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CHOW TAI FOOK JEWELLERY GROUP LIMITED

周大福珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1929

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2013

FINANCIAL HIGHLIGHTS

- Revenue reached HK\$57,433.9 million, mildly increased by 1.5% when compared with HK\$56,571.1 million recorded in FY2012.
- Overall Same Store Sales⁽¹⁾ recorded a decline of 3.3%, among which the Mainland of China and Hong Kong, Macau and Taiwan recorded a decline of 3.0% and 3.7% respectively.
- Gross profit decreased by 1.0% to HK\$16,283.1 million from HK\$16,447.9 million in FY2012.
- Profit attributable to shareholders of the Company amounted to HK\$5,505.3 million, representing a decrease of 13.2% as compared to HK\$6,340.6 million in FY2012.
- Basic earnings per share were HK55.1 cents.
- Proposed final dividend is HK16.0 cents per share⁽²⁾.
- Retail network expanded to 1,836 POS as at 31 March 2013, with a net addition of 209 POS in FY2013.

(1) "Same Store Sales" for FY2013 is the revenue from the self-operated point of sales ("POS")(including stand-alone stores, concessionaire counters and joint-venture POS) existing as at 31 March 2013 and which have been opened prior to 1 April 2011. Revenue from wholesales channel (i.e. franchisee sales) and other direct sales (such as sales from promotional events) are excluded.

(2) The dividend payout ratio for FY2013, including proposed final dividend, is approximately 40.0% on a full year basis.

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2013

The board of directors (the “Board” or “Directors”) of Chow Tai Fook Jewellery Group Limited (the “Company”, “we” or “Chow Tai Fook”) is pleased to announce the audited annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 March 2013 (“FY2013”), together with comparative figures for the year ended 31 March 2012 (“FY2012”) as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2013

| | NOTES | 2013 HK\$ million | 2012 HK\$ million |
|--|-------|----------------------------|----------------------------|
| Revenue | 2 | 57,433.9 | 56,571.1 |
| Cost of goods sold | | <u>(41,150.8)</u> | <u>(40,123.2)</u> |
| Gross profit | | 16,283.1 | 16,447.9 |
| Other income | | 296.2 | 227.2 |
| Other gains and losses | | 27.4 | 17.4 |
| Selling and distribution costs | | (7,444.8) | (6,319.9) |
| Administrative expenses | | (1,736.2) | (1,714.6) |
| Other expenses | | (1.2) | (129.0) |
| Finance costs | | <u>(329.5)</u> | <u>(363.1)</u> |
| Profit before taxation | 3 | 7,095.0 | 8,165.9 |
| Taxation | 4 | <u>(1,416.6)</u> | <u>(1,595.0)</u> |
| Profit for the year | | 5,678.4 | 6,570.9 |
| Other comprehensive income | | | |
| — exchange differences arising on translation | | 59.1 | 352.7 |
| — share of translation reserve of an associate | | — | 1.5 |
| | | <u>59.1</u> | <u>354.2</u> |
| Total comprehensive income for the year | | <u>5,737.5</u> | <u>6,925.1</u> |
| Profit for the year attributable to: | | | |
| Shareholders of the Company | | 5,505.3 | 6,340.6 |
| Non-controlling interests | | <u>173.1</u> | <u>230.3</u> |
| | | <u>5,678.4</u> | <u>6,570.9</u> |
| Total comprehensive income attributable to: | | | |
| Shareholders of the Company | | 5,561.9 | 6,678.4 |
| Non-controlling interests | | <u>175.6</u> | <u>246.7</u> |
| | | <u>5,737.5</u> | <u>6,925.1</u> |
| Earnings per share — Basic | 5 | <u>HK55.1 cents</u> | <u>HK68.5 cents</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2013

| | NOTE | 2013 HK\$ million | 2012 HK\$ million |
|---|------|----------------------|----------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 2,155.1 | 1,687.5 |
| Prepaid lease payments | | 172.1 | 95.7 |
| Deposits paid for acquisition of property, plant and equipment | | 464.0 | 349.7 |
| Interest in an associate | | – | 10.1 |
| Interest in a jointly controlled entity | | 14.0 | – |
| Loan receivables | | 23.0 | 13.0 |
| Deferred tax assets | | 613.4 | – |
| | | <u>3,441.6</u> | <u>2,156.0</u> |
| Current assets | | | |
| Inventories | 7 | 27,314.8 | 29,694.2 |
| Trade and other receivables | | 3,972.5 | 5,323.4 |
| Loan receivables | | 134.9 | 163.8 |
| Convertible bonds | | 24.3 | 24.8 |
| Derivative financial instruments | | – | 47.3 |
| Pledged bank deposits | | 25.7 | 17.0 |
| Bank balances and cash | | 8,304.8 | 9,987.8 |
| | | <u>39,777.0</u> | <u>45,258.3</u> |
| Current liabilities | | | |
| Trade and other payables | | 1,753.8 | 1,838.4 |
| Amounts due to non-controlling shareholders of subsidiaries | | 351.1 | 400.3 |
| Taxation payable | | 472.2 | 598.5 |
| Bank borrowings — due within one year | | 1,000.0 | 5,574.2 |
| Gold loans | | 4,835.7 | 5,806.6 |
| | | <u>8,412.8</u> | <u>14,218.0</u> |
| Net current assets | | <u>31,364.2</u> | <u>31,040.3</u> |
| Total assets less current liabilities | | <u>34,805.8</u> | <u>33,196.3</u> |

| | 2013 <i>HK\$ million</i> | 2012 <i>HK\$ million</i> |
|---|------------------------------------|-----------------------------|
| Non-current liabilities | | |
| Retirement benefit obligations | 251.3 | 196.9 |
| Bank borrowings — due after one year | – | 3,426.4 |
| Deferred tax liabilities | 693.8 | – |
| | <u>945.1</u> | <u>3,623.3</u> |
| Net assets | <u>33,860.7</u> | <u>29,573.0</u> |
| Share capital/paid-in capital | 10,000.0 | 10,000.0 |
| Reserves | <u>22,925.5</u> | <u>18,978.3</u> |
| Equity attributable to shareholders of the Company | 32,925.5 | 28,978.3 |
| Non-controlling interests | <u>935.2</u> | <u>594.7</u> |
| | <u>33,860.7</u> | <u>29,573.0</u> |

NOTES

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board.

