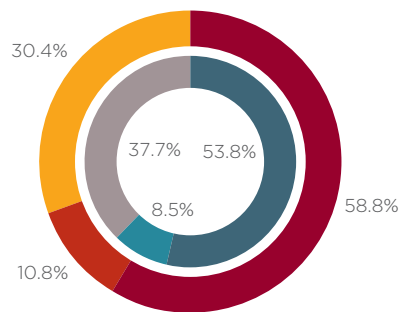


### By operation model

(Total: 1,734 jewellery POS)



(Total: 1,927 jewellery POS)



	1HFY2014 (Reclassified)	<b>1HFY2015</b>
Jewellery POS — net openings	94	<b>99</b>
Proportion (by tier of cities)		
— Tier I cities	7.4%	<b>10.1%</b>
— Tier II cities	66.0%	<b>45.5%</b>
— Tier III and other cities	26.6%	<b>44.4%</b>
	<u>100.0%</u>	<u><b>100.0%</b></u>

*Note:* The percentages calculated are subject to minor rounding differences

Following the reclassification of cities under the new city tier definition, certain Tier III and other cities are now classified as Tier II cities. As a result, we saw a higher proportion of net POS openings in Tier II cities in 1HFY2015.

In 1HFY2015, concessionaire stores within department stores or shopping malls in Mainland China, in which the host received the payments for us and took a commission of our sales in form of concessionaire fees, remained the vast majority of our self-operated POS in Mainland China. The remaining self-operated POS were standalone stores in which we received payments directly from our customers. During the period, most new self-operated POS were opened in shopping malls in response to the market trend and changing consumer preferences towards shopping malls.

In recent years, we have been focusing on POS expansion in Tier II, III and lower tier 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 fluctuation and have seen rapid expansion in their jewellery markets. At the same time, we continued to upgrade the positioning and branding of our POS in Tier I and II cities to cater for the sophisticated consumers in these cities.

During the period, certain joint-venture partners have decided to switch to the franchise model and become our franchisees. As a result, a number of our self-operated POS have been reclassified as franchised POS.

#### *Inventory Ownership Unification*

To cope with the ever-changing consumer preferences and retail environment in Mainland China, we have started to optimise our inventory management mechanism. Previously, inventory ownership would be transferred to franchisees, and the amount would be recorded as our wholesale revenue upon inventory delivery to franchisees. Under the optimised mechanism, inventories are dispatched to franchised POS upon the receipt of deposits at value equivalent to the prescribed inventory level. We would retain inventory ownership until sales transactions are completed with retail customers, upon which wholesale revenue is recognised at the prevailing price.

By retaining inventory ownership until sales transactions are completed with retail customers, we aim to achieve the following objectives:

- Promptly addressing customers’ needs across the whole retail network through inventory pooling, where inventory distribution becomes more efficient and flexible
- Strengthening the stability of our retail network through better management of the price risk on gold inventories distributed to franchised POS, which will be hedged through our gold hedging mechanism
- Facilitating the development of omni-channel retailing and online-to-offline (“O2O”) interactions through enhanced inventory mobilisation

This optimised inventory management mechanism would be implemented by stages and we expect that all our franchisees would start to adopt the optimised mechanism by the end of FY2017. We believe the inventory ownership unification would impact our wholesale revenue by approximately HK\$4,000.0 million to HK\$5,000.0 million in total during the transition period, which approximates the amount of inventories held by our franchisees during 1HFY2015.

In the long run, while the inventory ownership unification would impact our inventory balance and inventory turnover by approximately 10.0% to 12.0%, it would not have significant impact on our revenue, profitability and working capital requirement. We consider that the optimised inventory management mechanism will continue to support our sustained and steady expansion of our retail network in the dynamic market environment.

#### ***Mainland China — Watch business***

In 1HFY2015, revenue from our watch business in Mainland China amounted to HK\$1,022.6 million (1HFY2014: HK\$683.8 million), representing an encouraging increase of 49.5%. The increase was mainly contributed by the sales from new POS.

During the period, we closed a net of two POS in Mainland China. As at 30 September 2014, our total number of watch POS in Mainland China was 135 (31 March 2014: 137). In light of the market dynamics in the watch segment, we may seek to further consolidate our watch POS network to improve operational efficiency.

