*You should read the following discussion and analysis in conjunction with our consolidated financial information and notes thereto set forth in the Accountants' Report included as Appendix I and our selected historical consolidated financial information and operating data included elsewhere in this prospectus. Our consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the International Accounting Standards Board.*

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See the sections headed "Risk Factors" and "Forward-looking Statements" for discussions of those risks and uncertainties.

Our financial year begins from 1 April and ends on 31 March. All references to "FY2009", "FY2010" and "FY2011" mean the financial years ended 31 March 2009, 2010 and 2011, respectively. All references to "1HFY2011" and "1HFY2012" mean the six months ended 30 September 2010 and 2011, respectively.

OVERVIEW

We are the leading jeweller by market share in the PRC as well as the Hong Kong and Macau jewellery markets, according to the Frost & Sullivan Report. Our "周大福" (CHOW TAI FOOK) brand is widely recognised. We offer a broad range of products that we classify into four major categories for our financial reporting purposes, namely (i) gem-set jewellery, (ii) platinum/karat gold products, (iii) gold products and (iv) watches.

We have a POS network comprising both retail and wholesale channels through which we distribute our products. Unless the context herein suggests otherwise, our retail channel refers to our self-operated POS, whereas our wholesale channel refers to our franchised POS. As at 30 September 2011, we had a total of 1,506 POS comprising 1,417 POS in the PRC and 89 POS in Hong Kong, Macau and other Asian markets. Our self-operated and franchised POS are strategically located in densely populated areas and prime shopping districts, allowing us to efficiently maximise our exposure and recognition.

We have grown rapidly during the Track Record Period. Our turnover increased by HK$4,522.7 million, or 24.6%, from HK$18,410.9 million in FY2009 to HK$22,933.6 million in FY2010, and further increased by HK$12,108.9 million, or 52.8%, to HK$35,042.5 million in FY2011, representing a CAGR of 38.0%. Our turnover increased from HK$13,315.0 million for 1HFY2011 to HK$23,874.5 million for 1HFY2012, representing an increase of HK$10,559.5 million or 79.3%. Correspondingly, our profit for the year increased by HK$292.4 million, or 15.3%, from HK$1,914.4 million in FY2009 to HK$2,206.8 million in FY2010, and further increased by HK$1,465.7 million, or 66.4%, to HK$3,672.5 million in FY2011, representing a CAGR of 38.5%. Our profit increased from HK$1,223.2 million for 1HFY2011 to HK$2,820.9 million for 1HFY2012, representing an increase of HK$1,597.7 million or 130.6%. As we expanded our POS network over the Track Record Period, we have increased our borrowings and inventory to meet the greater demand for our products.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic conditions in the PRC

Our business is particularly sensitive to the economic developments in the PRC and the purchasing power of consumers in the PRC. Due to the rapid economic growth in the PRC, a significant portion of our recent growth in turnover has, and we expect will continue to, come from sales in fast-growing markets in the PRC as well as the increasing consumer spending by PRC tourists in our Hong Kong and Macau POS. Economic growth in the PRC over the past three decades has led to substantial growth in personal disposable income and has resulted in increasing purchasing power and greater demand for discretionary consumer products. Nominal GDP has grown at a CAGR of 16.5% between 2006 and 2010, and despite the challenges faced by the global economy in late 2008 and in 2009, economic growth has remained strong in the PRC, with nominal GDP growth of 16.9% in 2010. The disposable income of the population in the PRC has grown from approximately RMB11,759 in 2006 to approximately RMB19,109 in 2010 at a CAGR of 12.9%. According to the Frost & Sullivan Report, the jewellery and watch industry in the PRC has achieved an average growth rate of around 28.6% annually between 2006 and 2010. Our total turnover increased by 90.3% from HK$18,410.9 million in FY2009 to HK$35,042.5 million in FY2011, with turnover in the PRC increasing by 94.6% from HK$10,005.2 million to HK$19,471.8 million over the same period. Our total turnover increased by 79.3% from HK$13,315.0 million for 1HFY2011 to HK$23,874.5 million for 1HFY2012, with turnover in the PRC increasing by 77.8% from HK$7,520.8 million to HK$13,371.4 million over the same period. Payment through China UnionPay for purchases in our Hong Kong and Macau POS increased from HK$2,301.5 million in FY2009 to HK$6,419.1 million in FY2011, representing a CAGR of 67.0% over the same period. Payment in RMB (cash) for purchases in our Hong Kong and Macau POS increased from HK$265.0 million to HK$310.4 million over the same period, representing a growth of 17.1%. Payment through China UnionPay for purchases in our Hong Kong and Macau POS increased from HK$2,294.2 million for 1HFY2011 to HK$4,926.8 million for 1HFY2012, representing a growth of 114.8%. Payment in RMB (cash) for purchases in our Hong Kong and Macau POS increased from HK$134.8 million to HK$193.2 million, representing a growth of 43.3% over the same period. We expect that the continuing economic growth in the PRC will translate into an increase in consumer spending and demand for luxury goods. Accordingly, we expect the economic conditions in the PRC and the level of consumer spending in the PRC, Hong Kong and Macau to continue to have a significant impact on our results of operations.

Growth of tourism in Hong Kong and Macau

The retail industry in Hong Kong and Macau has benefited from a combination of macroeconomic and demographic factors. According to the Frost & Sullivan Report, the number of PRC visitors to Hong Kong and Macau in recent years increased significantly from 26 million in 2006 to 36 million in 2010 and is expected to reach approximately 48 million in 2013. The PRC is one of the world's fastest growing major economies and is expected to continue to contribute to the tourism markets in Hong Kong and Macau due to the growth in the number of high net worth individuals and middle class, and the relaxation in visa requirements with respect to tourist entry from the PRC into Hong Kong and Macau. PRC tourists constitute the largest single customer group for our sales in Hong Kong and Macau, as evidenced by the fact that approximately 43.6% and 49.3% of our retail turnover in Hong Kong and Macau were settled via China UnionPay or in RMB (cash) for FY2011 and 1HFY2012, respectively.

We believe our products are welcomed by many tourists from the PRC. PRC customers tend to make significant purchases in our Hong Kong and Macau POS for various reasons, including (i) our strong brand recognition in the PRC, (ii) a more diverse and complete selection of our products that our POS in Hong Kong and Macau carry, (iii) lack of consumer taxes associated with sales of our jewellery or watch products in Hong Kong and Macau and (iv) the recent appreciation of RMB against HKD. According to the Frost & Sullivan Report, PRC tourists contributed to more than 40% of total Hong Kong jewellery retail sales in 2010. Accordingly, we believe spending by tourists from the PRC and the development of tourism in Hong Kong and Macau will continue to be significant factors affecting our business, financial condition and results of operations.

Expansion of our POS network

Growth of our POS network directly impacts our sales, profitability and working capital requirements. We are firmly entrenched across the PRC, Hong Kong and Macau. As at 30 September 2011, we had a total of 1,506 POS, comprising 1,417 POS in the PRC, 69 POS in Hong Kong, 12 POS in Macau, and 8 POS in Malaysia, Singapore and Taiwan. Our self-operated POS and franchised POS are strategically located in densely populated areas and prime shopping districts, allowing us to efficiently maximise our exposure and brand recognition. With plans to reach over 2,000 jewellery POS by 2016, we aim to open a net of approximately 200 jewellery POS per year. The following table sets out a breakdown, by geographical segment, of the number of POS as at the dates indicated:

	Number of POS								
	As at 31 March							As at 30 September	
	2008	Net change	2009	Net change	2010	Net change	2011	Net change[2]	2011
PRC									
— self-operated	547	87	634	158	792	91	883	83	966
— franchised	205	56	261	41	302	89	391	60	451
Hong Kong, Macau and other Asian markets									
— self-operated	69	1	70	14	84	(2)	82	5	87
— franchised[1]	—	—	—	1	1	1	2	—	2
Total	**821**	**144**	**965**	**214**	**1,179**	**179**	**1,358**	**148**	**1,506**

Notes:

(1) As at 31 March 2010, the franchised POS was located in Malaysia. As at 31 March 2011 and 30 September 2011, one franchised POS was located in Malaysia and one was located in Singapore.

(2) The net change of the POS number here refers to the number of new POS opened during 1HFY2012.

Concessionaire fees and, to a lesser extent, rental related expenses, constitute a significant part of our overall expenses, and our ability to continue to secure prime locations at commercially acceptable terms is a key factor to our success. For FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, our concessionaire fees for our Concessionaire Counters within department stores were HK$746.6 million, HK$998.7 million, HK$1,493.8 million, HK$590.2 million and HK$950.2 million, respectively, which accounted for 4.1%, 4.4%, 4.3%, 4.4% and 4.0% of our turnover, respectively. The percentage of concessionaire fees over our total turnover decreased 0.4% for 1HFY2012 as compared to 1HFY2011, which was primarily because the rate of increase in wholesale turnover outpacing the increase in retail turnover for 1HFY2012, and our concessionaire fees are attributable to our retail operation. Rental related expenses relating to our self-operated POS were HK$274.6 million, HK$355.8 million, HK$480.1 million, HK$234.2 million and HK$263.8 million, respectively, which accounted for 1.5%, 1.6%, 1.4%, 1.8% and 1.1% of our turnover, in FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, respectively. The percentage of rental related expenses over our total turnover decreased 0.7% for 1HFY2012 as compared to 1HFY2011, which was primarily due to the increase in our total turnover outpacing the increase of our rental related expenses for 1HFY2012. As we expand our POS network, we will need to secure more locations by entering into new concessionaire and lease agreements. In recent years, property prices and rental related expenses in the PRC, Hong Kong and Macau have fluctuated, but have overall increased significantly. This is particularly true for retail locations in prime areas where we typically seek to open new POS. As a result, we expect our costs of securing new locations to increase along with economic growth and inflation. Most of our concessionaire agreements are renewable every one to two years and a significant majority of our leases has a term ranging from one year to four years. To mitigate against the increase in rental expenses and concessionaire fees, we cooperate with department stores and large-scale property developers with whom we have long standing relationships to secure new locations with favourable rental rates. Our ability to secure prime locations for our POS on favourable terms will continue to affect our business, financial conditions and results of operations.

Furthermore, our turnover growth can vary according to the level of maturity of our POS, which is a factor affecting our results of operations. The amount of turnover that a POS generates depends on its stage of operation. Generally, turnover is lower at the initial stage of operation, but a new POS generally generates an operating profit within the first year of operation. The turnover of a new POS tends to continue to increase thereafter as the POS gains customer loyalty and market recognition. Turnover growth of the POS will continue to depend on various factors such as the level of customer traffic, quality of management and the growth rate of the local economy.

Same Store Sales

Our profitability is affected in part by our ability to successfully grow sales at the existing POS that we operate. We measure this growth through evaluating Same Store Sales and Same Store Sales Growth (please see "— Explanation of Same Store Sales Growth" for further details on how these measures are calculated). The following table sets out a breakdown, by geographical segment, of our Same Store Sales Growth for FY2010, FY2011 and 1HFY2012:

	FY2010	FY2011	1HFY2012
PRC	15.2%	35.2%	45.3%
Hong Kong, Macau and Taiwan(1)	16.0%	32.4%	78.5%
Overall	15.6%	33.8%	61.9%

Note:

(1) Includes self-operated POS in Hong Kong, Macau and Taiwan only, as POS in Singapore and Malaysia are all franchised POS.

Although much of our turnover growth in recent years was attributable to the expansion of our POS network, the strong performance of our existing POS on a Same Store Sales basis has also been an important driver for our turnover growth. Our overall Same Store Sales Growth was 33.8% in FY2011 and despite the global economic downturn in 2008 and 2009, our overall Same Store Sales Growth was 15.6% in FY2010. Our Same Store Sales Growth for 1HFY2012 further increased to 61.9%. Our Same Store Sales Growth over FY2010, FY2011 and 1HFY2012 can be partly attributable to our strong promotional activities, which enhance our brand awareness and image in the locations where we operate, and our continuous development and promotion of new and wider range of merchandise, including higher value products to suit market demand. We believe the strength of our customer loyalty programme is a significant factor contributing to our Same Store Sales Growth. Total sales to our customer loyalty programme members in the PRC in our self-operated POS as a percentage of total retail turnover in the PRC has risen from 27.0% for FY2009 to 33.0% for 1HFY2012. For FY2011 and 1HFY2012, over 80% of the top 500 customers (by transaction value) in the PRC were our customer loyalty programme members. Many other factors also influence Same Store Sales including economic conditions, competition, pricing and customer service.

Maintaining a strong brand image that caters to changing consumer preferences

We derive substantially all of our turnover from sales of jewellery products, which depend on the strength of our brand. The strength of our brand is based in part on our long history combined with our reputation for providing trusted high quality jewellery with distinctive product designs to a wide range of consumers. We continually develop and promote a wide range of jewellery to suit consumer preferences. For example, we produce both traditional and contemporary designs that cater to the needs of customers at all life stages. Although our predominant focus is on the mass luxury segment which we believe has the greatest growth potential in the Greater China region, we also produce high-end luxury products that enable us to meet the demands of wealthy individuals in the region. Our high-end luxury products have also helped us establish our brand as a high-end jewellery brand which is consistent with our overall marketing and advertising strategy. We have also developed a younger line of products with lower entry prices targeting the younger generation to expand our customer base and cultivate a retailer-consumer relationship with a younger generation of consumers. Accordingly, a significant part of our success has been and will continue to depend on our ability to maintain our strong brand image and at the same time continue to design and produce a wide range of quality jewellery that meets continually changing consumer preferences.

Ability to secure steady supplies and manage changes to raw material prices

Our ability to source a steady supply of raw materials is another key factor to our success. The cost of inventories recognised as expenses during the Track Record Period constituted at least 90% of our total cost of goods sold during the respective years. We maintain strong relationships with our existing suppliers due in part to our leadership position in the PRC, scale of operations, solid financial performance, reliable payment history and ability to fulfil our suppliers' selection or membership criteria. For example, we have been selected as a DTC Sightholder and Select Diamantaire of Rio Tinto. We have been able to renew our raw material supply agreements after they expire. In addition to jewellery, we sell more than a hundred different watch brands, and have well-established business relationships with reputable watch suppliers, including affiliates of LVMH Group, Richemont Group, Rolex group and Swatch Group. We have been able to source mid- to high-end luxury watches from a number of suppliers on an order-by-order basis since the 1960s.

Changes to raw material prices may also affect our results of operations. Our jewellery products are made of precious raw materials such as diamonds, coloured stones, jadeite, pearls, gold and other precious metals that are subject to changes in market prices. However, demand for jewellery products are consumer driven, and as such, we have generally been able to pass-on raw material price changes to our customers. In addition, for our products made of gold, we use gold loans and bullion forward contracts to hedge against the financial impact of gold price fluctuations. For FY2010 as compared to FY2009, the average gold price increased by 17.0% and our turnover from our sales of gold products increased by 22.5% during the same period. For FY2011 as compared to FY2010, the average gold price increased by 26.8% and our turnover from our sales of gold products increased by 68.3% during FY2011. For 1HFY2012 as compared to 1HFY2011, the average gold price increased by 31.8% and our turnover from our sales of gold products increased by 94.7%.