Through a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Group Reorganisation”), the Company has become the holding company of the Group on 30 September 2011.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated statement of comprehensive income and the consolidated statement of cash flows which includes the results and cash flows of the companies now comprising the Group including its Macau jewellery business (which was held by a fellow subsidiary that conducted jewellery business for the Group in Macau and other business in Macau which did not form part of, nor relevant to, the Group’s jewellery business, and transferred to a subsidiary of the Company) have been prepared by applying the principles of merger accounting as if the current group structure had been in existence throughout the year ended 31 March 2012 or since their respective dates of incorporation/establishment/acquisition where this is a shorter period. The consolidated statement of financial position of the Group as at 31 March 2011 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

The Group has applied all the standards, amendments and interpretations issued by the International Accounting Standards Board, which are effective for the Group’s financial year beginning on 1 April 2012.

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

| | |
|--|---|
| Amendments to IFRSs | Annual improvements to IFRSs 2009–2011 cycle ¹ |
| Amendments to IFRS 7 | Disclosures — Offsetting financial assets and financial liabilities ¹ |
| Amendments to IFRS 7 and IFRS 9 | Mandatory effective date of IFRS 9 and transition disclosures ³ |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance ¹ |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment entities ² |
| IFRS 9 | Financial instruments ³ |
| IFRS 10 | Consolidated financial statements ¹ |
| IFRS 11 | Joint arrangements ¹ |
| IFRS 12 | Disclosure of interests in other entities ¹ |
| IFRS 13 | Fair value measurement ¹ |
| IAS 19 (as revised in 2011) | Employee benefits ¹ |
| IAS 27 (as revised in 2011) | Separate financial statements ¹ |
| IAS 28 (as revised in 2011) | Investments in associates and joint ventures ¹ |
| Amendments to IAS 1 | Presentation of items of other comprehensive income ⁴ |
| Amendments to IAS 32 | Offsetting financial assets and financial liabilities ² |
| Amendments to IAS 36 | Recoverable amount disclosures for non-financial assets ² |
| IFRIC 20 | Stripping costs in the production phase of a surface mine ¹ |
| IFRIC 21 | Levies ² |

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

The directors of the Company are in the process of assessing the impact on application of these new or revised standards and amendments.

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 the Mainland of 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. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

For the year ended 31 March 2013

| | The Mainland of China <i>HK\$ million</i> | Hong Kong, Macau and other Asian markets <i>HK\$ million</i> | Subtotal <i>HK\$ million</i> | Elimination <i>HK\$ million</i> | Total <i>HK\$ million</i> |
|----------------------------------|--|--|---------------------------------|------------------------------------|------------------------------|
| Revenue | | | | | |
| External sales | | | | | |
| — Retail | 24,262.7 | 26,041.7 | 50,304.4 | – | 50,304.4 |
| — Wholesale [#] | 6,045.7 | 1,083.8 | 7,129.5 | – | 7,129.5 |
| | <u>30,308.4</u> | <u>27,125.5</u> | <u>57,433.9</u> | <u>–</u> | <u>57,433.9</u> |
| Inter-segment sales [*] | 594.8 | 1,645.5 | 2,240.3 | (2,240.3) | – |
| | <u>30,903.2</u> | <u>28,771.0</u> | <u>59,674.2</u> | <u>(2,240.3)</u> | <u>57,433.9</u> |
| Segment profit | <u>3,668.5</u> | <u>3,679.5</u> | <u>7,348.0</u> | <u>(31.3)</u> | 7,316.7 |
| Interest income | | | | | 107.8 |
| Finance costs | | | | | <u>(329.5)</u> |
| Profit before taxation | | | | | <u>7,095.0</u> |

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

Wholesale mainly represents sales to franchisees.

For the year ended 31 March 2012

| | The Mainland of China <i>HK\$ million</i> | Hong Kong, Macau and other Asian markets <i>HK\$ million</i> | Subtotal <i>HK\$ million</i> | Elimination <i>HK\$ million</i> | Total <i>HK\$ million</i> |
|--------------------------|--|--|---------------------------------|------------------------------------|------------------------------|
| Revenue | | | | | |
| External sales | | | | | |
| — Retail | 23,266.3 | 23,976.3 | 47,242.6 | — | 47,242.6 |
| — Wholesale [#] | 8,750.1 | 578.4 | 9,328.5 | — | 9,328.5 |
| | <u>32,016.4</u> | <u>24,554.7</u> | <u>56,571.1</u> | <u>—</u> | <u>56,571.1</u> |
| Inter-segment sales* | 240.1 | 4,398.3 | 4,638.4 | (4,638.4) | — |
| | <u>32,256.5</u> | <u>28,953.0</u> | <u>61,209.5</u> | <u>(4,638.4)</u> | <u>56,571.1</u> |
| Segment profit | <u>4,605.0</u> | <u>3,851.8</u> | <u>8,456.8</u> | <u>(16.7)</u> | 8,440.1 |
| Interest income | | | | | 88.9 |
| Finance costs | | | | | <u>(363.1)</u> |
| Profit before taxation | | | | | <u>8,165.9</u> |

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 a price mutually agreed by both parties.

Wholesale mainly represents sales to franchisees.

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

| | 2013 <i>HK\$ million</i> | 2012 <i>HK\$ million</i> |
|-------------------------------|-----------------------------|-----------------------------|
| Sales of | | |
| — Gem-set jewellery | 13,164.8 | 15,378.1 |
| — Gold product | 32,954.6 | 29,742.1 |
| — Platinum/karat gold product | 8,339.0 | 7,813.4 |
| — Watch | 2,975.5 | 3,637.5 |
| | <u>57,433.9</u> | <u>56,571.1</u> |

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

3. PROFIT BEFORE TAXATION

| | 2013 <i>HK\$ million</i> | 2012 <i>HK\$ million</i> |
|--|------------------------------------|-----------------------------|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Directors' remuneration | 57.3 | 90.2 |
| Staff's retirement benefits scheme contributions | 484.7 | 311.7 |
| Staff costs | <u>2,708.8</u> | <u>2,728.9</u> |
| | 3,250.8 | 3,130.8 |
| Amortisation of prepaid lease payments | 12.1 | 11.0 |
| Auditors' remuneration | | |
| — audit related services | 9.3 | 5.1 |
| — non-audit services | 1.1 | 10.1 |
| Concessionaire fees | 2,109.7 | 2,193.9 |
| Cost of inventories recognised as expenses | 40,722.1 | 39,080.3 |
| Depreciation | 494.7 | 390.5 |
| Donations (included in other expenses) | 1.2 | 17.6 |
| Fair value (gain) loss on gold loans (included in cost of goods sold), including unrealised fair value gain of HK\$230.4 million (2012: HK\$0.7 million) | (272.3) | 345.8 |
| Fair value (gain) loss on bullion forward contracts (included in cost of goods sold), including unrealised fair value gain of nil (2012: HK\$47.3 million) | (4.1) | 174.8 |
| Operating lease rentals in respect of rented premises | 1,015.2 | 672.8 |
| Professional expenses attributable to issue of shares (included in other expenses) | <u>—</u> | <u>111.4</u> |