#### ***Hong Kong, Macau and other markets***

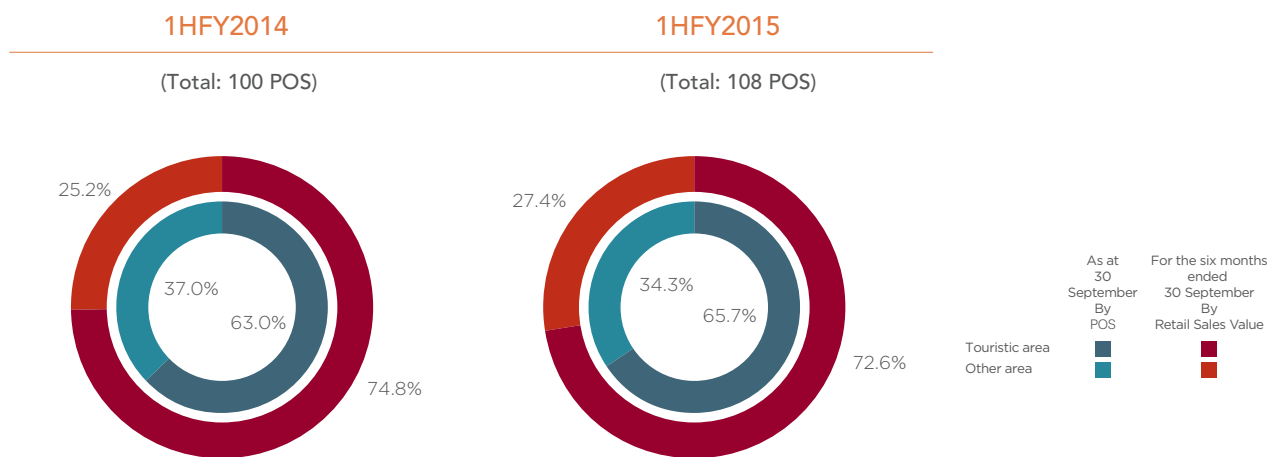
	1HFY2014	1HFY2015	Decrease
Revenue (in HK\$ million)	18,352.2	<b>12,308.2</b>	(32.9)%
Settled through China UnionPay or Renminbi	59.6%	<b>57.2%</b>	(2.4)%pts
Retail Sales Value — Jewellery products (in HK\$ million)	18,163.7	<b>12,216.6</b>	(32.7)%
Sales volume (in unit)	3,104,000	<b>2,310,000</b>	(25.6)%

Throughout 1HFY2015, the sales performance of Hong Kong, Macau and other markets was shadowed by the extraordinarily high base from the same period last year. Nevertheless, the growth in overall sales of gem-set jewellery driven by volume growth, coupled with a slowdown in demand for gold products, represented significant improvement in product mix. Meanwhile, mass luxury jewellery products continued to support the growth in overall sales.

The revenue settlement currencies indicated that Mainland Chinese visitors continued to be the major source of revenue in Hong Kong and Macau. According to the Commerce and Economic Development Bureau of Hong Kong and the Macau Statistics and Census Service, in 1HFY2015, the number of Mainland Chinese visitors to Hong Kong and Macau increased by 12.9% and 11.6% compared to the same period last year, to 23.3 million and 10.6 million, respectively.

Recently we see a sluggish growth in inbound Mainland tourist numbers in Hong Kong and Macau and the rise of alternative travel destinations for Mainland Chinese tourists. The possible change in inbound tourism from mainlanders has aroused uncertainty over our business. While we believe that the negative impact brought forth by the recent demonstrations happened in Hong Kong should be temporary, we strive to extend our customer reach and improve our customers' shopping experience to cope with the challenges ahead. For our POS network, we seek to expand our footprint in the region to cover more popular destinations of Mainland Chinese tourists, and take a flexible approach to our rollout strategy in Hong Kong and Macau.

### Retail Sales Value and POS POS in Hong Kong/Macau



Touristic area includes Causeway Bay, Tsim Sha Tsui, Mong Kok, Yau Ma Tei, and Sheung Shui in Hong Kong, and Macau.

In 1HFY2015, we opened nine POS in Hong Kong and Macau, of which five POS were opened in touristic area. We continued to consolidate our POS network in Hong Kong, expand the gross floor area of selected POS with great growth potential, and relocate some POS to areas with higher customer traffic so as to capture more sales opportunities and enhance POS performance and efficiency.



As at 30 September 2014, we had three watch POS (31 March 2014: two) in Hong Kong and Macau. To create a one-stop shopping experience in Hong Kong and Macau, we had 36 POS (31 March 2014: 38) that retailed both jewellery and watch products as at 30 September 2014.