The selling prices of our jewellery products, and particularly gold products, usually reflect the market price of the raw materials in the products and a relatively stable gross margin percentage for those products. While fluctuations in the price of raw materials could impact the selling prices of our products and our gross profit, we have successfully managed such price fluctuations through various selling strategies in order to maximise our nominal sales and hence our gross profit. In addition, we were able to maintain a relatively stable overall gross margin from approximately 28% to 30% during the Track Record Period due to our ability to adjust our product offerings based on a wide selection of jewellery products, including gem-set jewellery, platinum/karat gold products, gold products and watches.

Staff compensation costs

Compensation costs represent a significant component of our total costs. As at 30 September 2011, we had more than 25,000 employees and our staff related costs constitute a significant portion of our overall expenses. In FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, staff related costs relating to our selling and distribution activities were HK$762.6 million, HK$975.3 million, HK$1,354.2 million, HK$543.3 million and HK$978.6 million, respectively, representing 31.3%, 30.5%, 30.8%, 30.9% and 34.2% of our total selling and distribution costs, respectively. The compensation programme for our sales personnel is designed to incentivise our employees to perform well at their respective functions by linking a portion of their compensation to our performance. The exact portion that is linked to our performance would depend on each employee's job function and seniority. On the other hand, staff related costs (including director emoluments) relating to our administrative activities in FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, were HK$313.3 million, HK$344.5 million, HK$466.8 million, HK$208.8 million and HK$390.9 million, representing 61.6%, 53.6%, 51.2%, 48.3% and 55.1% of our total administrative expenses, respectively.

Seasonality

We experience seasonal fluctuations in our turnover. Our sales for October and from December to February are usually higher than those for the remaining months of the year mainly due to the Golden Week, the Christmas holiday season, Chinese New Year holidays and Valentine's Day. In each of FY2009, FY2010 and FY2011, our turnover during these months represented 38.1%, 42.8% and 43.1%, respectively, of our total turnover for the year. Seasonality also has an impact on our production schedule and use of working capital. We generally use a significant part of our working capital between September and February of each year to purchase inventory and increase our production in anticipation of and during periods of higher sales.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results of operations. Some of the accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies in accordance with IFRS that we believe are important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. We also have other policies that we consider to be key accounting policies, which are set forth in detail in Notes 3 and 5 to the Accountants' Report in Appendix I to this prospectus.

Inventories

Our inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and disposal. These estimates are based on the current market condition and the historical experience of selling goods of a similar nature, which could change significantly as a result of changes in market conditions. We employ an integrated information system to control our inventory levels that begins with the daily monitoring of sales for each POS location and continues with the real-time tracking of store and warehouse stock, the transit of products and store reorders.

Our management carries out an inventory review and an ageing analysis on a regular basis, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or trading. The evaluation considers a number of factors including historical and forecast consumption of our raw materials, marketability of our inventories, anticipated change in market selling price, risk of obsolescence of our inventories due to changes in developments to our product offerings and other factors.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods, or for administrative purposes (other than properties under construction in progress), are stated at cost less accumulated depreciation and accumulated impairment losses at the end of the reporting period. Our management determines the estimated useful lives, residual value and related depreciation charges for our property, plant and equipment. The estimate is based on the historical actual useful lives and residual value of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives or residual value are expected to be shorter or lower than estimated, or it will write-off or write-down obsolete assets that have been abandoned or sold. Changes in these estimations may have a material impact on our results, which would be recognised in profit or loss in the year when such changes occur.

For land and buildings where the cost of land cannot be reliably allocated between the land and buildings, the cost of land and buildings are depreciated and amortised on a straight-line basis over the lease term or 20 years, whichever is shorter.

Depreciation is provided to write-off the cost of other property, plant and equipment, other than construction in progress and land and buildings, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

- Plant and machinery 10%
- Furniture, fixtures and equipment .... 20% - 33 ⅓%
- Leasehold improvements .... over the lease term, or 20%, whichever is the shorter
- Motor vehicles 25%

Construction in progress is stated at cost less identified impairment losses which includes all construction costs and other direct costs attributable to such projects, and borrowing costs capitalised in accordance with our accounting policy. It is not depreciated until the completion of construction and the relevant assets are available for use. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

Asset lives are reviewed at the end of each reporting period and the effects of changes in estimated life, if any, are recognised prospectively. Property, plant and equipment are reviewed for impairment at the end of each reporting period, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is based on a broad measure of factors, including discontinuance of services, significant negative industry or economic trends, significant underperformance relative to expected historical or projected future operating results and other changes in circumstances that may indicate impairment. All of these assessments require the application of our judgment to the facts and circumstances existing at the time. Recoverable value can be calculated by a number of different approaches, including discounted cash flow, comparables, and market valuations or quoted market prices. The process and steps required to assess the possible impairments of assets, including the identification of possible impairment indicators, assessing discounted cash flows, selecting the appropriate discount rate, the calculation of the weighted average cost of capital and the discounts or premiums inherent in market prices, require a substantial amount of management discretion and judgment.

EXPLANATION OF SAME STORE SALES GROWTH

Our profitability is affected in part by sales performance at the existing POS that we operate. We measure this performance through evaluating Same Store Sales and Same Store Sales Growth, which are metrics commonly used in the retail industry.

Same Store Sales for FY2009, FY2010 and FY2011 refer to turnover from our self-operated POS (including our wholly-owned POS and joint-venture POS) existing as at the end of the relevant financial year and which have been operating for at least 24 consecutive months immediately prior to the end of that financial year. Same Store Sales for 1HFY2012 refers to the turnover from our self-operated POS existing as at 30 September 2011 and which have been opened at least prior to 1 April 2010. Turnover from our wholesale channel (i.e. sales to franchisees) and other direct sales (such as sales from promotional events) are excluded.

Same Store Sales Growth represents a comparison between Same Store Sales of a particular year and sales from comparable POS in the previous year, measured at constant exchange rates. There are variations in the way in which some of our competitors and other retailers calculate these metrics. Accordingly, these metrics may not be fully comparable with those of our competitors or other retailers.

DESCRIPTION OF SELECTED STATEMENTS OF COMPREHENSIVE INCOME LINE ITEMS

Turnover

We derive our turnover primarily through the sale of jewellery and watches through our self-operated POS and to our franchisees. Turnover is measured net of discounts and returns.

Cost of goods sold

Our cost of goods sold consists principally of the cost of (i) purchasing merchandise and raw materials, (ii) design, manufacturing and production expenses, (iii) changes in fair value of gold loans and bullion forward contracts and (iv) other taxes. Changes in the fair value of gold loans and bullion forward contracts affect cost of goods sold as they reflect our methods to hedge the risk of price changes in our gold inventory.

Gross profit margin

During the Track Record Period, the gross profit margin for our gem-set jewellery and platinum/karat gold products were generally higher than that of our gold products. In addition, during the Track Record Period, there was no material fluctuation in the gross profit margin for each product type due to our cost-plus pricing strategy and hedging policies for gold inventory.

Other income

Our other income mainly represents (i) interest income from banks, amounts due from related companies and loan receivables, (ii) franchise income, (iii) discretionary government grants to incentivise us to invest in certain regions and (iv) gain on scrap sales.

Other (losses) gains

Other (losses) gains consists mainly of net foreign exchange gain arising from currency fluctuations between the RMB and the USD/HKD, and loss on disposal of property, plant and equipment.

Selling and distribution costs

Selling and distribution costs primarily consist of rental expenses relating to our POS, salaries, bonuses and benefits of our sales staff, advertising and promotion expenses, cost of packaging materials, depreciation costs and other selling related expenses.

Administrative expenses

Administrative expenses consist primarily of expenses from salary and bonuses/benefits of our administrative staff, directors' emoluments, depreciation costs and other expenses related to our administrative functions.

Other expenses

Other expenses mainly consist of donations to charities and professional expenses in connection with the Global Offering.

Finance costs

Our finance costs consist of interests on borrowings of our bank loans, gold loans and amounts due to related companies.

Share of results of an associate

This represents the profit and loss arising from our interest in an associate, Wuhan Xinfu, established in the PRC and in which we have a 25% equity interest. The associate is engaged in manufacturing and sale of jewellery products.

Taxation

We are subject to taxation on entity basis on profit arising in or derived from the tax jurisdictions where our subsidiaries are domiciled and operate.

Under the new Enterprise Income Tax law that was passed by the National People's Congress on 16 March 2007 and became effective 1 January 2008, the PRC adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemptions, reduction and preferential treatments applicable to foreign-invested enterprises. Except for certain subsidiaries that are entitled to certain tax exemptions, most of our operating subsidiaries in the PRC were subject to a statutory tax rate of 25% during the Track Record Period. Our subsidiaries in Hong Kong were subject to 16.5% profit tax during the Track Record Period. Our subsidiaries in other jurisdictions were subject to the applicable tax rates in their respective jurisdictions.

Our effective tax rate was 13.9%, 18.8%, 20.5%, 21.7% and 22.0% in FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, respectively.

REVIEW OF HISTORICAL OPERATING RESULTS

The following table present our selected historical consolidated financial information for the years and periods indicated.

Consolidated Statements of Comprehensive Income

	Year ended 31 March			Six months ended 30 September	
	2009	2010	2011	2010	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million (unaudited)*	*HK$ million*
Turnover	18,410.9	22,933.6	35,042.5	13,315.0	23,874.5
Cost of goods sold	(13,084.9)	(16,378.6)	(25,114.9)	(9,613.8)	(16,733.6)
Gross profit	5,326.0	6,555.0	9,927.6	3,701.2	7,140.9
Other income	160.9	176.1	194.6	89.6	124.9
Other (losses) gains	(0.4)	(1.1)	39.9	10.9	79.1
Selling and distribution costs	(2,434.7)	(3,197.9)	(4,401.9)	(1,756.2)	(2,864.4)
Administrative expenses	(508.8)	(643.1)	(911.4)	(432.6)	(709.6)
Other expenses	(163.7)	(116.9)	(122.1)	(21.3)	(36.2)
Finance costs	(157.1)	(62.0)	(102.2)	(29.6)	(116.7)
Share of results of an associate	1.3	8.5	(4.7)	—	—
Profit before taxation	2,223.5	2,718.6	4,619.8	1,562.0	3,618.0
Taxation	(309.1)	(511.8)	(947.3)	(338.8)	(797.1)
Profit for the year/period	1,914.4	2,206.8	3,672.5	1,223.2	2,820.9
Other comprehensive income					
— exchange differences arising from translation	80.8	1.3	360.0	131.0	243.8
— share of translation reserve of an associate	2.3	—	2.1	1.0	3.6
	83.1	1.3	362.1	132.0	247.4
Total comprehensive income for the year/period	1,997.5	2,208.1	4,034.6	1,355.2	3,068.3
Profit for the year/period attributable to:					
Owners of the Company	1,896.7	2,138.6	3,537.6	1,175.5	2,691.5
Non-controlling interests	17.7	68.2	134.9	47.7	129.4
	1,914.4	2,206.8	3,672.5	1,223.2	2,820.9
Total comprehensive income attributable to:					
Owners of the Company	1,978.2	2,139.9	3,886.5	1,303.1	2,925.8
Non-controlling interests	19.3	68.2	148.1	52.1	142.5
	1,997.5	2,208.1	4,034.6	1,355.2	3,068.3

1HFY2012 compared with 1HFY2011[1]

Turnover

Our turnover increased by HK$10,559.5 million, or 79.3%, from HK13,315.0 million for 1HFY2011 to HK$23,874.5 million for 1HFY2012. The increase was primarily attributable to (i) the continued rising affluence in the PRC which significantly contributed to higher PRC tourist flows into Hong Kong

Note:

(1) The consolidated financial information for 1HFY2011 is unaudited.

and Macau and increased spending on high-end luxury products by PRC tourists in Hong Kong and Macau, (ii) the net increase of 148 POS for 1HFY2012 which had further expanded our market presence allowing us to reach a greater population of consumers and (iii) the increase in our wholesale revenue, particularly in the PRC as a result of new POS opening and the increase in inventory purchases by the increasing number of franchised POS. The increase in our sales was in part driven by the success of our marketing strategies and promotions, which coupled with the strengthening consumer purchasing power, resulted in more consumers migrating to higher value jewellery products.

Turnover by channel

We distribute our products through our retail and wholesale POS network. As at 30 September 2011, our retail network consists of 1,053 self-operated POS (including our wholly-owned POS and joint-venture POS), while our wholesale network consists of 453 franchised POS (almost all of which are in the PRC). The following table sets forth our turnover by distribution channel and the percentage contribution to our total turnover for the periods indicated.

	Six months ended 30 September				
	2010	% of total	2011	% of total	Growth
	HK$ million (unaudited)		*HK$ million*		
Retail	11,251.1	84.5%	19,611.3	82.1%	74.3%
Wholesale[(1)]	2,063.9	15.5%	4,263.2	17.9%	106.6%
Total	**13,315.0**	**100%**	**23,874.5**	**100%**	**79.3%**

Note:

(1) Turnover from our wholesale channel refers to sales revenue derived from products sold to our franchisees.

Turnover from our retail channel increased by HK$8,360.2 million, or 74.3%, from HK$11,251.1 million for 1HFY2011 to HK$19,611.3 million for 1HFY2012. The increase was primarily due to a net opening of 88 self-operated POS during 1HFY2012, increase in demand for our products as a result of continued growing affluence of consumers in the Greater China region, as well as the increase in PRC tourists with higher purchasing power visiting Hong Kong and Macau.

Turnover from our wholesale channel increased by HK$2,199.3 million, or 106.6%, from HK$2,063.9 million for 1HFY2011 to HK$4,263.2 million for 1HFY2012. The increase was primarily due to a net addition of 60 franchised POS during 1HFY2012, the maturing from the development stage of the franchise POS opened in FY2011, as well as higher demand for luxury products in the PRC. Our growth in turnover from wholesale channel for 1HFY2012 was higher than our growth in turnover from retail channel for the same period, which was in line with our strategy of utilising the franchise model in further expanding our market presence in the PRC.

Turnover by geography

From a geographical perspective, we evaluate our business that comprises two main geographical regions: (i) the PRC and (ii) Hong Kong, Macau and other Asian markets. The following table sets forth turnover by these two geographical segments and the percentage contribution of each segment to our total turnover for the periods indicated.

	Six months ended 30 September				
	2010	**% of total**	**2011**	**% of total**	**Growth**
	HK$million (unaudited)		***HK$million***		
PRC	7,520.8	56.5%	13,371.4	56.0%	77.8%
Hong Kong, Macau and other Asian markets[(1)]	5,794.2	43.5%	10,503.1	44.0%	81.3%
Total	**13,315.0**	**100%**	**23,874.5**	**100%**	**79.3%**

Note:

(1) For Hong Kong, Macau and other Asian markets, approximately 39.9% and 47.4% of our retail turnover were settled through China UnionPay for 1HFY2011 and 1HFY2012, respectively, and approximately 2.3% and 1.9% of our retail turnover were settled in RMB (cash) for 1HFY2011 and 1HFY2012, respectively.

Turnover in the PRC increased by HK$5,850.6 million, or 77.8%, from HK$7,520.8 million for 1HFY2011 to HK$13,371.4 million for 1HFY2012. Our Same Store Sales in the PRC for 1HFY2012 grew by 45.3%, and the number of franchised POS in the PRC increased from 391 as at 31 March 2011 to 451 as at 30 September 2011. The increase in turnover in the PRC was primarily due to the increase in sales to our franchised POS in the PRC as well as the increase in demand for luxury products in the PRC as a result of continued rising affluence of PRC consumers.