4. TAXATION

| | 2013 <i>HK\$ million</i> | 2012 <i>HK\$ million</i> |
|--|-----------------------------|-----------------------------|
| The taxation charge comprises: | | |
| Current tax: | | |
| Enterprise Income Tax (“EIT”) in the Mainland of China | 749.5 | 976.2 |
| Hong Kong Profits Tax | 463.4 | 563.0 |
| Macau complementary tax | 85.3 | 111.7 |
| | <u>1,298.2</u> | <u>1,650.9</u> |
| Under(over) provision in prior years: | | |
| EIT in the Mainland of China | 14.1 | 10.7 |
| Hong Kong Profits Tax | 4.6 | (87.3) |
| Macau complementary tax | – | (0.7) |
| | <u>18.7</u> | <u>(77.3)</u> |
| Deferred tax | <u>79.4</u> | – |
| Withholding tax on license income from the Mainland of China | <u>20.3</u> | <u>21.4</u> |
| | <u><u>1,416.6</u></u> | <u><u>1,595.0</u></u> |

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

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

Pursuant to relevant laws and regulations in the Mainland of China, Lida Noble Metal Technology and Development (Shenzhen) Company Limited and Foshan Shunde Yuda Jewellery Manufacturing Company 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 both years.

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

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profits attributable to shareholders of the Company for the year and on the number of 10,000,000,000 (2012: the weighted average number of 9,259,836,066) shares in issue during the year.

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

6. DIVIDENDS

| | 2013 <i>HK\$ million</i> | 2012 <i>HK\$ million</i> |
|---|-----------------------------|-----------------------------|
| Dividends recognised as distribution during the year: | | |
| 2013 Interim — HK6.0 cents (2012: nil) per share | 600.0 | – |
| 2012 Final — HK10.0 cents (2011: nil) per share | 1,000.0 | – |
| Dividends to shareholders prior to the Group Reorganisation (<i>Note</i>) | – | 4,550.3 |
| | <u>1,600.0</u> | <u>4,550.3</u> |

Note: During the year ended 31 March 2012, the Group distributed interim dividends totally HK\$4,550.3 million, of which HK\$7.1 million was included in amounts due to non-controlling shareholders of subsidiaries, to their shareholders prior to the Group Reorganisation.

Subsequent to the end of the reporting period, a final dividend of HK16.0 cents in respect of the year ended 31 March 2013 (2012: HK10.0 cents) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

7. INVENTORIES

| | 2013 <i>HK\$ million</i> | 2012 <i>HK\$ million</i> |
|-----------------------------|-----------------------------|-----------------------------|
| Raw materials for: | | |
| Gem-set jewellery | 4,861.6 | 7,387.5 |
| Gold product | 2,241.4 | 896.9 |
| Platinum/karat gold product | 216.8 | 589.6 |
| | <u>7,319.8</u> | <u>8,874.0</u> |
| Finished goods: | | |
| Gem-set jewellery | 10,806.8 | 8,537.5 |
| Gold product | 4,685.6 | 7,909.8 |
| Platinum/karat gold product | 2,078.7 | 2,289.6 |
| Watch | 2,399.8 | 2,055.0 |
| | <u>19,970.9</u> | <u>20,791.9</u> |
| Packing material | <u>24.1</u> | <u>28.3</u> |
| | <u>27,314.8</u> | <u>29,694.2</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Despite the fall in consumer sentiment in Greater China, the Group recorded a revenue of HK\$57,433.9 million (FY2012: HK\$56,571.1 million), representing a mild increase of 1.5% over last year. Such increase was attributable to the increase in retail revenue by HK\$3,061.8 million or 6.5% over that of the previous year, which in turn was mainly fuelled by the expansion of the Group's retail network and the increasing demand for mass luxury jewellery. The growth of retail revenue was offset by the decrease in wholesale revenue by HK\$2,199.0 million or 23.6% over that of the previous year.

The business in the Mainland of China recorded a revenue of HK\$30,308.4 million (FY2012: HK\$32,016.4 million), representing a small decrease of 5.3% from FY2012. Hong Kong, Macau and other Asian markets recorded a revenue of HK\$27,125.5 million (FY2012: HK\$24,554.7 million), increased by 10.5% from FY2012.

The Mainland of China market continued to represent our major source of revenue, accounting for 52.8% (FY2012: 56.6%) of our total revenue. Given the increasing number of Mainland tourists in Hong Kong and Macau and the concurrent steady rise in their disposable income per capita, the Group believed that Mainland tourists constituted the largest single customer group for our products in Hong Kong and Macau, as evidenced by the fact that 53.1% (FY2012: 48.3%) of our total revenue in Hong Kong and Macau was settled through China UnionPay or Renminbi. This implied that approximately 77.9% (FY2012: 77.6%) of our total revenue was originated from Mainland Chinese consumers.

The Group recorded a decline in overall Same Store Sales of 3.3% in FY2013 (FY2012: an increase of 40.3%), of which Same Store Sales in the Mainland of China recorded a decline of 3.0% (FY2012: an increase of 32.0%) and Same Store Sales in Hong Kong, Macau and Taiwan recorded a decline of 3.7% (FY2012: an increase of 48.4%).

Sales of our principal products, gem-set jewellery and gold product comprised about 22.9% (FY2012: 27.2%) and 57.4% (FY2012: 52.6%) of the total revenue respectively. Sales of gem-set jewellery decreased by 14.4% to HK\$13,164.8 million (FY2012: HK\$15,378.1 million), while sales of gold products increased by 10.8% to HK\$32,954.6 million (FY2012: HK\$29,742.1 million). The Group believed that the increase in gold product mix was attributable to the more conservative consumer sentiment.

Our gross profit decreased by 1.0%, from HK\$16,447.9 million in FY2012 to HK\$16,283.1 million in FY2013, while the gross profit margin decreased slightly to 28.4% (FY2012: 29.1%). The effect of unrealised hedging gain on gold loans and bullion forward contracts was relatively immaterial to the gross profit margin as at 31 March 2013 and 31 March 2012. If such effect was excluded, the gross profit margin for FY2013 would be 28.1% (FY2012: 28.4%).

The Group's selling and distribution costs and administrative expenses increased to HK\$9,181.0 million in FY2013 (FY2012: HK\$8,034.5 million), representing 16.0% (FY2012: 14.2%) of the total revenue. Advertising and promotional expenses increased to HK\$797.2 million in FY2013 (FY2012: HK\$448.3 million), representing 1.4% (FY2012: 0.8%) of the

total revenue. The Group's advertising and promotional activities were strategically increased as the management believed such marketing efforts would help the Group to increase market share as the market recovers. Rental expenses also increased to HK\$1,015.2 million in FY2013 (FY2012: HK\$672.8 million), representing 1.8% (FY2012:1.2%) of total revenue. The increase in rental expenses was mainly due to the opening of new POS in prime areas and the renewal of rental contracts in Hong Kong and Macau during FY2013. Such rental increment was generally in line with the market trend. However, rental cost as a percentage of total revenue remained at a relatively low level.