### *Prospects*

The jewellery market downturn in 1HFY2015 came as no surprise, given the relatively slow economies in both Hong Kong and Mainland China and in particular the high base effect when compared to the same period last year. Having that said, the situation was not all that bleak. Signs of resilience were seen in the second quarter as reflected in the Group's narrowing decline in revenue as well as a rebound in jewellery retailing in Mainland China. The Group is confident that these improvements will continue in the light of the festive shopping sprees in the second half of the financial year and the momentum will sustain moving forward.

Mainland China will continue to be our major market. Although the economic growth in Mainland China is said to be lower than the targeted 7.5% in 2014, it remains one of the fastest growing economies in the world. Stable employment, rising disposable incomes, continuing urbanisation, together with widespread confidence in the country's future economic development, are all positive factors that support the Group's optimistic business outlook in the medium to long run.

The improving consumer confidence in Mainland China was reflected in the 7.3% and 11.4% year-on-year jewellery retail sales value growth in August and September, respectively after declining for five consecutive months since March 2014, according to National Bureau of Statistics of China.

Mainland China has already surpassed the United States as the largest e-tail market and the growth momentum remains robust. Also released by the National Bureau of Statistics of China, e-tail sales increased 49.9% year-on-year in the first nine months in 2014. The recent announcement of the Central Government on its priority to support e-commerce to drive domestic spending will be a powerful impetus to accelerate its development.

As young customers are widely recognised as a new consumption power, some might as well aware that among them young working women are in particular rising fast in both numbers and incomes whose luxury spending are increasing notably simultaneously. Some mainland researches reported that currently of Mainland China's 600 million plus netizens, about 24% are online shoppers and close to 50% are women. Such phenomena are well supported by a KPMG survey earlier this year that women purchase more luxury products with greater spending online than men. All these facts and figures tell firstly there is plenty of room for business growth in both online and offline luxury market and secondly the jewellery industry with women as its major customers will definitely benefit.

Hong Kong's position being an international jewellery hub and a free port for tax-free luxury goods enables it to stay attractive to many locals and tourists. The stable consumption power and demand for jewellery products of local people will remain as the favourable factors that support the city's jewellery industry continuously. As Mainland consumers are becoming more discerning and look for high quality jewellery products and unique shopping experience, with its long-established goodwill as a shopping paradise and its proximity to Mainland China, Hong Kong will be able to maintain its leading position as the sightseeing and shopping destination to many mainland tourists.

The Group will continue to execute its market-driven, customer-focused and product diversification strategies to win customers with various tastes and preferences in different market segments. On the one hand, the Group will optimise its product offerings and leverage its retail network of both physical stores and e-tail platforms to meet the diverse needs of different customers. In particular, wedding jewellery will continue to be an important part of the Group's product portfolio while fashion jewellery and youth line products are growing fast. On the other hand, the Group will strive to enhance its luxury jewellery expert image leveraging its exceptional design and superlative craftsmanship, as well as exclusive high-end jewellery promotional activities to appeal to high-net-worths and prestigious Chow Tai Fook members. The acquisition of the luxury diamond brand Hearts On Fire in August was a strategic move to enhance its product portfolio and diamond expert profile.

In retail network expansion, the Group plans to double the total number of POS in the coming 10 years, in tandem with stepped up efforts to further enhance its e-commerce model with optimised O2O synergy and omni-channel retailing. While overseas travel is increasingly popular among the Mainland Chinese, it means more and more of their shopping budgets are spent in the new tourist destinations outside our major markets, Hong Kong and Mainland China. In order to translate this challenge into an opportunity, the Group has sought to open POS in newly emerged tourist destinations to capture the spending power of the affluent outbound Mainland Chinese tourists.

As the Group is well-positioned to meet short-term fluctuations and various challenges in the markets, it is all geared up to embrace opportunities for further business growth and sustainable development with confidence in the medium to long run.

## **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 2014.

## **CORPORATE GOVERNANCE**

During the six months ended 30 September 2014, the Company was in full compliance with all applicable principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2014.

## **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 2014 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 2014 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 HK13.0 cents per share amounting to approximately HK\$1,300.0 million for the six months ended 30 September 2014 to shareholders whose names appear on the register of members of the Company at the close of business on 12 December 2014.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 11 December 2014 to Friday, 12 December 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Wednesday, 10 December 2014.

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

Hong Kong, 25 November 2014

*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 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.*