Turnover in Hong Kong, Macau and other Asian markets increased by HK$4,708.9 million, or 81.3%, from HK$5,794.2 million for 1HFY2011 to HK$10,503.1 million for 1HFY2012. Our Same Store Sales in these regions for 1HFY2012 grew by 78.5%. The increase in turnover in these regions was primarily due to the increase in PRC tourists visiting Hong Kong and Macau and a continuing strong demand for luxury products among the PRC tourists. The increase in demand for luxury products was largely driven by the increasing affluence of PRC consumers and the continued appreciation of RMB in 1HFY2012 which stimulated PRC tourist spending in Hong Kong.

Turnover by product types

We offer an extensive range of products under four major product categories, namely gem-set jewellery, platinum/karat gold products, gold products and watches. The following table sets forth turnover by product type and the percentage contribution of each product type to our total turnover for the periods indicated.

	Six months ended 30 September				
	2010	**% of total**	**2011**	**% of total**	**Growth**
	HK$million (unaudited)		***HK$million***		
Gem-set jewellery	3,526.4	26.5%	5,642.7	23.6%	60.0%
Platinum/karat gold products	2,125.3	16.0%	3,713.9	15.6%	74.7%
Gold products	6,517.5	48.9%	12,690.4	53.1%	94.7%
Watches	1,145.8	8.6%	1,827.5	7.7%	59.5%
Total	**13,315.0**	**100%**	**23,874.5**	**100%**	**79.3%**

Sales of gem-set jewellery increased by HK$2,116.3 million, or 60.0%, from HK$3,526.4 million for 1HFY2011 to HK$5,642.7 million for 1HFY2012. The increase in sales of gem-set jewellery was primarily due to both an increase in average selling price of our gem-set jewellery products and greater demand for higher value gem-set jewellery products, which was primarily attributable to our effective marketing strategies and efforts in launching and promoting our higher value gem-set jewellery products.

Sales of platinum/karat gold products increased by HK$1,588.6 million, or 74.7%, from HK$2,125.3 million for 1HFY2011 to HK$3,713.9 million for 1HFY2012 primarily due to (i) the increase in prices of gold and platinum and (ii) greater consumer demand as a result of our effective marketing strategies and the strengthening consumer purchasing power.

Sales of gold products increased by HK$6,172.9 million, or 94.7%, from HK$6,517.5 million for 1HFY2011 to HK$12,690.4 million for 1HFY2012. The increase was primarily due to (i) the increase in gold prices in 1HFY2012 as compared to 1HFY2011 and (ii) the increase in sales of gold products which was primarily attributable to the strengthening purchasing power and greater consumer demand in the PRC. The turnover growth for gold products increased at a greater rate than other products, primarily due to the increase in sales volume attributable to greater consumer demand.

Sales of watches increased by HK$681.7 million, or 59.5%, from HK$1,145.8 million for 1HFY2011 to HK$1,827.5 million for 1HFY2012. The increase was primarily due to (i) our strategic improvement of our watch brand mix with an increased focus on mid-to-high-end brands, which resulted in more sales of higher value watches; and (ii) increase in the recommended retail prices of our watch products.

Cost of goods sold

Our cost of goods sold increased by HK$7,119.8 million, or 74.1%, from HK$9,613.8 million for 1HFY2011 to HK$16,733.6 million for 1HFY2012. The increase was primarily attributable to the increase in the sales of inventories and is in line with the growth in our turnover over the period. In addition, cost of inventories recognised as expense represented 93.1% and 95.2% of our total cost of goods sold for 1HFY2011 and 1HFY2012, respectively, which reflected higher raw material costs such as those for gold and diamonds. However, such costs are passed-on to customers in terms of higher selling prices. As a percentage of turnover, cost of goods sold decreased from 72.2% in 1HFY2011 to 70.1% in 1HFY2012.

During 1HFY2012, the amount of cost of goods sold also reflected (i) the changes in fair value of gold loans of HK$343.4 million, which arose as a result of the increase in the value of gold loans during the same period, and (ii) the costs arising from the loss on bullion forward contracts of HK$151.7 million, which arose as a result of the increase in gold prices during the same period. These additional expenses incurred from our gold loans and bullion forward contracts as reflected in our cost of goods sold were however offset by the higher selling prices in gold products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by HK$3,439.7 million, or 92.9%, from HK$3,701.2 million for 1HFY2011 to HK$7,140.9 million for 1HFY2012. The gross profit margin increased from 27.8% for 1HFY2011 to 29.9% for 1HFY2012, which was primarily due to (i) our adjustment of product mix which increased our sales of higher margin products and (ii) our effective marketing and pricing strategies.

Other income

Our other income increased by HK$35.3 million, or 39.4%, from HK$89.6 million for 1HFY2011 to HK$124.9 million for 1HFY2012. The increase was primarily attributable to the increase in the gain on sale of scrap materials of HK$24.3 million, an increase in franchise income of HK$17.3 million as we expanded the number of franchised POS in 1HFY2012 and an increase in government grants of HK$6.4 million.

Other (losses) gains

Our other gains increased by HK$68.2 million, or 625.7% from HK$10.9 million for 1HFY2011 to HK$79.1 million for 1HFY2012. Our increase in other gains was primarily due to net foreign exchange gain arising from the appreciation of the RMB against the USD and HKD during the period.

Selling and distribution costs

Our selling and distribution costs increased by HK$1,108.2 million, or 63.1%, from HK$1,756.2 million for 1HFY2011 to HK$2,864.4 million for 1HFY2012. The increase was primarily attributable to (i) the increase in salaries and commissions paid to the sales representatives as a result of increased sales, (ii) the increase in rental expenses and concessionaire fees incurred as a result of newly-opened POS, and (iii) the increase in advertising expenses for more promotional activities. However, our selling and distribution costs as a percentage of our total turnover decreased from 13.2% for 1HFY2011 to 12.0% for 1HFY2012 primarily due to economies of scale with respect to certain fixed expense items such as rental and depreciation.

Administrative expenses

Our administrative expenses increased by HK$277.0 million, or 64.0%, from HK$432.6 million for 1HFY2011 to HK$709.6 million for 1HFY2012. The increase was primarily attributable to (i) the increase in administrative staff costs and depreciation which was in line with our business expansion and (ii) the increase in bank charges relating to commitment fees for certain bank borrowings. However, our administrative expenses as a percentage of our total turnover decreased from 3.2% for 1HFY2011 to 3.0% for 1HFY2012 primarily due to economies of scale with respect to certain fixed items such as depreciation and other office-related expenses.

Other expenses

Our other expenses increased by HK$14.9 million, or 70.0%, from HK$21.3 million for 1HFY2011 to HK$36.2 million for 1HFY2012. The increase was primarily attributable to the professional expenses of HK$25.0 million incurred in connection with the Global Offering.

Finance costs

Our finance costs increased by HK$87.1 million, or 294.3%, from HK$29.6 million for 1HFY2011 to HK$116.7 million for 1HFY2012. The increase was primarily attributable to (i) the increase in bank borrowings and gold loans to finance additional inventories relating to the expansion of our POS and to support the increase in the sales of gold products and (ii) the general increase in interest rates in the PRC. For 1HFY2012, bank borrowings increased by HK$6,140.7 million and gold loans increased by HK$1,029.2 million. Our interest expense on bank borrowings and gold loans increased from HK$20.3 million for 1HFY2011 to HK$108.8 million for 1HFY2012, which was a result of the increase in our average bank borrowing balance and our average gold loan balance in 1HFY2012 as compared to 1HFY2011. Our finance costs to related companies decreased from HK$9.3 million for 1HFY2011 to HK$7.9 million for 1HFY2012 because of the decrease in the interest bearing portion of the amounts due to related companies.

Share of results of an associate

Our interest in an associate represents our 25% equity interest in the registered capital of an associate, which is established in the PRC and is engaged in the manufacturing and sale of jewellery products. We did not record any share of results of an associate for 1HFY2012 as the associate became inactive in FY2011 due to the expiry of the joint-venture arrangement with the joint-venture partner and the winding-down of its business. We expect that our investment cost in the associate will be returned to us.

Taxation

Our taxes increased by HK$458.3 million, or 135.3%, from HK$338.8 million for 1HFY2011 to HK$797.1 million for 1HFY2012. The increase was primarily attributable to the increase in taxable income as a result of the increase in profit during the period. Our effective tax rate was 21.7% for 1HFY2011 and 22.0% for 1HFY2012. The increase in our effective tax rate was primarily due to (i) the increase in tax rate of Shenzhen CTF from 22% in calendar year 2010 to 24% in 2011 and (ii) the higher level of profits subject to higher PRC income tax rate of 25% as a result of the increased expansion of our POS network in the PRC during 1HFY2012 as compared to 1HFY2011.

Profit for the period

As a result of the foregoing, our profit for the period increased by HK$1,597.7 million, or 130.6%, from HK$1,223.2 million for 1HFY2011 to HK$2,820.9 million for 1HFY2012. Our net profit margin increased from 9.2% for 1HFY2011 to 11.8% for 1HFY2012 primarily due to higher gross profit margin and efficiencies gained from lower selling and distribution costs and administrative expenses as a percentage of turnover.

Profit attributable to the owners of the Company

Profit for the period attributable to the owners of the Company increased by HK$1,516.0 million, or 129.0%, from HK$1,175.5 million for 1HFY2011 to HK$2,691.5 million for 1HFY2012.

FY2011 compared with FY2010

Turnover

Our turnover increased by HK$12,108.9 million, or 52.8%, from HK$22,933.6 million in FY2010 to HK$35,042.5 million in FY2011. The increase was primarily attributable to overall growth in the jewellery industry in the PRC, Hong Kong and Macau, especially from the growing wealth and consumption power of PRC consumers, greater PRC tourist flows into Hong Kong and Macau, and stronger consumer desire for prestigious and exclusive goods, which led to Same Store Sales Growth of 33.8% in FY2011. This was complemented by the net opening of 179 POS in FY2011 to reach a greater population of customers.

Turnover by channel

As at 31 March 2011, our retail network consists of 965 self-operated POS (including our wholly-owned POS and joint-venture POS), while our wholesale network consists of 393 franchised POS (almost all of which are in the PRC). The following table sets forth our turnover by distribution channel and the percentage contribution to our total turnover for the years indicated.

	Year ended 31 March				
	2010	% of total	2011	% of total	Growth
	HK$ million		*HK$ million*		
Retail	19,523.2	85.1%	30,033.1	85.7%	53.8%
Wholesale[(1)]	3,410.4	14.9%	5,009.4	14.3%	46.9%
Total	**22,933.6**	**100%**	**35,042.5**	**100%**	**52.8%**

Note:

(1) Turnover from our wholesale channel refers to sales revenue derived from products sold to our franchisees.

Turnover from our retail channel increased by HK$10,509.9 million, or 53.8%, from HK$19,523.2 million in FY2010 to HK$30,033.1 million in FY2011. The increase was primarily due to a net opening of 89 self-operated POS and higher demand for luxury products in the PRC and Hong Kong, more PRC tourists visiting Hong Kong and Macau and the appreciation of RMB which stimulated PRC tourist spending in Hong Kong.

Turnover from our wholesale channel increased by HK$1,599.0 million, or 46.9%, from HK$3,410.4 million in FY2010 to HK$5,009.4 million in FY2011. The increase was primarily due to a net addition of 90 franchised POS in FY2011 and the maturing from the development stage of the 42 franchised POS opened in FY2010, as well as higher demand for luxury products in the PRC.

Turnover by geography

We break down our turnover into two geographical segments: (i) the PRC and (ii) Hong Kong, Macau and other Asian markets. The following table sets forth turnover by these two geographical segments and the percentage contribution of each segment to our total turnover for the years indicated.

	Year ended 31 March				
	2010	**% of total**	**2011**	**% of total**	**Growth**
	HK$ million		***HK$ million***		
PRC	12,629.0	55.1%	19,471.8	55.6%	54.2%
Hong Kong, Macau and other Asian markets[1]	10,304.6	44.9%	15,570.7	44.4%	51.1%
Total	**22,933.6**	**100%**	**35,042.5**	**100%**	**52.8%**

Note:

(1) For Hong Kong, Macau and other Asian markets, approximately 36.4% and 41.6% of our retail turnover were settled through China UnionPay for FY2010 and FY2011, respectively, and approximately 2.2% and 2.0% of our retail turnover were settled in RMB (cash) for FY2010 and FY2011, respectively.

Turnover in the PRC increased by HK$6,842.8 million, or 54.2%, from HK$12,629.0 million in FY2010 to HK$19,471.8 million in FY2011. Same Store Sales in the PRC grew by 35.2% and the number of self-operated POS in the PRC increased from 792 as at 31 March 2010 to 883 as at 31 March 2011. The increase in turnover was primarily due to increase in sales from our self-operated POS in the PRC as well as our wholesale business, the strengthening purchasing power of PRC consumers and the continued strong demand for gold and jewellery products.

Turnover in Hong Kong, Macau and other Asian markets increased by HK$5,266.1 million, or 51.1%, from HK$10,304.6 million in FY2010 to HK$15,570.7 million in FY2011. Same Store Sales in these regions grew by 32.4%. The increase in turnover in these regions was primarily due to the strong economic growth in Hong Kong and Macau coupled with a continuing increase in PRC tourist traffic. Due to a continuing strong demand for luxury goods among the PRC consumers and the overall lower consumer tax environment in Hong Kong and Macau, our tourist sales increased significantly during the year.

Turnover by product types

The following table sets forth turnover by product type and the percentage contribution of each product type to our total turnover for the years indicated.

	Year ended 31 March				
	2010	% of total	2011	% of total	Growth
	HK$ million		*HK$ million*		
Gem-set jewellery	6,625.7	28.9%	8,962.9	25.6%	35.3%
Platinum/karat gold products	3,574.5	15.6%	4,869.4	13.9%	36.2%
Gold products	11,124.7	48.5%	18,724.7	53.4%	68.3%
Watches	1,608.7	7.0%	2,485.5	7.1%	54.5%
Total	**22,933.6**	**100%**	**35,042.5**	**100%**	**52.8%**

Sales of gem-set jewellery increased by HK$2,337.2 million, or 35.3%, from HK$6,625.7 million in FY2010 to HK$8,962.9 million in FY2011, while sales of platinum/karat gold products increased by HK$1,294.9 million, or 36.2%, from HK$3,574.5 million in FY2010 to HK$4,869.4 million in FY2011. The increase in gem-set jewellery and platinum/karat gold products sales were primarily due to an increase in average selling price of our gem-set jewellery products and greater demand for higher value gem-set jewellery products, which was primarily due to our effort to promote higher value gem-set jewellery.

Sales of gold products increased by HK$7,600.0 million, or 68.3%, from HK$11,124.7 million in FY2010 to HK$18,724.7 million in FY2011. The increase was primarily due to (i) the increase in gold price in FY2011 as compared to FY2010 and (ii) greater sales in the PRC and increased PRC tourist sales in Hong Kong and Macau as a result of our effective marketing strategies as well as the strong economic growth and increased purchasing power of consumers in the PRC.

Sales of watches increased by HK$876.8 million, or 54.5%, from HK$1,608.7 million in FY2010 to HK$2,485.5 million in FY2011. The increase was primarily due to greater sales in the PRC, increased PRC tourist sales in Hong Kong and Macau and an increase in recommended retail price of our watch products.