Due to the above factors, our profit for the year decreased 13.6%, from HK\$6,570.9 million in FY2012 to HK\$5,678.4 million in FY2013. Our net profit margin declined from 11.6% in FY2012 to 9.9% in FY2013.

The profit attributable to shareholders of the Company amounted to HK\$5,505.3 million (FY2012: HK\$6,340.6 million), decreased by HK\$835.3 million or 13.2% over that of the previous year.

For FY2013, basic earnings per share were HK55.1 cents (FY2012: HK68.5 cents). The Board of Directors recommended the payment of a final dividend of HK16.0 cents per share (FY2012: HK10.0 cents). The dividend payout ratio is approximately 40.0% on a full year basis.

Business Review

Overview

Notwithstanding the continuing weakness in the global economy throughout FY2013, the Group achieved a modest sales growth of 1.5% over the same period last year. FY2013 was a year full of challenges and uncertainties for the jewellery industry. The nature of the jewellery business makes it particularly sensitive to changes in economic conditions and consumer confidence. The implementation of the Group's growth strategy was, to a certain extent, affected by the declining confidence of domestic consumers in Greater China, resulting in slower growth in sales and downward pressure on profitability. Nevertheless, building on its competitive advantages developed over time, the Group continued to maintain its leading position in Greater China jewellery markets.

The Group's over 80 year long brand heritage and reputation for delivering high quality and authentic jewellery products are key factors of its continued success and widespread brand recognition. The Group offers a wide range of products, ranging from mass luxury jewellery products that constitute the bulk of its sales, high-end luxury jewellery, to trendy products tailored to younger generations. The mass luxury jewellery segment is absolutely core to the Group and accounts for most of the Mainland of China's jewellery market, while the high-end luxury jewellery 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 launched 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.

As planned, the Group continued to expand its retail network in Greater China to cover more inland and lower tier cities. As at 31 March 2013, the Group had a total of 1,836 POS (31 March 2012: 1,627). Among them, 1,743 were jewellery POS and 93 were watch POS, with a net of 209 new POS opened in FY2013.

The Group's Same Store Sales recorded a decline of 3.3% in FY2013 (FY2012: an increase of 40.3%) due to the economic slowdown and uncertainty throughout the year and a high base of comparison from last year.

| As at 31 March | 2013 | 2012 | Net change |
|---|---------------------|--------------|---------------|
| Jewellery POS | 1,743 | 1,541 | 202 |
| The Mainland of China ¹ | 1,640 | 1,448 | 192 |
| Tier I cities | 227 | 207 | 20 |
| Tier II cities | 786 | 726 | 60 |
| Tier III and other cities | 627 | 515 | 112 |
| Hong Kong, Macau and other Asian markets ^{2 3} | 103 | 93 | 10 |
| Watch POS ⁴ | 93 | 86 | 7 |
| | <hr/> | <hr/> | <hr/> |
| Total POS | <u>1,836</u> | <u>1,627</u> | <u>209</u> |

Notes:

- (1) Included 15 and 0 POS that retailed both jewellery and watch products as at 31 March 2012 and 2013, respectively.
- (2) Included 32 and 33 POS that retailed both jewellery and watch products as at 31 March 2012 and 2013, respectively.
- (3) Included a total of 8 and 10 POS in Taiwan, Singapore and Malaysia as at 31 March 2012 and 2013, respectively.
- (4) Included 84 and 91 POS in the Mainland of China and 2 and 2 in Hong Kong, Macau and other Asian markets as at 31 March 2012 and 2013, respectively.

| | FY2013 | FY2012 |
|-----------------------------|---------------------|-------------|
| Same Store Sales Growth (%) | | |
| The Mainland of China | (3.0) | 32.0 |
| Hong Kong, Macau and Taiwan | (3.7) | 48.4 |
| Overall | <u>(3.3)</u> | <u>40.3</u> |

The Mainland of China

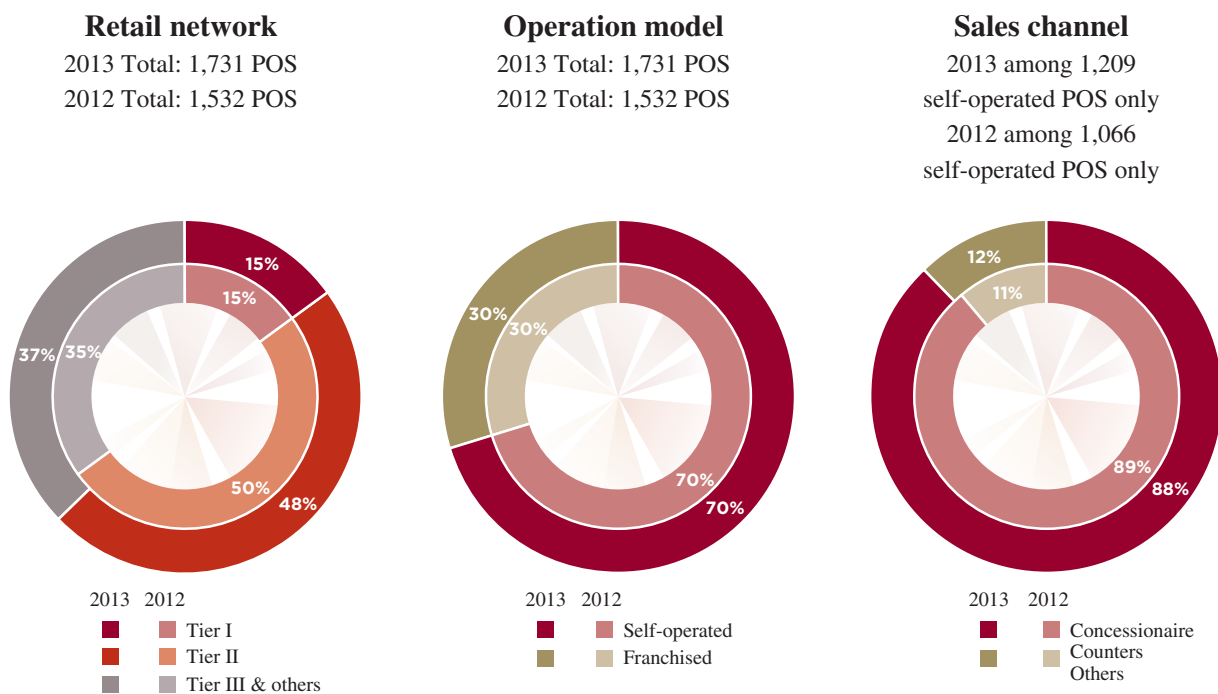
The Mainland of China contributed 52.8% (FY2012: 56.6%) of the Group's total revenue in FY2013, amounting to HK\$30,308.4 million (FY2012: HK\$32,016.4 million). This represented a revenue decrease of 5.3% in FY2013 (FY2012: an increase of 64.4%). The drop in sales in the Mainland of China was mainly resulted from the weak consumer sentiment in retail business and slow wholesale business, especially in gem-set jewellery products. Highlighted by the worse-than-expected sales performance during the National Day holiday,

the stagnant economy throughout FY2013 led to lower consumer confidence among the Group's retail customers as well as its franchisees. The conservative environment in the luxury markets was possibly influenced by new policy changes in the Mainland of China.

In FY2013, revenue from self-operated stores amounted to HK\$24,262.7 million (FY2012: HK\$23,266.3 million), the increase was mainly driven by the opening of new POS. In FY2013, the Group's Same Store Sales in the Mainland of China recorded a decline of 3.0% (FY2012: an increase of 32.0%), primarily due to a high base last year and a decline in sales volume.

Despite the above, the Group expects the proportion of revenue generated from the Mainland of China to increase in the long run, attributable to the country's continual urbanisation, the growing affluence of the Mainland Chinese in terms of increasing disposable income per capita and growing demand for luxury goods. In recent years, the Group has been focusing on POS expansion in Tier 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, the Group continued to upgrade the positioning and branding of its POS in Tier I and II cities to cater to the sophisticated consumers in these cities.

As at 31 March



In line with the Group's strategy to continuously increase its market share, the Group opened a net of 192 new jewellery POS (FY2012: 242) in the Mainland of China in FY2013. Among the new jewellery POS in the Mainland of China, 58.3% (FY2012: 44.6%) are located in Tier III and lower tier cities, indicating the Group's determination to further penetrate into other lower tier inland cities. As at 31 March 2013, the Group's total number of jewellery POS in the Mainland of China increased to 1,640 (31 March 2012: 1,448), representing 94.1% of its total jewellery POS (31 March 2012: 94.0%).

In FY2013, the Group opened a net of 7 new watch POS (FY2012: 16) in the Mainland of China. As at 31 March 2013, the Group's total number of watch POS in the Mainland of China increased to 91 (31 March 2012: 84), representing 97.8% of its total watch POS (31 March 2012: 97.7%).

The Group's POS network comprises both retail and wholesale channels through which it distributes its products. As at 31 March 2013, the Group had 1,209 self-operated POS (31 March 2012: 1,066) in the Mainland of China, and maintained a ratio of self-operated to franchised stores of approximately 70:30.

The Group's concessionaire counters within department stores in the Mainland of China accounted for 88.2% (31 March 2012: 88.6%) of the self-operated POS in the Mainland of China. Most of these department store locations are in prime shopping districts with a lot of shoppers and pedestrian traffic. Concessionaire counters within department stores offer the added advantage of allowing the Group to leverage on the department stores' broader marketing activities to acquire new customers.

Hong Kong, Macau and other Asian markets

In FY2013, revenue contribution from Hong Kong, Macau and other Asian markets accounted for 47.2% (FY2012: 43.4%) of the Group's total revenue, amounting to HK\$27,125.5 million (FY2012: HK\$24,554.7 million). Despite the global economic slowdown which affected the consumer sentiment of luxury goods, especially in the high-end gem-set jewellery product category, as well as the high comparison base in FY2012, the Group still achieved a moderate sales growth of 10.5% in FY2013 (FY2012: 57.7%). The growth was contributed by a healthy growth in sales volume and new POS opening in Hong Kong and Macau.

In FY2013, the Group's Same Store Sales in Hong Kong, Macau and other Asian markets recorded a decline of 3.7% (FY2012: an increase of 48.4%). Due to the recent economic slowdown, the Hong Kong and Macau markets inevitably faced considerable business challenges in FY2013. In general, consumer sentiment of both Hong Kong locals and Mainland Chinese visitors have weakened and consumers were more cautious in spending in view of the unfavourable economic environment. Therefore, consumers tended to purchase 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 jewellery pieces to mass luxury jewellery products with an average selling price from HK\$2,000 to HK\$100,000. In FY2013, mass luxury gem-set jewellery products maintained a sustainable growth in sales. The increase in sales volume of mass luxury jewellery products was the main driver of revenue growth during FY2013.

Meanwhile, the revenue settlement currencies indicated that Mainland Chinese visitors have outweighed local customers and became the major source of revenue in Hong Kong and Macau. The increase in proportion of sales from Mainland Chinese visitors in Hong Kong and Macau was largely driven by the rising number of high net worth individuals and a burgeoning middle class in the Mainland of China, a more diverse and complete product offerings in Hong Kong and Macau, lower prices due to the absence of consumer taxes in Hong Kong and Macau, and the continual appreciation of the Renminbi against the Hong Kong dollar. According to the Commerce and Economic Development Bureau of Hong Kong and the

Macau Statistics and Census Service, the number of visitors to Hong Kong and Macau increased by 16.0% and 0.3% to 48.6 million and 28.1 million in 2012 respectively. In light of the increasing number of Mainland Chinese visitors, the Group maintains its strategy to secure locations for new POS in prime shopping districts, with convenient access to pedestrian traffic and shoppers.

As at 31 March 2013, the Group had a retail network of 103 jewellery POS (31 March 2012: 93) with a net increase of 10 POS opened in Hong Kong, Macau and other Asian markets. In Hong Kong and Macau, a net of 6 POS were opened in prime tourist areas. The Group continued to consolidate its 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 31 March 2013, the Group had 2 watch POS (31 March 2012: 2) in Hong Kong, Macau and other Asian markets, representing 2.2% of its total watch POS (31 March 2012: 2.3%). Tailored to the one-stop-shop culture in Hong Kong and Macau, the group had 33 POS that retailed both jewellery and watch products as at 31 March 2013 (31 March 2012: 32).

Product offerings

The Group offers a wide range of jewellery products, from mass luxury jewellery to high-end luxury jewellery, to fulfill different market segments. The Group's product designs range from classic designs, such as gold dowry for weddings, to contemporary designs, such as jewellery that incorporates diamonds and gemstones in platinum or 18-Karat gold setting. Such a broad product range fits the needs of the Group's customers at all stages of their life cycles, including birthdays, weddings and anniversaries, etc.

The Group also has youth collections targeting the younger generation to expand its customer base and to cultivate its relationship with those who could become its most valuable customers in the future.