Cost of goods sold

Our cost of goods sold increased by HK$8,736.3 million, or 53.3%, from HK$16,378.6 million in FY2010 to HK$25,114.9 million in FY2011. The increase was primarily attributable to the increase in sales of our inventories, and is in line with the increase in turnover during the year. In addition, cost of inventories recognised as expense remained stable at 96.7% and 95.7% of our total cost of goods sold in FY2010 and FY2011, respectively. However, such costs were passed-on to customers in terms of higher selling prices. Accordingly, as a percentage of turnover, cost of goods sold increased only slightly from 71.4% in FY2010 to 71.7% in FY2011.

During FY2011, the amount of cost of goods sold also reflected (i) the changes in fair value of gold loans of HK$725.7 million, which arose as a result of the increase in the value of gold loans during the year and (ii) the costs arising from the loss on bullion forward contracts of HK$224.6 million, which also arose as a result of the increase in value of gold during the year. These items reflect our efforts in hedging the risk of price changes in gold. These additional expenses incurred from our gold loans and bullion forward contracts as reflected in our cost of goods sold were however offset by the higher selling prices in gold related products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by HK$3,372.6 million, or 51.5%, from HK$6,555.0 million in FY2010 to HK$9,927.6 million in FY2011. The gross profit margin remained relatively stable at 28.6% in FY2010 and at 28.3% in FY2011.

Other income

Our other income increased by HK$18.5 million, or 10.5%, from HK$176.1 million in FY2010 to HK$194.6 million in FY2011. The increase was primarily attributable to the HK$13.4 million increase in franchise income as we expanded the number of franchised POS by 90 during FY2011, and discount on acquisition of a subsidiary of HK$17.2 million. Such increase was partially offset by decreased interest income, government grants and gain on scrap sales.

Other (losses) gains

We recorded other losses of HK$1.1 million in FY2010, whereas we recorded other gains of HK$39.9 million in FY2011. Our increase in other gains during this year was primarily due to net foreign exchange gain arising from the appreciation of the RMB against the USD and HKD during FY2011.

Selling and distribution costs

Our selling and distribution costs increased by HK$1,204.0 million, or 37.6%, from HK$3,197.9 million in FY2010 to HK$4,401.9 million in FY2011. The increase was primarily attributable to (i) the increase in rental expenses and concessionaire fees incurred as a result of newly-opened POS, (ii) the increase in salaries and commissions paid to the sales representatives as a result of increased sales, (iii) the increase in the number of our sales representatives due to the expansion of our POS network, (iv) the increase in advertising expenses from greater promotional activities and (v) the increase in depreciation costs. However, our selling and distribution costs as a percentage of our total turnover decreased from 13.9% in FY2010 to 12.6% in FY2011 primarily due to economies of scale with respect to certain fixed expense items such as rental and depreciation, as well as lower advertising costs as a percentage of turnover.

Administrative expenses

Our administrative expenses increased by HK$268.3 million, or 41.7%, from HK$643.1 million in FY2010 to HK$911.4 million in FY2011. The increase was primarily attributable to the increase in administrative staff costs, the depreciation of our property, plant and equipment and repairs and maintenance expenses as a result of our business expansion. However, our administrative expenses as a percentage of our total turnover decreased from 2.8% in FY2010 to 2.6% in FY2011 primarily due to decreased staff costs as a percentage of turnover.

Other expenses

Our other expenses increased by HK$5.2 million, or 4.4%, from HK$116.9 million in FY 2010 to HK$122.1 million in FY2011. The increase was primarily attributable to the increase in donation to charities.

Finance costs

Our finance costs increased by HK$40.2 million, or 64.8%, from HK$62.0 million in FY2010 to HK$102.2 million in FY2011. The increase was primarily attributable to the increase in bank borrowings and gold loans to finance additional inventories relating to the expansion of our POS and to support the increase in the sales of gold products. In FY2011, bank borrowings increased by

HK$2,720.7 million and gold loans increased by HK$1,742.4 million. Our interest expense on bank borrowings and gold loans increased from HK$40.3 million for FY2010 to HK$83.6 million for FY2011, which was a result of the increase in our average bank borrowing balance and gold loan balance in FY2011 as compared to FY2010. Amounts due to related companies increased by HK$3,193.5 million during the year, however, our finance costs to related companies decreased from HK$21.7 million in FY2010 to HK$18.6 million in FY2011 because of the decrease in interest bearing portion of the amounts due to related companies.

Share of results of an associate

Our interest in an associate represents our 25% equity interest in the registered capital of the associate, which is established in the PRC and is engaged in the manufacturing and sale of jewellery products. Our share of results of an associate decreased by HK$13.2 million from a gain of HK$8.5 million in FY2010 to a loss of HK$4.7 million in FY2011. The associate recorded a profit of HK$33.8 million in FY2010 as compared to a loss of HK$18.9 million in FY2011 as the associate became inactive in FY2011 due to the expiry of our joint-venture arrangement with them and the winding-down of its business. We expect that our investment cost in the associate will be returned to us.

Taxation

Our taxes increased by HK$435.5 million, or 85.1%, from HK$511.8 million in FY2010 to HK$947.3 million in FY2011. The increase was primarily attributable to the increase in taxable income as a result of (i) the increase in profit during the year and (ii) the expiration of certain tax exemptions enjoyed by certain of our subsidiaries in the PRC. Our effective tax rate was 18.8% in FY2010 and 20.5% in FY2011. The increase in our effective tax rate from FY2010 to FY2011 was primarily due to the expiration of tax holidays with respect to our PRC subsidiaries including (i) Chow Tai Fook Jewellery Company (Shenzhen) Limited, whose tax rate increased from 22% in calendar year 2010 to 24% in 2011 and (ii) Chongqing Chow Tai Fook Watch Marketing Limited, Chongqing Fuhang Jewellery Limited, Chongqing Fuxi Jewellery Company Limited and Chongqing Kaifu Jewellery Company Limited, whose tax rates all increased from 15% in calendar year 2010 to 25% in 2011. The increase in effective tax rates was also attributable to an increase in non-deductible expenses relating to changes in fair value of gold loans.

Profit for the year

As a result of the foregoing, our profit for the year increased by HK$1,465.7 million, or 66.4%, from HK$2,206.8 million in FY2010 to HK$3,672.5 million in FY2011. Our net profit margin increased from 9.6% in FY2010 to 10.5% in FY2011 primarily due to efficiencies gained from lower selling and distribution costs and administrative expenses as a percentage of turnover.

Profit attributable to the owners of the Company

Profit for the year attributable to the owners of the Company increased by HK$1,399.0 million, or 65.4%, from HK$2,138.6 million in FY2010 to HK$3,537.6 million in FY2011.

FY2010 compared with FY2009

Turnover

Our turnover increased by HK$4,522.7 million, or 24.6%, from HK$18,410.9 million in FY2009 to HK$22,933.6 million in FY2010. The increase was primarily attributable to the expansion of our retail network as well as a rebound in consumer spending during the third quarter of FY2010 from the global economic downturn starting in the fourth quarter of 2008. The increase in turnover was also attributable to overall growth in the jewellery industry from the growing wealth and consumption power of PRC consumers, improved tourist flows into Hong Kong and Macau, which led to Same Store Sales Growth of 15.6% in FY2010.

Turnover by channel

We distribute our products through our retail and wholesale POS network. As at 31 March 2010, our retail network consisted of 876 self-operated POS (including our wholly-owned POS and joint-venture POS), while our wholesale network consisted of 303 franchised POS (almost all of which were in the PRC). The following table sets forth our turnover by distribution channel and the percentage contribution to our total turnover for the years indicated.

	Year ended 31 March				
	2009	% of total	2010	% of total	Growth
	HK$ million		*HK$ million*		
Retail	14,926.1	81.1%	19,523.2	85.1%	30.8%
Wholesale[(1)]	3,484.8	18.9%	3,410.4	14.9%	(2.1)%
Total	**18,410.9**	**100%**	**22,933.6**	**100%**	**24.6%**

Note:

(1) Turnover from our wholesale channel refers to sales revenue derived from products sold to our franchisees.

Turnover from our retail channel increased by HK$4,597.1 million, or 30.8%, from HK$14,926.1 million in FY2009 to HK$19,523.2 million in FY2010. The increase was primarily due to a net opening of 172 self-operated POS during FY2010 partly offset by a slowdown in sales during the first half of the year as a result of the global financial crisis. Sales started to rebound during the third quarter of FY2010 with increased PRC tourists visiting Hong Kong and Macau. The appreciation of the RMB against the HKD also further stimulated PRC tourist spending in Hong Kong and Macau.

Turnover from our wholesale channel decreased by HK$74.4 million, or 2.1%, from HK$3,484.8 million in FY2009 to HK$3,410.4 million in FY2010. Due to the economic downturn resulting from the global financial crisis, our expansion of franchised POS was slowed down to a net opening of 42 franchised POS for FY2010 as compared to a net opening of 51 franchised POS for FY2009, which generally led to a decrease in turnover from the wholesale channel. In addition, during the third and fourth quarter of FY2010 while the economy was gradually recovering, our wholesale to franchised POS increased at a slower pace than the increase in the retail sales from our self-operated POS because the franchised POS generally had to sell off their existing inventories for cash flow purposes before they could purchase additional inventories from us, which resulted in a timelag between the recovery of the economy and the purchase of inventories from us by such franchised POS, as compared to our self-operated POS.

Turnover by geography

We break down our turnover into two geographical segments: (i) the PRC and (ii) Hong Kong, Macau and other Asian markets. The following table sets forth turnover by these two geographical segments and the percentage contribution of each segment to our total turnover for the years indicated.

	Year ended 31 March				
	2009	% of total	2010	% of total	Growth
	HK$ million		*HK$ million*		
PRC	10,005.2	54.3%	12,629.0	55.1%	26.2%
Hong Kong, Macau and other Asian markets[(1)]	8,405.7	45.7%	10,304.6	44.9%	22.6%
Total	**18,410.9**	**100%**	**22,933.6**	**100%**	**24.6%**

Note:

(1) For Hong Kong, Macau and other Asian markets, approximately 28.2% and 36.4% of our retail turnover were settled through China UnionPay for FY2009 and FY2010, respectively, and approximately 3.2% and 2.2% of our retail turnover were settled in RMB (cash) for FY2009 and FY2010, respectively.

Turnover in the PRC increased by HK$2,623.8 million, or 26.2%, from HK$10,005.2 million in FY2009 to HK$12,629.0 million in FY2010. Same Store Sales in the PRC grew by 15.2% and the number of self-operated POS in the PRC increased from 634 as at 31 March 2009 to 792 as at 31 March 2010. The increase in turnover was primarily due to the increase in sales from our self-operated POS in the PRC as a result of the net POS openings and a rebound in the demand for our products from the economic downturn starting in the third quarter of FY2010.

Turnover in Hong Kong, Macau and other Asian markets increased by HK$1,898.9 million, or 22.6% from HK$8,405.7 million in FY2009 to HK$10,304.6 million in FY2010. Same Store Sales in these regions grew by 16.0% and we had a net opening of 15 POS during the year. The increase in turnover was primarily due to the net POS openings coupled with a rebound in the demand for our products from the economic downturn starting in the third quarter of FY2010.

Turnover by product types

The following table sets forth turnover by product types and the percentage contribution of each product type to our total turnover for the years indicated.

	Year ended 31 March				
	2009	% of total	2010	% of total	Growth
	HK$ million		*HK$ million*		
Gem-set jewellery	5,488.5	29.8%	6,625.7	28.9%	20.7%
Platinum/karat gold products	2,688.3	14.6%	3,574.5	15.6%	33.0%
Gold products	9,077.9	49.3%	11,124.7	48.5%	22.5%
Watches	1,156.2	6.3%	1,608.7	7.0%	39.1%
Total	**18,410.9**	**100%**	**22,933.6**	**100%**	**24.6%**

Sales of gem-set jewellery increased by HK$1,137.2 million, or 20.7%, from HK$5,488.5 million in FY2009 to HK$6,625.7 million in FY2010. The increase was primarily due to the increase in POS compared to FY2009, greater sales in the PRC and increased PRC tourist sales in Hong Kong and Macau, coupled with an increase in prices of diamonds and gemstones.

Sales of platinum/karat gold products increased by HK$886.2 million, or 33.0%, from HK$2,688.3 million in FY2009 to HK$3,574.5 million in FY2010. The increase was primarily due to the increase in POS compared to FY2009, greater sales in the PRC and increased PRC tourist sales in Hong Kong and Macau, as well as an increase in prices of gold and platinum. Platinum/karat gold product sales increased at a greater rate than gold products and gem-set jewellery reflecting (i) an increase in promotional activities including the launch of a greater variety of platinum/karat gold products and (ii) greater demand for platinum/karat gold products, which have a lower average selling price, due to the economic downturn.

Sales of gold products increased by HK$2,046.8 million, or 22.5%, from HK$9,077.9 million in FY2009 to HK$11,124.7 million in FY2010. The increase was primarily due to (i) increased PRC tourist sales in Hong Kong and Macau as a result of our effective marketing strategies and (ii) the increase in gold prices in FY2010 as compared to FY2009.

Sales of watches increased by HK$452.5 million, or 39.1%, from HK$1,156.2 million in FY2009 to HK$1,608.7 million in FY2010. The increase was primarily due to greater sales in the PRC and increased PRC tourist sales in Hong Kong and Macau, and due to higher selling prices. Watch sales increased at a greater rate than other products due to the increase in selling price as a result of passing-on higher purchase costs to customers.

Cost of goods sold

Our cost of goods sold increased by HK$3,293.7 million, or 25.2%, from HK$13,084.9 million in FY2009 to HK$16,378.6 million in FY2010. The increase was primarily attributable to the increase in sales of our inventories, which was in-line with the increase in turnover. Additionally, cost of inventories recognised as expense represented 99.4% and 96.7% of our total cost of goods sold in FY2009 and FY2010, respectively. However, such costs are ultimately passed-on to customers through higher selling prices. Accordingly, as a percentage of turnover, cost of goods sold increased only slightly from 71.1% in FY2009 to 71.4% in FY2010.

In FY2010, the increase in cost of goods sold also reflected the fair value change of gold loans of HK$483.8 million, which arose as a result of the increase in the value of gold loans during the same year. These additional expenses incurred from our gold loans as reflected in our cost of sales were however offset by higher selling prices in gold products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by HK$1,229.0 million, or 23.1%, from HK$5,326.0 million in FY2009 to HK$6,555.0 million in FY2010. The gross profit margin remained relatively stable at 28.9% in FY2009 and at 28.6% in FY2010.

Other income

Our other income increased by HK$15.2 million, or 9.4%, from HK$160.9 million in FY2009 to HK$176.1 million in FY2010. The increase in other income was primarily attributable to an increase in government grants of HK$13.0 million and gain on sale of scrap materials of HK$13.6 million during the year. Such increase was offset by the decrease of HK$11.6 million in interest income.

Other (losses) gains

Our other losses increased by HK$0.7 million, or 175%, from HK$0.4 million in FY2009 to HK$1.1 million in FY2010. The other losses of HK$0.4 million in FY2009 mainly reflected a net foreign exchange gain of HK$16.4 million due to the appreciation of RMB against the USD and HKD, which was offset by a HK$16.5 million loss on disposal on property, plant and equipment. The other losses of HK$1.1 million in FY2010 mainly reflected a net foreign exchange gain of HK$1.3 million in FY2010 due to the appreciation of the RMB against the USD and HKD, which was offset by a HK$2.3 million loss on disposal on property, plant and equipment.