The Group's diverse product offerings are conceived by its strong Research and Development ("R&D") Department with over 150 professionals in Hong Kong and the Mainland of China. The R&D Department comprises jewellery designers and goldsmiths who work closely with the Group's production management and sales management departments to ensure that the product design direction is well aligned with market needs.

Strong branding and marketing drive growth

The Group's success depends significantly on its strong and consistent brand perception across all regions, and its ability to adapt to customers' changing demand for jewellery and consumption habits in the Mainland of China, Hong Kong and Macau. In recent years, the Group continues to see a growing demand for gem-set jewellery products and in particular, the demand for more stylish and contemporary designed jewellery pieces with exceptional craftsmanship is expected to experience further growth. 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 also

aims at strategically enhancing its brand awareness in Greater China by introducing one-of-a-kind high jewellery pieces through jewellery auctions for an exclusive group of customers, entrenching its position as a leading jeweller.

Other than through traditional advertising channels, the Group's marketing and promotion efforts seek to reach a greater population of consumers, in particular the younger generation. For instance, the Group adopted the use of quick-response ("QR") code for mobile marketing during the Mid-Autumn Festival promotion in the Mainland of China in September 2012 and received an overwhelming response from its existing members and their friends and relatives.

The Group offers a series of jewellery collections for customers of its three product categories: mass luxury jewellery, high-end luxury jewellery and youth line.

Mass luxury jewellery segment

Wedding 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. The sales of wedding-related jewellery and diamond products contributed a significant share to the Group's total sales in FY2013. In addition, to further its aspiration to become the most trustworthy diamond specialist, the Group launched the innovative one-prong diamond setting "The Entire One Collection" in April 2013.

In May 2013, the Group launched the Chow Tai Fook Wedding Planning iPhone and Android applications, providing customers with convenient access to various wedding information and useful tips for successful weddings.

"Colourful Life Natural Gem Stone Exhibition"

As a pioneer in the industry, the Group hosted the "Colourful Life Natural Gem Stone Exhibition" from 6 December 2012 to 6 January 2013 to display an exclusive collection of rare treasures, showing the classy, modern and charming sides of rare natural gem stone jewellery. This collection of extraordinary pieces is available in selected POS only.

High-end luxury jewellery segment

"Ombre di Milano" Jewellery Auction and Preview

The Group first unveiled the "Ombre di Milano Collection" at a private jewellery appreciation party in January 2013. The collection was subsequently exhibited in a fashion and art event "Fascination/Imagination" at K11. In May 2013, the Group held the "Ombre di Milano" Jewellery Auction and Private Preview in Hong Kong where 15 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 the Mainland of China, Hong Kong and Macau were invited to this glittering auction experience.

“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 private jewellery collection of the Group’s Honorary Chairman, Dato’ Dr. Cheng Yu-Tung, GBM. It was an exclusive event for Chow Tai Fook’s selected members and prestigious guests. 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.

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 raised RMB800,000 for a charitable organisation in the Mainland of China.

Chow Tai Fook Membership Programme

The Group’s membership programme enhances its ability to understand consumers’ spending behaviour and preferences and gauge market trends. As at 31 March 2013, the Group had over 1,000,000 members in the Mainland of China, surging over 50% from approximately 700,000 members in 31 March 2012. In Hong Kong and Macau, the new membership programme had close to 100,000 members as at 31 March 2013.

The Group’s membership programme is crucial in maintaining its Same Store Sales by encouraging repeat purchases and attracting new customers. In FY2013, sales contribution from Mainland members’ repeat purchases accounted for approximately 22.0% of the retail revenue in the Mainland of China, while repeat purchases from members in Hong Kong and Macau comprised approximately 15.0% of the retail revenue in Hong Kong and Macau.

In order to build customer loyalty and to attract new customers, the Group launched a brand new membership programme on 10 September 2012 in Hong Kong and Macau. It introduced the unprecedented “rebate coupons” as a reward scheme, and delivers special privileges and concierge services to prestigious members so as to encourage repeat purchases. Aiming to offer a uniform shopper experience across the regions, the Group upgraded the membership programme in the Mainland of China in April 2013, offering enhanced features and benefits to its members.

Customers are entitled to join different tiers of the membership programme upon making qualified spendings. Members can enjoy benefits such as cash coupons. Members in the highest-tier are invited to special events such as jewellery auctions and overseas trips. For instance, in March 2013, the Group organised an honourable journey to Paris for selected members to take part in the K11 fashion and art event “Fascination/Imagination” and Paris Fashion Week. The related marketing and public relations campaign placed Chow Tai Fook in a whole new league within the high-end luxury jewellery market in the Mainland of China.

E-commerce

The Group's e-commerce business grew rapidly during FY2013, as evidenced by a revenue growth of almost three times in comparison to FY2012. For FY2013, the average daily traffic of the Group's major e-commerce platforms including Chow Tai Fook eShop, Tmall and 360buy recorded over 81,000 hits, while the Group's official Sina Weibo, Tencent Weibo, and WeChat accounts had almost 750,000 followers in total as at 31 March 2013. Chow Tai Fook was continuously ranked as the "Best Selling Jewellery Brand" on Tmall, and was ranked no.1 in digital competence in the Mainland of China among watches and jewellery brands according to L2's Digital IQ Index conducted in conjunction with NYU Stern in February 2013.

The Group believes that its e-commerce channels will continue to extend its customer reach, especially to the younger customers, which will enable the Group to enjoy the online-to-offline synergy beneficial to its bricks and mortar POS business. The Group also targets to attract more online traffic by introducing certain special collections and products principally sold on its e-commerce platforms.

Vertically integrated business model

Over 80 years, the Group has gradually built a sophisticated vertically integrated business model which allows the Group to have an effective and tight control over the entire value chain, from raw material procurement, design, production and marketing to sales through its extensive retail network.

Procurement

In addition to the Group's long-term preferred business partners DTC and Rio Tinto, in November 2012, the Group entered into a strategic partnership with Alrosa of Russia, one of the world's three largest diamond miners and producers, to secure further supplies of rough diamonds.

The Group has been designated as a DTC sightholder since 1973 and a Rio Tinto Select Diamantaire since 2009. The Group's well-established relationships with DTC, Rio Tinto and Alrosa ensure a supply of quality products, and allow the Group to make its selection ahead of other peers from the available stock of a number of suppliers. These advantages are significant competitive differentiators.

As at 31 March 2013, the Group had four diamond cutting and polishing factories. Two of such factories are located in South Africa, one of such is located in Shunde, PRC, and the fourth one was recently opened in Botswana. The Group takes a flexible approach in procuring diamonds, with reference to local market conditions.

Production

As at 31 March 2013, the Group had approximately 4,800 employees in its jewellery factories. The Group's factory in Hong Kong produces gem-set jewellery products, while factories in Shenzhen produce gem-set jewellery, gold and karat gold products, and factories in Shunde produce gem-set jewellery, gold and platinum/karat gold products.

The Group keeps a well-balanced portfolio of in-house production and outsourced production especially for mass luxury jewellery products. Since gem-set products require a higher level of skills and techniques, they are mainly produced by the Group's in-house craft masters. The Group also emphasises on quality control to ensure that its jewellery products meet all quality testing requirements undertaken in its precious metal testing laboratory in Shenzhen.

To meet the needs of the changing and growing jewellery retail market and to support its future business growth, the Group has embarked on the development of Chow Tai Fook Jewellery Park ("Jewellery Park") in Wuhan, Hubei, and a new headquarters building for the Mainland of China business in Yantian, Shenzhen. The groundbreaking 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 sales 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 will further increase the proportion of self-produced jewellery. In order to provide on-the-job technical training to technicians and craftsmen in the Jewellery Park, a temporary production plant primarily to be used for training purposes is expected to be established by the end of 2013.

The new headquarters building in Shenzhen in the Mainland of China is expected to be completed by the end of 2013.

Reform and Development Committee

In 2011, the Group launched the Reform and Development Committee as a long-term objective to further improve profitability through greater efficiencies in manufacturing, selling, general and administrative expenses and IT infrastructure. Comprised of senior executives of the Group, the Committee has been reviewing operations and has already made a number of recommendations to the Board with a view to enhance overall operating efficiencies of the Group.

Risk Management Committee

In 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.

Human Resources Management

As at 31 March 2013, the Group had a total of approximately 31,700 employees (excluding staff of franchisees) (31 March 2012: approximately 29,600) in the Mainland of China, Hong Kong, Macau, Taiwan, South Africa, and Botswana.

Human resources are the Group's greatest assets and the Group highly regards the personal development and well-being of its employees. As such, the Group aims to create a strong sense of community and a motivating environment for its employees, and to enhance staff development, employee loyalty and dedication. The Group strives to motivate its employees with a clear career path, which provides them with opportunities for advancement and improvements of their skills.

Moreover, the Group provides tailored training programmes to its employees. For example, the Group offers management training to fresh graduates; sales staff are required to attend training programmes on customer service and product knowledge; technicians and craftsmen are provided with on-going technical training to ensure excellence in the quality of its products; and management personnel are invited to attend management courses to refine their business management skills. In FY2013, the Group offered about 3,000 staff training courses and the aggregate training hours attended during the year exceeded 1,000,000 hours. As at 31 March 2013, the Group had eight specialised jewellery training centres across the Mainland of China, Hong Kong and Macau.

Use of Proceeds from the Company's Initial Public Offering

The net proceeds from the initial public offering in December 2011, after the deduction of related issuance expenses, amounted to HK\$15,387.3 million, of which HK\$10,081.2 million have been utilised in FY2012. In FY2013, the Group used HK\$4,084.6 million for the procurement of raw materials and inventory, and HK\$903.7 million to finance the capital expenditures for the expansion and refurbishment of the Group's POS network, the purchase of production and research and development equipment, and the construction of the Group's new headquarters building in Shenzhen and Jewellery Park in Wuhan.

Liquidity, financial resources and capital structure

As at 31 March 2013, the Group had cash and cash equivalents of HK\$8,330.5 million (31 March 2012: HK\$10,004.8 million), mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has total borrowings of HK\$6,186.8 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\$6,186.8 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, 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 operating cash flows before movements in working capital was HK\$7,662.6 million for FY2013 (FY2012: HK\$9,189.6 million). As at 31 March 2013, the Group's bank borrowings, gold loans and notional amount for bullion forward contracts amounted to HK\$1,000.0 million (31 March 2012: HK\$9,000.6 million), HK\$4,835.7 million (31 March 2012: HK\$5,806.6 million) and nil (31 March 2012: HK\$1,896.2 million) respectively. Bank borrowings, gold loans and bullion forward contracts are denominated in Hong Kong dollars, Renminbi and United States dollars, and have maturity within 12 months as at 31 March 2013. The bank borrowings are carried at variable interest rate, while gold loans are carried at fixed interest rate.

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

The Group's daily operation was mainly financed by operating cash flow, and relies 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 net gearing ratio, defined as the aggregate of bank borrowings, gold loans, net amounts due to related companies, net of pledged bank deposits and bank balances and cash, and then divided by total equity, was 16.2% as at 31 March 2012. The Group had a net cash position as at 31 March 2013. The Group's enhanced cash position was mainly due to a more conservative approach in inventories procurement during the year.

As at 31 March 2013, total equity of the Group increased to HK\$33,860.7 million, against HK\$29,573.0 million as at 31 March 2012. The Group's working capital, being net current assets, was HK\$31,364.2 million as at 31 March 2013 (31 March 2012: HK\$31,040.3 million).

PROSPECTS AND STRATEGIES

Prospects

The short-term macro-economic environment is likely to remain uncertain in FY2014. Yet the management sees gradual signs of recovery and is confident to forge through the economic headwinds and maintains a positive view on the Group's business development in the medium to long run.

The Mainland of China will see a continuation in economic growth attributable to the government's on-going supportive monetary and credit policies; and the accelerating urbanisation, rising disposable incomes and increasing luxury goods consumption in the country. The fast-growing middle class and high net worth population in the world's largest retail market and second largest luxury market is an indicator of rising demand for jewellery and the upward trend of jewellery ownership. In particular, bridal jewellery will continue to be in demand as tens of millions of Mainland Chinese couples will get married in 2013 and the years ahead. The Group is poised to benefit from this huge bridal market which will continue to contribute a fair share to the Group's revenue.

The Hong Kong retail market has seen signs of recovery. The steady increase of tourists, in particular from lower tier Mainland cities, has become a driving force of growth and development to the local retail market. Hong Kong's reputation as a shopping paradise and eminence as a luxury centre will bolster further since more and more international brands have flocked to the city to open their flagship stores. Hong Kong is exemplified as their showcase for promoting products and enhancing brand awareness to facilitate their expansion in the Mainland of China.

Recently in mid-April, the slump in international gold price boosted the demand for gold products in the Mainland of China, Hong Kong and Macau during this non-peak season of a year. The Group achieved exceptional sales performance for April 2013 compared to the same period last year. The Group has generated a remarkable increase in SSSG in April and May 2013, with an increase in product mix in gold products when compared to the normal course of business. The management however believes that such gold buying spree would only be a short-term stimulation as people were drawn to buy gold products in advance.