Selling and distribution costs

Our selling and distribution costs increased by HK$763.2 million, or 31.3%, from HK$2,434.7 million in FY2009 to HK$3,197.9 million in FY2010. The increase was primarily attributable to (i) the increase in rental expenses and concessionaire fees incurred as a result of newly-opened POS, (ii) the increase in salaries and commissions paid to the sales representatives as a result of the increase in sales, (iii) the increase in the number of our sales representatives due to the expansion of our POS network and (iv) the increase in advertising and promotion costs as we expanded our business. We strategically increased our advertising and promotional activities in FY2010 after the global economic crisis. Our selling and distribution costs as a percentage of our total turnover increased from 13.2% in FY2009 to 13.9% in FY2010, primarily due to the increase in rental rates during the year as well as increased advertising costs as a percentage of turnover.

Administrative expenses

Our administrative expenses increased by HK$134.3 million, or 26.4%, from HK$508.8 million in FY2009 to HK$643.1 million in FY2010. The increase was primarily attributable to the increase in administrative staff costs and depreciation as we employed more staff and acquired more offices to complement our business expansion. Our administrative expenses as a percentage of our total turnover remained stable at 2.8% in FY2009 and FY2010.

Other expenses

Our other expenses decreased by HK$46.8 million, or 28.6%, from HK$163.7 million in FY2009 to HK$116.9 million in FY2010. The decrease was attributable to the decrease in donation to charities.

Finance costs

Our finance costs decreased by HK$95.1 million, or 60.5%, from HK$157.1 million in FY2009 to HK$62.0 million in FY2010. The decrease in our finance costs was primarily attributable to the decrease in interest expense from HK$100.6 million for FY2009 to HK$7.2 million for FY2010, which was a result of the decrease in our average bank borrowing balance in FY2010 as compared to FY2009.

Share of results of an associate

Our interest in an associate represents our 25% equity interest in the registered capital of the associate, which is established in the PRC and is engaged in the manufacturing and sale of jewellery products. Our share of results of an associate increased by HK$7.2 million, from HK$1.3 million in FY2009 to HK$8.5 million in FY2010. The increase was primarily attributable to the increase in the associate's profit during the year.

Taxation

Our taxes increased by HK$202.7 million, or 65.6%, from HK$309.1 million in FY2009 to HK$511.8 million in FY2010. The increase was primarily attributable to the increase in taxable income as a result of our increase in profit during the year. Our effective tax rate was 13.9% in FY2009 and 18.8% in FY2010. The change in our effective tax rate was primarily due to expiration of certain tax exemptions of our principal PRC subsidiary Shenzhen CTF. Shenzhen CTF's tax rate increased from 20% in calendar year 2009 to 22% in 2010. The increase in effective tax rates was also attributable to an increase in non-deductible expenses relating to fair value changes of gold loans.

Profit for the year

As a result of the foregoing, our profit for the year increased by HK$292.4 million, or 15.3%, from HK$1,914.4 million in FY2009 to HK$2,206.8 million in FY2010. Our net profit margin was 10.4% in FY2009 and 9.6% in FY2010.

Profit attributable to the owners of the Company

Profit for the year attributable to the owners of the Company increased by HK$241.9 million, or 12.8%, from HK$1,896.7 million in FY2009 to HK$2,138.6 million in FY2010.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other liquidity requirements principally through a combination of cash flow from operations, bank borrowings, gold loans and advances from related parties.

Our principal uses of cash have been, and are expected to continue to be, operational costs and capital investments for opening of new POS for the continued expansion of our POS network.

Cash flows

The following table sets forth a summary of our cash flows for the years and periods indicated.

Selected Consolidated Statements of Cash Flows

	Year ended 31 March			Six months ended 30 September	
	2009	2010	2011	2010	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million (unaudited)*	*HK$ million*
Operating cash flows before movements in working capital	2,505.6	3,394.1	5,630.7	2,081.9	4,070.3
Change in working capital usage	(1,036.7)	(1,771.1)	(7,513.4)	(5,784.7)	(10,685.1)
Income tax paid	(365.5)	(399.0)	(729.6)	(216.8)	(403.9)
Net cash from (used in) operating activities	1,103.4	1,224.0	(2,612.3)	(3,919.6)	(7,018.7)
Net cash (used in) from investing activities	(2,851.1)	308.2	(75.9)	(229.7)	812.0
Net cash from (used in) financing activities	1,217.4	(716.1)	6,107.3	4,412.9	3,753.0
Net (decrease) increase in cash and cash equivalents	(530.3)	816.1	3,419.1	263.6	(2,453.7)
Cash and cash equivalents at the beginning of the financial year/period	1,802.4	1,289.9	2,106.7	2,106.7	5,604.8
Effect of foreign exchange rate changes	17.8	0.7	79.0	20.0	54.3
Cash and cash equivalents at the end of the financial year/period, representing bank balances and cash	1,289.9	2,106.7	5,604.8	2,390.3	3,205.4

Cash flow from/used in operating activities

For 1HFY2012, net cash used in operating activities was HK$7,018.7 million. Net cash used in operating activities was a result of operating cash flows before working capital changes in the amount of HK$4,070.3 million, an increase in working capital usage of HK$10,685.1 million and income tax paid in the amount of HK$403.9 million. The change in working capital primarily reflected (i) an increase in inventories of HK$11,365.6 million, (ii) an increase in trade and other receivables of HK$165.8 million and (iii) an increase in trade and other payables of HK$849.9 million. The increase in inventories was primarily due to (i) the preparation for the peak season including the Chinese New Year holiday of 2012 which is on an earlier date than that of 2011 and (ii) our expansion of POS during this period. The increase in our trade and other receivables was primarily due to the increase in the amount of sales generated from our Concessionaire Counters. The increase in trade and other payables was primarily due to the increase in trade payable resulting from the increased purchase and consideration payable attributable to the acquisition of Lun Jiao, and the increase in staff costs accruals attributable to the additional staff hired to complement our business expansion.

For 1HFY2011, net cash used in operating activities was HK$3,919.6 million. Net cash used in operating activities was a result of operating cash flows before working capital changes in the amount of HK$2,081.9 million, an increase in working capital usage of HK$5,784.7 million and income tax paid in the amount of HK$216.8 million. The change in working capital primarily reflected (i) an increase in inventories of HK$5,742.0 million, (ii) an increase in trade and other receivables of HK$213.1 million and (iii) an increase in trade and other payables of HK$172.2 million. The increase in inventories was primarily due to the anticipation of the increase in sales and our expansion of POS network. The increase in our trade and other receivables was primarily due to the increase in the amount of sales generated from our Concessionaire Counters. The increase in trade and other payables was primarily due to the increase in the amount of deposits received from franchisees for more stock in anticipation of higher sales during the peak season.

For FY2011, net cash used in operating activities was HK$2,612.3 million. Net cash used in operating activities was a result of operating cash flows before working capital changes in the amount of HK$5,630.7 million, an increase in working capital usage of HK$7,513.4 million and income tax paid in the amount of HK$729.6 million. The change in working capital primarily reflected (i) an increase of inventories of HK$7,507.8 million, (ii) an increase in trade and other receivables of HK$675.3 million and (iii) an increase in trade and other payables of HK$676.6 million. The increase in inventories was primarily due to the increase in merchandise procurement in anticipation of the increase in sales, our expansion of POS during the year and the increase in jewellery inventories to offer our customers a greater variety of products. The increase in our trade and other receivables was primarily due to the increase in the amount of sales generated from Concessionaire Counters. The increase in trade and other payables was primarily due to the increase in the amount of deposits received from franchisees for stock not yet delivered as at 31 March 2011.

For FY2010, net cash generated from operating activities was HK$1,224.0 million. Net cash generated from operating activities was a result of operating cash flows before working capital changes in the amount of HK$3,394.1 million, an increase in working capital usage of HK$1,771.1 million and income tax paid in the amount of HK$399.0 million. The change in working capital primarily reflected (i) an increase of inventories of HK$1,185.5 million, (ii) an increase in trade and other receivables of HK$1,068.9 million and (iii) an increase in trade and other payables of HK$490.2 million. The increase in inventories was primarily due to the increase in merchandise procurement in anticipation of the increase in sales and our expansion of POS during the year. The increase in our trade and other receivables was primarily due to the increase in the amount of sales generated from our existing and new Concessionaire Counters and the increase in the amount of prepayment to suppliers. The increase in trade and other payables was primarily due to more deposits received from franchisees near the end of the financial year in anticipation of increased demand in upcoming months.

For FY2009, net cash generated from operating activities was HK$1,103.4 million. Net cash generated from operating activities was a result of operating cash flows before working capital changes in the amount of HK$2,505.6 million, an increase in working capital usage of HK$1,036.7 million and income tax paid in the amount of HK$365.5 million. The change in working capital primarily reflected (i) an increase in inventories of HK$821.5 million, (ii) a decrease in trade and other receivables of HK$177.0 million and (iii) a decrease in trade and other payables of HK$385.4 million. The increase in inventories was primarily due to a reduction in trading activities in the first quarter of 2009 due to the onset of the global financial crisis. The decrease in our trade and other receivables was primarily due to a reduction in Concessionaire Counter sales as a result of the economic downturn in the PRC, mostly offset by extended settlement terms granted to certain department stores. The decrease in trade and other payables were primarily due to a decrease in the purchase of inventories as a result of the reduction in trading activity in the first quarter of 2009 due to the onset of the global financial crisis, and decrease in inventory deposits received from franchisees.

Cash flow from/used in investing activities

For the 1HFY2012, our net cash generated from investing activities was HK$812.0 million. Our cash generated from investing activities primarily consisted of: (i) HK$1,190.3 million of net repayment from related companies, (ii) net cash inflow from acquisition of subsidiaries of HK$43.5 million and (iii) the amount of interest received of HK$37.6 million. These amounts were partly offset by (i) the payment for the purchase and deposits paid for acquisitions of property, plant and equipment of HK$410.2 million, (ii) the increase in pledged bank deposits of HK$28.9 million and (iii) the investment in convertible bonds of HK$24.8 million.

For 1HFY2011, our net cash used in investing activities was HK$229.7 million. Our cash used in investing activities primarily consisted of: (i) the payment for the purchase and deposits paid for acquisitions of property, plant and equipment of HK$504.9 million and (ii) HK$25.8 million in deposits paid for the acquisition of land use rights. These amounts were partly offset by (i) net repayment from related parties of HK$170.0 million, (ii) the decrease in pledged bank deposits of HK$82.6 million and (iii) interest received of HK$34.5 million.

For FY2011, our net cash used in investing activities was HK$75.9 million. Our cash used in investing activities primarily consisted of (i) the payment for the purchase and deposits paid for acquisitions of property, plant, and equipment in the amount of HK$768.9 million, which mainly related to the addition of land and buildings in Shenzhen, and furniture, fixtures and equipment as well as leasehold improvements for new and refurnished POS and (ii) HK$55.0 million in deposits paid for the acquisition of land use rights. These amounts were mostly offset by (i) net repayments from related companies of HK$584.0 million, (ii) decrease in pledged bank deposits of HK$68.3 million relating to release of certain facility line and (iii) interest received of HK$70.3 million.

For FY2010, our net cash from investing activities was HK$308.2 million. Our cash from investing activities primarily consisted of (i) the net repayment from related companies of HK$302.4 million, (ii) the decrease in pledged bank deposits of HK$241.8 million as a result of lower utilisation of certain gold loan facilities, and (iii) the amount of interest received of HK$77.0 million. These amounts were partly offset by (i) the payment for the purchase and deposits paid for acquisitions of property, plant, and equipment in the amount of HK$272.2 million, which related to the addition of furniture, fixtures and equipment and leasehold improvements for new and refurnished POS and (ii) the HK$47.7 million deposits paid for acquisition of land use rights.

For FY2009, our net cash used in investing activities was HK$2,851.1 million. Our cash used in investing activities primarily consisted of (i) net advances made to related companies of HK$2,072.4 million, (ii) the increase in pledged bank deposits of HK$390.1 million as a result of an increase in gold loans raised and (iii) the purchase and deposits paid for the acquisition of property, plant, and equipment in the amount of HK$484.8 million, which related to the addition of land and buildings, furniture, fixtures and equipment and leasehold improvements for new and refurnished POS. These amounts were partly offset by the amount of interest received of HK$88.6 million.

Cash flow from/used in financing activities

For 1HFY2012, our net cash generated from financing activities was HK$3,753.0 million. Our cash inflow from financing activities primarily consisted of (i) net bank borrowings of HK$6,084.2 million and (ii) net gold loan raised of HK$640.9 million. Such amounts were partly offset by (i) net repayment to related companies of HK$2,923.7 million, (ii) dividend paid of HK$31.4 million and (iii) interest paid of HK$116.7 million.

For 1HFY2011, our net cash generated from financing activities was HK$4,412.9 million. Our cash inflow from financing activities primarily consisted of (i) net advances from related companies of HK$2,439.7 million, (ii) net bank borrowings of HK$1,094.6 million and (iii) net gold loan raised of HK$864.6 million. Such amounts were slightly offset by (i) interest paid of HK$29.6 million and (ii) dividend paid of HK$9.3 million.

For FY2011, our net cash generated from financing activities was HK$6,107.3 million. Our cash inflow from financing activities primarily consisted of (i) net bank borrowings of HK$2,677.4 million, (ii) net advances from related companies of HK$2,461.5 million and (iii) net gold loans raised of HK$984.1 million.

For FY2010, our net cash used in financing activities was HK$716.1 million. Our cash outflow from financing activities primarily consisted of (i) net repayment of gold loans of HK$355.4 million, (ii) net repayment to related companies of HK$414.2 million and (iii) interest paid of HK$62.0 million. Such amounts were partly offset by (i) advances from non-controlling shareholders of our subsidiaries of HK$56.2 million and (ii) net bank borrowings of HK$46.7 million.

For FY2009, our net cash generated from financing activities was HK$1,217.4 million. Our cash outflow from financing activities primarily consisted of (i) net repayment of bank borrowings of HK$3,400.7 million and (ii) interest paid of HK$157.1 million. Such amounts were partly offset by (i) net advances from related companies of HK$4,416.4 million and (ii) net gold loans raised of HK$323.0 million.

Net current assets

The following table sets forth our current assets, current liabilities, and net current assets as at the dates indicated.

	As at 31 March			As at 30 September
	2009	2010	2011	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Current assets				
Inventories	8,094.2	9,274.8	17,100.8	28,877.8
Trade and other receivables	1,365.9	2,435.8	3,227.7	3,505.5
Amounts due from related companies	2,134.7	1,782.3	1,278.3	88.0
Loan receivables	136.0	136.1	135.3	133.7
Convertible bonds	—	—	—	24.8
Derivative financial instruments	—	—	—	164.7
Taxation recoverable	15.9	—	—	—
Pledged bank deposits	467.7	225.9	156.3	186.9
Bank balances and cash	1,289.9	2,106.7	5,604.8	3,205.4
	13,504.3	15,961.6	27,503.2	36,186.8
Current liabilities				
Trade and other payables	815.7	1,306.7	2,049.6	3,138.4
Amounts due to related companies	4,726.8	4,639.8	7,833.3	8,458.6
Amounts due to non-controlling shareholders of subsidiaries	27.9	84.1	164.7	238.6
Taxation payable	39.0	130.8	353.0	756.9
Bank borrowings	113.6	160.3	2,881.0	9,021.7
Gold loans	2,060.8	2,189.2	3,931.6	4,960.8
	7,783.8	8,510.9	17,213.2	26,575.0
Net current assets	5,720.5	7,450.7	10,290.0	9,611.8

The increase in net current assets during the FY2009, FY2010 and FY2011 primarily reflected an increase in inventories as a result of the increase in inventory procurement in anticipation of the increase in sales and to support the expansion of our POS as well as to increase product variety for our customers. The decrease of net current assets during 1HFY2012 was primarily due to the distribution of the Pre-IPO Dividend of HK$3,300.0 million.