Strategies

To pursue its long-term growth development plan, the Group adopts a holistic approach to capture new opportunities and tap the potentials of both existing and new markets through the following strategies:

1. Enhance SSSG and further market penetration

To facilitate a sustainable development, the Group is keen to drive SSSG through broadening product offerings and expanding retail area in selected POS in prime locations to provide enhanced one-stop shopping convenience and extraordinary shopping experience to the increasingly discerning and demanding customers. Coupling with focused marketing strategies and a well-received customer loyalty programme, the Group believes these measures will be effective to meet the diverse demand for jewellery and generate repeat purchases, resulting in enhancing POS productivity and SSSG. The Group anticipates that SSSG in the Mainland of China, Hong Kong and Macau will gradually improve in FY2014.

The Group will continue to eye on Tier III and lower tier cities with market potential in the Mainland of China to expand its retail network in support of its long term growth and expansion. The Group will also continue to strategically partner with department stores and optimise the opportunity in shopping malls in tandem with the deployment of various distribution channels such as standalone stores and online platforms to drive sales and revenue growth. Considering the short-term economic volatility and changing market conditions, the Group will review the POS expansion plan timely and prudently while continuing the retail network expansion target of reaching a total of 2,000 POS by the end of FY2014.

2. Uplift brand image and customer satisfaction

In an effort to uplift the “Chow Tai Fook” brand image and achieve higher customers’ satisfaction, the Group has stepped up endeavours to strive for excellence in product quality, design and craftsmanship; and increased investment in production and logistics technology to further enhance productivity and operational efficiency. Most importantly, the Group will continue to raise its brand awareness in high-end luxury jewellery market by introducing its one-of-a-kind high jewellery, not only to showcase Chow Tai Fook’s sophisticated design and exceptional craftsmanship, but also to excel local peers in being a world-class leading jeweller in Greater China.

With a persistent focus on mass luxury jewellery market, the Group targets both the wedding and fashion jewellery markets that are on a growing trend. The Group has broadened its gem-set jewellery offering and deepened its partnership with international brands, such as Rio Tinto, FOREVERMARK and Disney, to develop licensed products to cater to customers' diversified needs.

To further boost customer loyalty, the Group is also committed to upgrade member privileges such as exclusive events for top-tier members and a multitude of benefits including the newly introduced rebate coupons for repeat purchases. A customer service centre was also opened to provide members with added services.

Furthermore, the Group believes its e-commerce business will continue to grow. Through e-marketing using QR code and interactive platforms such as Weibo and WeChat, the Group is able to extend a wider reach to the young customers. To attract and retain online visitors, the Group provides customised personal services such as online appointment for product viewing at physical stores, tailor-made delivery service and jewellery items exclusively available for online purchase. In the long run, the Group expects both e-commerce business and physical store sales will benefit from the online-to-offline synergy generated.

3. *Strengthen vertically integrated business model*

The Group's vertically integrated business model is one of the keys to its success and to stay competitive in today's ever-changing market. In the upstream, Chow Tai Fook is the first and only Chinese company that partners with the world's three largest diamond miners, namely Alrosa, DTC and Rio Tinto, in order to secure further supplies of rough diamonds and deepen its procurement strength. Moreover, the Group's investment in building a new headquarters building in Shenzhen and the Chow Tai Fook Jewellery Park in Wuhan slated for completion at the end of 2013 and by phases starting 2016, respectively, will be advantageous to the Group's long-term, sustainable development. For the downstream, the Group will reinforce market research to analyse customers' buying behaviour, identify market needs, thereby to anticipate demand and jewellery trends.

The Group is keen to explore strategic partnerships, investments and expansion across all aspects of the vertically integrated business model aiming to further enhance production, operational and management efficiency and performance throughout the whole value chain in the long run.

4. *Invest in talent development*

The Group believes employees are the most valuable asset to a company, and thus its human resources policies are meticulously developed and executed to recruit, foster and retain talented employees. The Group is committed to devote resources to enhance employee development by offering tailored training programmes to equip them with enhanced job knowledge, practical techniques and soft skills. Moreover, to assist senior executives to further develop their leadership and management skills, the Group recommends them for admission to practical management courses and Executive Master

of Business Administration programme at university or college. A performance measurement system was also introduced company-wide to examine how well the staff perform and meet defined goals and objectives. Such performance measurement will be applied to appraise individual staff performance and assess departmental productivity and efficiency to align with the Group's growth strategy.

As at 31 March 2013, the Group has eight specialised jewellery training centres across the Mainland of China, Hong Kong and Macau. It plans to expand the scale of these training centres in the next five years, so as to help employees prepare themselves for future development and advancement.

FINAL DIVIDEND AND ANNUAL GENERAL MEETING

The Directors recommended the payment of a final dividend of HK16.0 cents per share (FY2012: HK10.0 cents per share), amounting to approximately HK\$1,600.0 million (FY2012: HK\$1,000.0 million). Such payment of dividends will be subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 2 September 2013 and are payable to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 9 September 2013. It is expected that the proposed final dividend will be paid on or about 18 September 2013. Notice of the annual general meeting will be published and despatched to shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company had not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices and procedures. On 1 April 2012, the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules was amended and revised as Corporate Governance Code ("CG Code"). The Company has adopted the CG Code when it became effective on 1 April 2012. For the year under review, the Company has complied with all the applicable code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard as set out in the Model Code during FY2013.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements of the Group for FY2013.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 March 2013 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PROPOSED AMENDMENTS TO THE ARTICLES

The Board proposed to make certain amendments to the Articles in order to bring the Articles in line with the revised requirements of the Listing Rules which came into effect on 1 January 2012 and on 1 April 2012. Accordingly, the Directors proposed to seek the approval of such amendments by the shareholders by way of special resolution at the annual general meeting to be held on 2 September 2013.

The major proposed amendments are as follows:

1. to allow the chairman at a general meeting to put procedural and administrative matters to be voted on by a show of hands;
2. to no longer permit a Director to disregard 5% interests in any other company when considering whether the Director has a material interest which would prevent him from forming part of the quorum or voting at Board meeting; and
3. to require a physical Board meeting in lieu of written resolution where a Director or substantial shareholder has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material.

A circular containing, amongst other things, details of the proposed amendments to the Articles and the notice of the annual general meeting will be despatched to the shareholders of the Company on or about 5 July 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 29 August 2013 to Monday, 2 September 2013, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to attend and voting at the forthcoming annual general meeting of the Company, 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 Wednesday, 28 August 2013.

The register of members of the Company will be closed from Friday, 6 September 2013 to Monday, 9 September 2013, both days inclusive, during which period no transfer of share of the Company will be registered. In order to establish entitlements to the proposed final 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 Thursday, 5 September 2013.

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

Hong Kong, 18 June 2013

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.