WORKING CAPITAL SUFFICIENCY

Our Directors confirm that we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus, taking into account the estimated net proceeds from the Global Offering, available banking facilities, and gold loan facilities and cash flows from our operations.

INVENTORIES

Our inventory is primarily comprised of components for jewellery, jewellery finished-products and watches. The following table sets forth a breakdown of our inventories by categories as at the dates indicated:

	As at 31 March			As at 30 September
	2009	2010	2011	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Raw materials for:				
Gem-set jewellery	1,477.5	1,225.8	2,972.6	8,399.3
Platinum/karat gold products	76.1	135.1	103.3	207.7
Gold products	490.7	818.8	1,874.0	2,492.2
	2,044.3	2,179.7	4,949.9	11,099.2
Finished goods:				
Gem-set jewellery	3,353.8	3,566.5	6,327.0	7,981.6
Platinum/karat gold products	457.3	996.9	1,251.4	2,140.2
Gold products	1,572.2	1,713.6	3,336.9	5,821.5
Watches	664.8	808.8	1,223.6	1,822.9
	6,048.1	7,085.8	12,138.9	17,766.2
Packing materials	1.8	9.3	12.0	12.4
	8,094.2	9,274.8	17,100.8	28,877.8

As at 31 March 2009, 2010 and 2011 and 30 September 2011, inventories amounted to HK$8,094.2 million, HK$9,274.8 million, HK$17,100.8 million and HK$28,877.8 million, respectively, representing 59.9%, 58.1%, 62.2% and 79.8% of our Company's total current assets, respectively. Our inventories increased from HK$8,094.2 million as at 31 March 2009 to HK$17,100.8 million as at 31 March 2011 and further increased by HK$11,777.0 million, or 68.9%, to HK$28,877.8 million as at 30 September 2011, primarily due to our expansion of POS network and the need to supply the new and existing POS with sufficient inventories in light of the increasing demand for our products. In particular, inventories of gem-set jewellery increased significantly from HK$4,792.3 million as at 31 March 2010 to HK$9,299.6 million as at 31 March 2011 and further increased to HK$16,380.9 million as at 30 September 2011 as we strategically invested in more gem-set jewellery so as to provide customers with a larger variety of products. Gold inventories increased from HK$2,532.4 million as at 31 March 2010 to HK$5,210.9 million as at 31 March 2011 primarily and further increased to HK$8,313.7 million as at 30 September 2011 as we increased inventories to meet demand as well as the significant increase in gold prices during the Track Record Period. As at 30 September 2011, approximately 59.6% of our inventories as at 31 March 2011 had been used or sold.

We closely and frequently monitor the inventory level through our information technology systems, which function in real-time to offer the most up-to-date information on merchandise turnover along with other capabilities. This allows us to not only quickly assess the inventory needs of every POS in the network, but also determine trends in product popularity and customer preferences by regions.

The level of jewellery components in inventory we maintain depends on a number of factors including our anticipated inventory turnover, production lead-time, sales forecast and market demand and supply of the raw materials. Our jewellery products are manufactured in response to market demand and inventory turnover so we generally do not have a significant amount of slow-moving or obsolete stock. Moreover, since our products are made of precious metals and jewels, they possess significant value. As such, write-downs usually occur only when the underlying value of the precious metals or jewels significantly deteriorates. Our inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and disposal. These estimates are based on the current market condition and the historical experience of selling goods of similar nature, which could change significantly as a result of changes in market conditions. In the event that there is slow-moving merchandise, we are usually able to increase their sale through promotional events and other marketing efforts. The level of watch inventory we maintain depends on the minimum stock level stipulated by the watch brand and our anticipated sales forecast.

Inventory turnover days

The following table sets forth our average turnover days for the years and periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2009	2010	2011	2010	2011
Turnover of Inventory (days)	214	194	192	233	251

Note:

(1) The average inventory turnover days is equal to average inventory (inventory at the beginning of the year/period plus inventory at the end of the year/period divided by two) divided by cost of goods sold for the year/period and multiplied by 365 for the years ended 31 March 2009, 2010 and 2011, and by 183 days for 1HFY2011 and 1HFY2012.

Our average inventory turnover days are typically slightly longer than 6 months, primarily as a result of our vertically integrated business model and the nature of our business as a jewellery manufacturer and retailer. Our inventory moves through the value chain from procurement, production to marketing and sale of jewellery, which results in a higher average inventory turnover days than what it would be if we were solely a jewellery retailer that does not engage in manufacturing. The decrease in average inventory turnover days from 214 days in FY2009 to 194 days in FY2010 was primarily due to greater sales in FY2010, especially diamonds, which increased the cost of sales. The average inventory turnover days remained stable at 194 days in FY2010 and at 192 days in FY2011. Our average inventory turnover days for 1HFY2012 were 251 days, as compared to 192 days for FY2011. Our average inventory turnover days for the first half of the financial year are generally higher than that for a whole financial year due to the impact of seasonality as a result of the event-driven nature of the jewellery retail business. The peak seasons for our sales are generally the Golden Week and the period from Christmas through Chinese New Year till Valentine's Day. In anticipation of and during periods of higher sales, we would generally increase our inventory in September resulting in a higher balance of inventory at the end of the first half of our financial year. As a result, our average inventory turnover days for 1HFY2012 were higher than that for FY2011. The increase in average inventory turnover days from 233 days for 1HFY2011 to 251 days for 1HFY2012 was primarily due to the increased balance of inventory as at 30 September 2011 as a result of (i) a higher inventory level at our POS in preparation for higher sales in the peak season including the Chinese New Year holiday of 2012 which is on an earlier date than that of 2011 and (ii) the increase in inventory of gem-set products for future expansion.

Ageing analysis of inventories

The following tables set forth the summary of the ageing analysis of our inventories of raw materials, finished goods and packaging materials as at the dates indicated, respectively:

Raw materials

	As at 31 March			As at 30 September
	2009	2010	2011	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
0 to 90 days	2,044.3	2,179.7	4,949.9	11,099.2

Finished goods

	As at 31 March			As at 30 September 2011
	2009	2010	2011	
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
0 to 90 days	1,823.6	2,826.6	4,722.9	7,724.6
91 to 180 days	1,488.0	1,177.4	2,293.6	3,135.2
181 to 365 days	1,175.5	1,006.5	2,564.8	3,348.4
Over one year	1,561.0	2,075.3	2,557.6	3,558.0
Total	6,048.1	7,085.8	12,138.9	17,766.2

Packaging materials

	As at 31 March			As at 30 September 2011
	2009	2010	2011	
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
0 to 90 days	1.8	9.3	12.0	12.4

TRADE AND OTHER RECEIVABLES

A majority of our sales generates immediate cash receipts for the full amount of the transaction due to our policy of settling transactions with contemporaneous payment via cash, electronic transfer, or credit or debit card. Franchisees mainly purchase through making prepayments. Accordingly, over 80% of the trade receivables are from Concessionaire Counters in department stores, and the remaining trade receivables are from franchisees and credit cards receivables. For sales through Concessionaire Counters in department stores, the Group usually provides a 30 day credit period to the department stores.

As at 31 March 2009, 2010 and 2011 and 30 September 2011, the balance of our trade receivables was HK$540.2 million, HK$1,053.9 million, HK$1,632.4 million and HK$1,956.4 million, respectively. The increase in trade receivables during the Track Record Period was primarily due to the increase in amount of sales from new and existing Concessionaire Counters.

Age of trade receivables

The following table sets forth a summary of the age of our trade receivables as at the dates indicated:

	As at 31 March			As at 30 September 2011
	2009	2010	2011	
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
0 to 30 days	453.4	941.2	1,376.4	1,733.1
31 to 90 days	24.4	70.2	216.8	159.1
91 to 180 days	40.9	19.0	3.0	38.7
Over 180 days	21.5	23.5	36.2	25.5
Total	540.2	1,053.9	1,632.4	1,956.4

As at 31 March 2009, 2010 and 2011 and 30 September 2011, HK$68.0 million, HK$70.7 million, HK$45.6 million and HK$79.0 million, respectively, of trade receivables were past due as at the reporting date. Such amounts are mainly due from department stores. We have not provided for impairment losses for these amounts as we believe there has not been a significant change in the credit quality and the amounts were considered recoverable based on historical experience. We do not hold any collateral over these balances.

Trade receivables turnover days

The following table sets forth its average trade receivables turnover days for the years and periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2009	2010	2011	2010	2011
Turnover of Trade Receivables (days)	16.4	12.7	14.0	15.2	13.8

Note:
The average trade receivables turnover days are equal to average trade receivables (trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period divided by two) divided by total turnover for the year/period and multiplied by 365 for FY2009, FY2010 and FY2011, and by 183 days for 1HFY2011 and 1HFY2012.

Other receivables primarily include prepayments made to our diamond suppliers, deposits in relation to utilities and rental, other tax recoverables and other miscellaneous items. Other tax recoverables mainly represent the excess of input value-added tax paid by certain of our subsidiaries on purchases of raw materials and goods for their operations over output value-added tax for sales of goods as at each relevant reporting date. Please see Note 23 of the Accountants' Report in Appendix I for further details.

TRADE AND OTHER PAYABLES

Trade payables primarily consist of outstanding payables on our purchases of watches and raw materials for jewellery manufacturing. We normally receive credit terms of 7 to 180 days from our suppliers. As an incentive to settle our trade payables earlier, we receive discounts and other preferences from some suppliers. As at 31 March 2009, 2010 and 2011 and 30 September 2011, the balance of our trade payables was HK$212.3 million, HK$380.8 million, HK$384.1 million and HK$755.1 million, respectively. The increase of trade payables from 31 March 2009 to 31 March 2011 was primarily due to increased inventory purchases near respective year end dates as we expanded POS network in FY2010 and FY2011. The increase of trade payables from 31 March 2011 to 30 September 2011 was primarily due to the increased inventories purchased by the new POS opened during the period and the higher level of stock purchased by our new and existing POS in anticipation of an increased demand for our products during the peak season including the Chinese New Year of 2012 which is on an earlier date than that of 2011.

Age of trade payables

The following table sets forth a summary of the age of our trade payables as at the dates indicated:

	As at 31 March			As at 30 September
	2009	2010	2011	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
0 to 30 days	132.6	102.8	154.1	462.5
31 to 90 days	14.1	222.0	7.0	267.9
91 to 180 days	30.5	33.5	198.1	24.7
Over 180 days	35.1	22.5	24.9	—
Total	212.3	380.8	384.1	755.1

The amount of trade payables in the 31 to 90 days range (as at 31 March 2010) and the 91 to 180 days range (as at 31 March 2011) increased as compared to the same date in the previous year as these balances were payable to certain suppliers that granted us a longer credit term. The amount of trade payables in the 0 to 30 days range and the 31 to 90 days range as at 30 September 2011 increased as compared to 31 March 2011 as we procured greater amounts of raw materials and merchandise in anticipation of an increased demand for our products during the peak season including the Chinese New Year of 2012 which is on an earlier date than that of 2011.

Trade payables turnover days

The following table sets forth its average trade payables turnover days for the years and periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2009	2010	2011	2010	2011
Turnover of Trade Payables (days)	12.2	6.6	5.6	5.5	6.2

Note:
The average trade payables turnover days are equal to average trade payables (trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two) divided by cost of good sold for the year/period and multiplied by 365 for FY2009, FY2010 and FY2011, and 183 days for 1HFY2011 and 1HFY2012.

The decrease in our trade payables turnover days from 12.2 for FY2009 to 6.6 for FY2010 was primarily due to a earlier settlement of our trade payables allowing us to obtain discounts and other preferences from some suppliers. Our trade payables turnover days for FY2010, FY2011, 1HFY2011 and 1HFY2012 remained relatively stable.

Other payables primarily include deposits received in relation to prepayments from customers and franchisees, accrued staff costs, and other miscellaneous items. Please see Note 27 of the Accountants' Report in Appendix I for further details.

INDEBTEDNESS

The following table sets forth the amounts of the indebtedness as at the respective dates indicated:

	As at 31 March			As at 30 September	As at 31 October
	2009	2010	2011	2011	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million (unaudited)*
Bank borrowings					
Secured	—	—	700.0	1,950.0	2,450.0
Unsecured	113.6	160.3	2,181.0	7,071.7	7,196.1
	113.6	160.3	2,881.0	9,021.7	9,646.1
Gold loans	2,060.8	2,189.2	3,931.6	4,960.8	5,144.2
Amounts due to related companies (unsecured)	4,726.8	4,639.8	7,833.3	8,458.6	8,426.0
Amount due to non-controlling shareholders of subsidiaries					
Interest bearing portion	7.1	7.1	9.1	29.9	30.0
Non-interest bearing portion	20.8	77.0	155.6	208.7	194.1
	27.9	84.1	164.7	238.6	224.1

The following table sets forth the ranges of interest rates per annum for our bank borrowings, gold loans, and amounts due to related companies/non-controlling shareholders of subsidiaries as at the respective year/period end indicated:

	As at 31 March			As at
	2009	2010	2011	30 September 2011
Bank borrowings	5.51%	2.00% to 4.37%	0.77% to 5.60%	0.97% to 6.89%
Gold loans	1.25% to 2.30%	1.25% to 1.30%	1.25% to 3.50%	1.25% to 3.50%
Amounts due to related companies (interest bearing portion)	5.00%	5.00%	5.00%	N/A
Amounts due to non-controlling shareholders of subsidiaries (interest bearing portion)	5.31%	5.31%	6.06%	6.06%

Bank borrowings

Our bank borrowings consist of both secured and unsecured facilities.

As at 30 September 2011, our unsecured bank borrowings consisted of (i) short-term revolving credit facilities entered into by one of our PRC subsidiaries with major banks in the PRC and denominated in RMB and (ii) short term revolving credit facilities entered into by one of our Hong Kong subsidiaries with major international financial institutions (including the Joint Global Coordinators and their affiliated entities) and denominated in Hong Kong dollars. The facilities are used to finance our working capital, purchase of materials and Pre-IPO Dividend. Certain Hong Kong unsecured bank borrowings are guaranteed by CTFE. These guarantees will be released prior to the Listing and replaced by guarantees provided by the Company.

As at 30 September 2011, our secured bank borrowings consisted of short-term revolving credit facility with major international financial institutions (including one of the Joint Global Coordinators). Our secured bank borrowings are guaranteed by CTFE and secured by certain assets owned by related companies. Such guarantee and security will be released prior to the Listing and replaced by guarantees provided by the Company.

Our bank borrowings carry variable interest rates ranging from 0.30% to 1.25% per annum over HIBOR or 90% to 110% of the PBOC benchmark lending rate per annum. As at 30 September 2011, interest rates on our bank borrowings ranged from 0.97% to 6.89% per annum.

As at 31 March 2009, 2010 and 2011 and 30 September 2011, our bank borrowings amounted to HK$113.6 million, HK$160.3 million, HK$2,881.0 million and HK$9,021.7 million, respectively. Our bank borrowings increased significantly from HK$160.3 million as at 31 March 2010 to HK$2,881.0 million as at 31 March 2011 primarily to fund our significant increase in inventories during FY2011 as part of our expansion efforts as discussed above. Our bank borrowings further increased to HK$9,021.7 million as at 30 September 2011 primarily due to (i) the utilisation of the Pre-IPO Bank Loan Facility to finance our Pre-IPO Dividend and (ii) the funding of the significant increase in inventories during 1HFY2012 as part of our expansion efforts.

Pre-IPO bank loan facility

Pursuant to an agreement dated 21 September 2011, we obtained a Pre-IPO Bank Loan Facility, which consisted of a term loan of HK$3,300.0 million from the Joint Global Coordinators and their affiliated entities, to finance our Pre-IPO Dividend. Please refer to the sections headed "Summary — Pre-IPO Dividend and Interim Dividend" and "— Dividends and Dividend Policy — Dividends" in this Financial Information section below for further details of the Pre-IPO Dividend. The Pre-IPO Bank

Loan Facility has a term of 364 days from the date of signing. The interest rate applicable to the Pre-IPO Bank Loan Facility is HIBOR (Hong Kong Interbank Offer Rate) plus 0.85% per annum for the first six months after signing and 1.4% per annum thereafter. Interest shall accrue upon utilisation of the Pre-IPO Bank Loan Facility. As at 26 September 2011, the Pre-IPO Bank Loan Facility had been fully utilised. All outstanding amount owed under the Pre-IPO Bank Loan Facility shall be repaid in full immediately following the Listing using the net proceeds of the Global Offering. The Pre-IPO Bank Loan Facility is guaranteed by CTFE and the guarantee will be released immediately prior to the Listing.

Gold loans

Our gold loans consist of both secured and unsecured short term gold related facilities with both major PRC and major international financial institutions (including one of the Joint Global Coordinators). We use gold loans to minimise our finance costs as they generally carry lower interest rates as compared to bank borrowings and to reduce the impact of the fluctuations in gold prices on our gold inventories.

Our gold loans consist of a variety of (i) fixed term loan facilities in respect of gold and platinum whereby we are able to borrow such amount of metal either on account or physical delivery and repaid in the equivalent metal at the end of the fixed term, (ii) revolving credit facilities made available to us to finance the borrowing of gold for our business, which can either be repaid in cash, the crediting of gold into the relevant account at the financial institution or the physical delivery of gold; and (iii) bullion/spot deferred trading facilities and deferred bullion sale facilities whereby we are able to trade and purchase gold up to a defined monetary value with a financial institution; denominated in either RMB, USD or HKD. The gold facilities typically run for a tenure of one year.

As at 30 September 2011, certain gold loans with major international financial institutions (including one of the Joint Global Coordinators) are secured by certain listed securities owned by CTFE, in which certain directors have beneficial interests, as well as pledged bank deposits and/or are guaranteed by CTFE. Our gold loans with major PRC banks are unsecured. The guarantees and securities provided by CTFE with respect to our gold loans will be released prior to the Listing and replaced with guarantees provided by the Company. Our pledged bank deposits with respect to our gold loans amounted to HK$467.7 million, HK$225.9 million, HK$156.3 million and HK$186.9 million as at 31 March 2009, 2010 and 2011 and 30 September 2011, respectively.

As at 30 September 2011, gold loans carry fixed interest rates of between 1.25% to 3.50% per annum. Gold loans typically mature from one to twelve months from the date of inception. Although gold loans are used to reduce the impact of fluctuations in gold prices on gold inventories, the criteria for hedge accounting under IFRS are not fully met, and thus, gold loans are recorded as financial liabilities at fair value through profit and loss.

As at 31 March 2009, 2010 and 2011 and 30 September 2011, our gold loans amounted to HK$2,060.8 million, HK$2,189.2 million, and HK$3,931.6 million and HK$4,960.8 million, respectively. Our gold loans increased significantly from HK$2,189.2 million as at 31 March 2010 to HK$3,931.6 million as at 31 March 2011 and further increased to HK$4,960.8 million as at 30 September 2011 as we increased our gold inventories and expanded our business.

Amounts due to related companies

As at 30 September 2011, our amounts due to related companies, which were unsecured, interest free and repayable on demand, consisted of (i) borrowings from CTFE Group to provide funding for our working capital needs and the expansion of our POS network, (ii) amount due to a close family member of a director of the Company and (iii) amount due to an entity with common director of the Company.

Amounts due to non-controlling shareholders of subsidiaries

As at 30 September 2011, the amounts due to non-controlling shareholders of subsidiaries represent loans and advances from non-controlling shareholders of certain joint-venture partners for the operation of joint-venture POS. The interest bearing portion was unsecured and repayable on demand. The remaining portion was unsecured, interest free and repayable on demand.

Facilities

As at 31 March 2009, 2010 and 2011 and 30 September 2011, we had available bank and gold facilities amounting to HK$4,900.5 million, HK$8,483.5 million, HK$12,336.2 million and HK$19,012.2 million, respectively, and as at 31 March 2009, 2010 and 2011 and 30 September 2011, we had utilised HK$2,174.4 million, HK$2,349.5 million, HK$6,812.6 million and HK$13,982.5 million, respectively, of such banking and gold facilities. The recent credit tightening in the PRC has not had any material impact on our ability to obtain the necessary credit facilities during the Track Record Period and up till the Latest Practicable Date.

As at 31 October 2011, being the latest practicable date for the purpose of the indebtedness statement, we had bank borrowings, gold loans, amounts due to related companies and amounts due to non-controlling shareholders of subsidiaries of HK$9,646.1 million, HK$5,144.2 million, HK$8,426.0 million and HK$224.1 million respectively. The bank borrowings consisted of (i) unsecured portion of HK$7,196.1 million, of which HK$4,100.0 million was supported by corporate guarantee of CTFE and (ii) secured portion of HK$2,450.0 million which was secured by certain assets owned by CTFE as well as supported by corporate guarantee of CTFE. The gold loans consisted of (i) unsecured portion of HK$4,567.6 million, of which HK$2,143.1 million was supported by corporate guarantee of CTFE and (ii) secured portion of HK$576.6 million which was secured by certain listed securities owned by CTFE and pledged bank deposits of the Group, and supported by corporate guarantee of CTFE. Amounts due to related companies and non-controlling shareholders of subsidiaries were all unsecured. As at the same date, we had banking facilities of approximately HK$18,776.0 million, of which approximately HK$14,790.3 million had been utilised.

On 16 November 2011, we entered into a facility agreement with a major financial institution to obtain a secured term loan facility amounting to an aggregate principal amount of HK$5,101.5 million, with the purpose of reducing the amounts due to related companies prior to Listing. On 22 November 2011, we utilised HK$4,590.3 million of the loan facility. For details of this term loan facility, please see the section headed "Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders and their Associates".

CONTINGENT LIABILITIES

Other than as disclosed above and apart from intra-group liabilities and normal trade payables, as at 31 October 2011, we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities.

FINANCIAL LIABILITIES AND CONTRACTUAL OBLIGATIONS

The following tables set forth the contractual obligations, commercial commitments and principal payments which we were obligated to make as at 30 September 2011 and 31 March 2011 for the periods indicated. The timing of these payments is based on our best estimate of the contractual maturities of the obligations. The timing of the payments may differ significantly from the actual maturity of these obligations.

	As at 30 September 2011			
	Within one Year	Second to fifth year inclusive	Over five years	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Trade and other payables	1,057.0	—	—	1,057.0
Amounts due to related companies:				
— Non-interest bearing	8,458.6	—	—	8,458.6
Amounts due to non-controlling shareholders of subsidiaries:				
— Interest bearing portion	29.9	—	—	29.9
— Non-interest bearing portion	208.7	—	—	208.7
Bank borrowings	9,021.7	—	—	9,021.7
Gold loans	4,960.8	—	—	4,960.8
Operating leases	508.3	606.6	19.8	1,134.7
Capital expenditure contractual obligations	71.8	—	—	71.8
Total contractual obligations	**24,316.8**	**606.6**	**19.8**	**24,943.2**

	As at 31 March 2011			
	Within one Year	Second to fifth year inclusive	Over five years	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Trade and other payables	589.0	—	—	589.0
Amounts due to related companies:				
— Interest bearing portion	380.3	—	—	380.3
— Non-interest bearing portion	7,453.0	—	—	7,453.0
Amounts due to non-controlling shareholders of subsidiaries:				
— Interest bearing portion	9.1	—	—	9.1
— Non-interest bearing portion	155.6	—	—	155.6
Bank borrowings	2,881.0	—	—	2,881.0
Gold loans	3,931.6	—	—	3,931.6
Operating leases	380.0	437.4	29.8	847.2
Capital expenditure contractual obligations	30.0	—	—	30.0
Total contractual obligations	**15,809.6**	**437.4**	**29.8**	**16,276.8**

Amounts due to related companies will be fully repaid prior to the Listing. A significant majority of our leases have a term of one year to four years. Some of our lease arrangements are committed to paying either minimum guaranteed amounts or monthly payments in the amounts equivalent to certain prescribed percentages of monthly sales as rental payments, whichever is the higher. We expect to fund our contractual obligations through cash generated from our operations and the renewal of bank borrowings.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 September 2011, being the date of our most recent financial statements, we did not have any off-balance sheet arrangements.

CAPITAL EXPENDITURE

The following table sets forth our capital expenditures by nature for the years and period indicated:

	Year ended 31 March			Six months ended 30 September
	2009	2010	2011	2011
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Land and buildings	111.9	19.2	130.8	4.8
Plant and machinery	6.3	9.3	14.3	13.2
Furniture, fixtures and equipment	67.4	119.3	174.7	121.2
Leasehold improvements	105.4	179.5	140.7	84.8
Motor vehicles	0.7	2.3	8.5	8.3
Construction in progress	114.0	25.4	71.6	198.3
	405.7	355.0	540.6	430.6

Our capital expenditure has been primarily used to expand our POS network and improvements at existing POS.

Planned capital expenditures

As at 30 September 2011, we have capital commitments of HK$71.8 million contracted for but not yet incurred, which will be mainly used for the refurbishment of existing POS, and capital commitments of HK$302.4 million authorised but not yet contracted for, which will be used for the construction of our new office building in Shenzhen. We anticipate our capital expenditures for the year ending 31 March 2012 will be HK$850.0 million, which will mainly be used for the expansion of our POS network including acquiring properties as retail stores, purchase of production and research and development equipment, and construction of our new office building in Shenzhen. We aim to open a net of approximately 200 jewellery POS per year from 2012 to 2015 and, depending on the location and size of the new POS, we anticipate our capital expenditures that will be used for such expansion of our POS network to be from approximately HK$110 million to HK$250 million each year from 2012 to 2015. These capital expenditures will be financed by the net proceeds from the Global Offering, cash generated from our operations or bank borrowings.

Although these are our current plans with respect to capital expenditure, such plans may change as a result of changed circumstances. The actual amount of expenditure may vary from the estimated amount for a variety of reasons, including changes in market conditions, competition, and other factors. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding for our future capital expenditure is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in markets where we operate, and the PRC government's policies relating to currency controls.

RELATED PARTY BALANCES

The following table sets forth our amounts due from or to related companies and non-controlling shareholders of subsidiaries as at the dates indicated:

	As at 31 March			As at 30 September
	2009	2010	2011	2011
	HK$ million			
Assets				
Amounts due from related companies:				
CTFE Group				
— Interest bearing portion(1)	1,466.0	1,095.0	945.0	—
— Non-interest bearing portion(2)	668.7	657.3	233.3	—
Entities in which a director of certain subsidiaries of the Company has control				
— Interest bearing portion(3)	30.0	110.0	100.0	88.0
Total amounts due from related companies	**2,164.7**	**1,862.3**	**1,278.3**	**88.0**
Liabilities				
Amounts due to related companies(4):				
CTFE Group				
— Interest bearing portion	506.5	433.4	380.3	—
— Non-interest bearing portion	4,220.3	4,206.4	7,453.0	8,435.8
A close family member of a director of a subsidiary	—	—	—	14.5
An entity with common director of the Company	—	—	—	8.3
Total amounts due to related companies	**4,726.8**	**4,639.8**	**7,833.3**	**8,458.6**
Amounts due to non-controlling shareholders of subsidiaries(5)				
— Interest bearing portion	7.1	7.1	9.1	29.9
— Non-interest bearing portion	20.8	77.0	155.6	208.7
	27.9	**84.1**	**164.7**	**238.6**

Notes:

(1) The amounts are unsecured and we expect them to be settled within 12 months. As at 31 March 2009, 31 March 2010, 31 March 2011 and 30 September 2011, amounts of HK$566.0 million, HK$195.0 million, HK$45.0 million and HK$nil, respectively, carry variable interest rates ranging from 2.5% over HIBOR to the prime rate in Hong Kong, while the respective remaining balances carry a fixed interest rate at 5.0% per annum. Such amounts had been repaid to us in full.

(2) The amounts are unsecured, interest free and expected to be settled within 12 months. Such amounts had been repaid to us in full.

(3) The amounts are secured over property owned by related companies. We are not permitted to sell or pledge such amounts in absence of default by the debtors. The amounts carry fixed effective interest rates ranging from 1.0% to 4.8% per annum. Such amounts had been repaid to us in full.

(4) The amounts due to related companies are unsecured and repayable on demand. The interest bearing portion of amounts due to CTFE Group carries a fixed interest rate at 5.0% per annum and had been fully repaid. The non-interest bearing portion will be first reduced prior to the Listing through a secured term loan facility provided by a financial institution. For details of this term loan facility, please see the section headed "Relationship with our Controlling Shareholders—Independence from our Controlling Shareholders and their Associates". The remaining portion of amounts due to related companies will be fully repaid using the net proceeds from the Global Offering. The amounts due to a close family member of a director of a subsidiary and an entity with common director of the Company are unsecured, non-interest bearing and repayable on demand.

(5) The balances represents loans and advances from non-controlling shareholders of certain joint-venture partners for the operation of joint-venture POS. The interest bearing portion was unsecured, and repayable on demand with interest rates of 5.31%, 5.31%, 6.06%, and 6.06% per annum as at 31 March 2009, 2010 and 2011 and 30 September 2011, respectively. The remaining portion was unsecured, interest free and repayable on demand. Please also refer to the section headed "Risk Factors—Risks Related To Our Business—The Group's past intra-group loan advancing activities may be subject to penalties."

Amounts due from related companies decreased from HK$2,164.7 million as at 31 March 2009 to HK$1,278.3 million as at 31 March 2011, and further decreased to HK$88.0 million as at

30 September 2011. This decrease was due to the repayments from related companies. Amounts due to related companies increased significantly from HK$4,726.8 million as at 31 March 2009 to HK$7,833.3 million as at 31 March 2011, and further increased to HK$8,458.6 million as at 30 September 2011. This increase reflects additional borrowings from CTFE to provide funding for our working capital needs (particularly for our increase in inventories) and expansion efforts during the Track Record Period. Amounts due to non-controlling shareholders of subsidiaries increased from HK$27.9 million as at 31 March 2009 to HK$164.7 million as at 31 March 2011, and further increased to HK$238.6 million as at 30 September 2011 due to additional funding provided by non-controlling shareholders for our operations.

During the Track Record Period, for the purpose of facilitating dividend settlement, CTF Holding designated CTFE as the recipient of the dividend declared to the then shareholders prior to Reorganisation. As a result, the dividend payable to our shareholders was transferred to "amounts due to related companies" under our accounting record. Out of the distribution of dividends totalling of HK$300.0 million, HK$306.7 million, HK$759.3 million and HK$3,331.4 million for FY2009, FY2010, FY2011 and 1HFY2012, respectively, HK$300.0 million, HK$300.0 million HK$750.0 million and HK$3,300.0 million was settled by CTFE Group and hence included in amounts due to related companies as at 31 March 2009, 31 March 2010, 31 March 2011 and 30 September 2011, respectively.

INFLATION RISK

Inflation in the PRC has not materially affected our results of operations. According to the PRC National Bureau of Statistics, the consumer price index in the PRC increased by 5.9% in 2008, decreased by 0.7% in 2009, and increased by 3.3% in 2010.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK

Credit risk

Our maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statements of financial position. We have no significant concentration of credit risk on trade receivables as our exposure is spread over a number of counterparties. We also believe that there is no significant credit risk on our receivables from related companies and loan receivables due to their strong financial position and creditability. Credit risk with respect to pledged bank deposits and bank balances are minimal as such amounts are placed in banks with good reputation.

Currency risk

Certain group entities have foreign currency sales, which expose the Group to foreign currency risk. During FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, about 1.4%, 1.0%, 0.9%, 1.0% and 0.8% of the Group's sales, respectively, are denominated in currencies other than the functional currency of the group entities. During FY2009, FY2010, FY2011, 1HFY2011 and 1HFY2012, about 7.1%, 4.8%, 6.8%, 10.7% and 11.3% of the Group's purchases, respectively, are denominated in currencies other than the functional currency of the group entities making the purchase. Please refer to the Note 6 of the Accountants' Report in the Appendix I for further details. In addition, certain group entities also have intra-group advances which are denominated in currencies other than their respective functional currency.

Liquidity risk

Our management has built an appropriate liquidity risk management framework for managing our short and medium-term funding and liquidity management requirements. We manage liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities. Please see "— Financial Liabilities and Contractual Obligations" in this Financial Information section above and Note 6 of the Accountants' Report in Appendix I for more details.

Interest rate risk

We are exposed to fair value interest rate risk in relation to fixed-rate loan receivables, amounts due to/from related companies and gold loans. We currently do not have any instruments to hedge against the fair value interest rate risk.

We are exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits, bank balances and bank borrowings at variable interest rates. We do not have an interest rate hedging policy. However, our management will consider hedging significant interest rate risk should the need arise.

Commodity price risk

We are engaged in the sale of jewellery which includes gold products. The gold market is influenced by global as well as regional supply and demand conditions. A significant change in prices of gold could adversely affect our financial performance. In order to reduce commodity price risk, we use gold loans and derivative financial instruments, such as bullion forward contracts to reduce our exposure to fluctuations in the gold price on gold inventory. The derivative contracts are settled at maturity which usually in a few weeks from date of inception and fair value change is immediately recognised in profit or loss.

As the fair values of outstanding bullion forward contracts as at 31 March 2009, 2010 and 2011 were negligible, such amounts were not recognised as at those dates. The amount of fair value of the outstanding bullion forward contracts as at 30 September 2011 was HK$164.7 million. The notional value of the outstanding bullion forward contracts as at 31 March 2009, 2010 and 2011 and 30 September 2011 amounted to HK$nil, HK$287.7 million, HK$674.4 million and HK$2,939.2 million, respectively. As at 31 March 2009, 31 March 2010, 31 March 2011 and 30 September 2011, if the market price of gold had been higher or lower by 10%, the potential effect on the financial instruments and the resulting impact on profit after taxation for FY2009, FY2010, FY2011 and 1HFY2012 would decrease or increase approximately by HK$206.1 million, HK$247.7 million, HK$460.6 million and HK$773.5 million, respectively. This pro forma information has not taken into account potential financial impact on other financial statement line items. Please refer to the Note 6 of the Accountants' Report in Appendix I for further details.

Commodity price risk management

Hedging policy

We enter into gold loans and bullion forward contracts to hedge against movements in the price of gold, thereby mitigating the impact of gold price movements on our margins. Our gold hedging strategies are determined by the Board and monitored on a regular basis by the Board, with members examining the Group's hedging positions on a monthly frequency in general. Our management has implemented a hedging policy that includes adequate procedures, hedging timeframe and approval guidelines which are set out in the Group's internal control policy for all employees to adhere to. As a matter of policy, we do not take a view on future gold price movements and do not utilise hedging transactions for speculation purposes.

The hedging timeframe as provided by our hedging policy is generally a period of three to six months on average. We have engaged in hedging transactions on an ongoing basis during the Track Record Period. The counterparties in our hedging transactions are generally large, reputable, international and well-capitalised banks and financial institutions that are active in the gold hedging market. Their credit ratings range from Aa1 to A2 (based on Moody's) or from AA to A- (based on Standard & Poor's). In selecting the counterparties for our hedging transactions, we consider a number of factors, including but not limited to, the reputation and financial condition of the counterparty, any previous working relationship with such counterparty based on past financing matters, and whether the counterparty is an international entity. We do not have significant exposure to any one counterparty. During the Track Record Period, a majority of our hedging transactions were entered into using gold loans. In determining whether we use gold loans or bullion forward contracts for our hedging transactions, we consider factors such as the need for financing and the availability of such hedging instruments. In cases where we require additional financing, we will use gold loans in our hedging transactions since we do not have to separately obtain bank borrowings and gold loans are generally less expensive than bank borrowings. We generally use gold loans in the PRC as only a limited number of banks in the PRC provide bullion forward contracts.

Our gold inventory in the Track Record Period was hedged using a combination of gold loans and derivative financial instruments such as bullion forward contracts. We enter into hedging transactions whenever our net gold inventory balance changes. On a daily basis, a comparison is made between the long position (being our gold inventory balance) and short position (being our gold loan balance and outstanding bullion forward contracts). We hedge by employing a short position with a quantity (by weight) that approximates our gold inventory. The purchase amount of gold for our inventory is determined based on the estimated sales quantity of that day. If we strategically buy more than we can sell, such as when we prepare inventory for new stores, or buy less than we have sold, such as when we reduce inventory level after a peak season, we will adjust our short position accordingly by entering into new gold loans or bullion forward contracts, or closing out certain open position, such that that the quantity of short position will match that of long position again. We may experience a short timing difference between the time when our gain or loss on our hedging instrument is charged to the cost of goods sold and the time when the sale of those hedged inventory is recognised. Any such timing difference arising in our hedging transactions will be short-term, and the resulting exposure will not have a material impact on our results of operations.

As we do not utilise hedging transactions for speculation purposes, and the effect of long and short positions in gold due to gold price movement will net off each other through the sales of gold products, we therefore consider that the financial impact on our profits was not material during the Track Record Period.

Gold loans

During the Track Record Period, the effect of the use of gold loans in our hedging activities has been reflected in the cost of goods sold. The fair value changes of gold loans, which were included in cost of goods sold, were HK$17.8 million, HK$483.8 million, HK$725.7 million and HK$343.4 million for FY2009, FY2010, FY2011 and 1HFY2012, respectively. The use of gold loans as hedging instruments did not have any impact on our revenue during the Track Record Period.

The effect of long and short positions in gold due to gold price movement will largely net off each other through the sales of gold products. Any potential gain or loss from our gold loans will be largely offset by the inherent effect arising from our business. For example, if gold price goes up, the fair value of a gold loan will increase with the gold price, and a loss from such an increase in fair value of the loan at the end of the reporting period will be charged to cost of goods sold in the consolidated statements of comprehensive income. This loss will largely net against the increase in turnover of gold products due to increase in gold price. The same explanation applies to any decrease in gold price. As such, any potential gain or loss from our gold loans will be largely offset by the inherent effect from our business operations, and as such, any net financial impact of gold loans on our profits will not be material. The maximum financial exposure on the outstanding positions of our gold loans as at each of the year end date during the Track Record Period would be the outstanding amount of such gold loans as at the respective dates. During the Track Record Period, the outstanding amount of our gold loans is HK$2,060.8 million, HK$2,189.2 million, HK$3,931.6 million and HK$4,960.8 million as at 31 March 2009, 2010 and 2011 and 30 September 2011, respectively.

Bullion forward contracts

During the Track Record Period, the effect of the use of bullion forward contracts in our hedging activities has been reflected in the cost of goods sold. The (gain)/loss on bullion forward contracts, which are included in cost of goods sold, were HK$nil, HK$(6.7) million, HK$224.6 million and HK$151.7 million for FY2009, FY2010, FY2011 and 1HFY2012, respectively. The use of bullion forward contracts as hedging instruments did not have any impact on our revenue during the Track Record Period.

For the bullion forward contracts, any potential gain or loss from our bullion forward contracts will be largely offset by the inherent effect arising from our business. Should the gold price go up, we would charge a loss representing the increase in gold price compared to the contract price, as we are required to pay such difference to the counterparty. This loss will be charged to cost of goods sold in the consolidated statements of comprehensive income, and largely net against the increase in turnover of gold products as a result of gold price increase. The same explanation applies to any decrease in gold price. As such, any potential gain or loss from our bullion forward contracts will be largely offset by the inherent effect from our business operations, and as such, any net financial impact of bullion forward contracts on our profits will not be material. The maximum financial exposure on the outstanding positions of our bullion forward contracts as at each of the year end date during the Track Record Period would be the net exposure in our consolidated statements of comprehensive income during the relevant periods. The fair values of the outstanding bullion forward contracts as at 31 March 2009, 2010 and 2011 were negligible and therefore, such amounts were not recognised as at those dates. As at 30 September 2011, the fair value of the outstanding bullion forward contracts was HK$164.7 million.

Internal control

The responsibility for entering into hedging transactions is limited to a small group of experienced personnel. The Gold Management Section under the Production Management Centre closely monitors the comparison between the long and short position of gold as well as the level of the purchase amount of gold on a daily basis. The results are then reviewed by the Head of Production Management Centre and our financial controller of Production Management Centre. Any adjustment to the positions taken must be approved by our financial controller of Production Management Centre. For details on their experience and qualification, please see the section headed “Directors and Senior Management”. A report on our hedge position, comparing the long and short position and detailing the size of the hedge position and diversification of the position among counterparties, is prepared and submitted to the Board every month in general. Any gold loan arrangement and bullion forward contracts entered into must be approved by the Board.

We regularly monitor gold prices and outstanding positions by using information, such as spot and forward gold prices, gold exchange disclosure and market information on news and economic events that affect gold prices, from several well-capitalised banks that are active in the gold hedging business. We mitigate counterparty risk by choosing only reputable banks that are active in the gold hedging market and have well-capitalised financial positions. After entering into a hedging transaction, we monitor gold prices closely and remain alert as to any news concerning our counterparties, their financial performance and any changes to their financial position. Our management also holds regular meetings to review trends in gold prices and the effectiveness of our hedging positions and strategies. Since we only chose reputable banks as our counterparties, we believe that the risk of default under these hedging contracts is low, and in any event would not be material to the consolidated financial results.

DIVIDENDS AND DIVIDEND POLICY

Dividends

In FY2009, FY2010 and FY2011, we declared and distributed dividends in the amount of HK$300.0 million, HK$306.7 million and HK$759.3 million, respectively, to the then Shareholders prior to the Reorganisation. During 1HFY2012, the Pre-IPO Dividend in the amount of HK$3,300.0 million was declared and distributed to CTF Holding, our Controlling Shareholder. The Pre-IPO Dividend was fully financed by the Pre-IPO Bank Loan Facility, which will be repaid using the net proceeds from the Global Offering. Please refer to the section headed "— Indebtedness— Bank borrowings — Pre-IPO Bank Loan Facility" in this Financial Information section for further details on the Pre-IPO Bank Loan Facility. You should note that historical dividend distributions are not indicative of our future dividend distribution policy.

Interim dividend

On 16 November 2011, our Board declared the Interim Dividend in the amount of HK$1,200.0 million for 1HFY2012 to CTF Holding, our Controlling Shareholder. The Interim Dividend will be paid out of our distributable profits in accordance with the Cayman Companies Law and our Articles of Association. The Directors have confirmed that the Company has sufficient distributable profits to pay the Interim Dividend. The Interim Dividend will be financed by our cash flows from our operations or available internal cash resources. We are satisfied, after due and careful inquiry, that after the payment of the Interim Dividend, we will have sufficient working capital available to satisfy our requirements for at least 12 months after the Listing.

Investors in the Global Offering should note that they will not be entitled to share in the Interim Dividend and therefore, any distributable profits available for distribution to the Shareholders after the completion of the Global Offering will exclude the amount of the Interim Dividend to be paid to CTF Holding.

The declaration of the Interim Dividend was made by us as a commercial decision. The amount of the Interim Dividend is not indicative of our Company's future profits for any dividend that we may declare or pay in the future.

Dividend policy

Subject to the below, we currently intend to pay dividends of not less than 20% of our annual profits after tax. However, we cannot assure you that we will be able to declare or distribute dividends in any amount each year or in any year. In addition to the limitations referred to below, the declaration and payment of dividends may be limited by legal restrictions or financing arrangements that we may enter into in the future. Please also see "Risk Factors — Risks Related to the PRC — Dividends payable by us to our foreign investors and gains on the sales of our Shares may become subject to withholding taxes under PRC tax laws" regarding potential PRC tax consequences.

Our Board has absolute discretion as to whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. Our Board has the discretion to declare dividends, subject to the Cayman Companies Law and our Articles of Association, including the approval of our Shareholders. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements and other applicable laws and regulations and other relevant factors.

In particular, future dividend payments will also depend on the availability of dividends from CTF HK, our key operating subsidiary in Hong Kong and Shenzhen CTF, our key operating subsidiary in the PRC. PRC laws require that dividends from our PRC subsidiaries be paid only out of its after-tax profit after the following allocations have been made (i) recovery of accumulated losses, if any and (ii) mandatory allocations to the statutory common reserve fund equivalent to 10% of its after tax profit, as determined under PRC GAAP, unless the common reserve fund reaches 50% of our registered capital or above.

DISTRIBUTABLE RESERVES

The aggregate amount of distributable reserves of the companies of our Group as at 30 September 2011 was approximately HK$10,282.2 million. The distributable reserves of our Group as at 30 September 2011 do not take into account additional earnings from 1 October 2011 to the date of this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 MARCH 2012

On the bases and assumptions set out in "Appendix III — Profit Forecast" and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending 31 March 2012 are set out below:

Forecast consolidated profit attributable to the owners of the Company for the year ending 31 March 2012(1)	not less than HK$6,300.0 million
Unaudited forecast earnings per Share on a pro forma basis for the year ending 31 March 2012(2)	not less than HK$0.63

Notes:

(1) Please also see the section headed "Risk Factors — Risks Related to Our Business — The potential impact of any future fluctuation in the prices of gold and platinum on our profit forecast is unclear".

(2) The unaudited forecast earnings per Share on a pro forma basis is calculated by dividing the forecast consolidated profit attributable to the owners of the Company for the year ending 31 March 2012 by 10,000,000,000 Shares as if such Shares had been issued on 1 April 2011. The number of Shares used in this calculation includes the Shares in issue as at the date of this prospectus and the Shares to be issued pursuant to the Global Offering but excludes any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or the issue mandate, or any Shares which may be repurchased pursuant to the repurchase mandate.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see the section headed "Appendix II — Unaudited Pro Forma Financial Information" for details.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 30 September 2011 (being the date to which our Company's latest consolidated audited financial results were prepared) and there is no event since 30 September 2011 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.