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## CHOW TAI FOOK JEWELLERY GROUP LIMITED

### 周大福珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1929

#### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019 AND

#### THE UNAUDITED KEY OPERATIONAL DATA FROM 1 OCTOBER TO 21 NOVEMBER 2019

- The Group's revenue was stable at HK\$29,533 million during 1HFY2020 thanks to the POS openings and steady Same Store Sales Growth<sup>(1)</sup> ("SSSG") of the Mainland China segment
- SSSG in Mainland China stood at 1.8% whereas Same Store Sales in Hong Kong and Macau decreased by 27.5%
- The Group's core operating profit margin<sup>(2)</sup> increased to 11.9% thanks to the adjusted gross profit margin<sup>(3)</sup> improvement
- The Group's profit before taxation dropped by 19.2%, mainly impacted by the unrealised loss of gold loans of HK\$917 million arising from the surge in international gold price during the period
- The Group's retail network expanded to 3,490 POS as at 30 September 2019, with a net addition of 356 POS in 1HFY2020

#### FINANCIAL HIGHLIGHTS

For the six months ended 30 September	2019 HK\$ million	2018 HK\$ million	YoY change
Revenue	<b>29,533</b>	29,703	-0.6%
Gross profit	<b>8,147</b>	8,529	-4.5%
<i>Gross profit margin</i>	<b>27.6%</b>	28.7%	
<i>Adjusted gross profit margin<sup>(3)</sup></i>	<b>30.7%</b>	28.1%	
Core operating profit <sup>(2)</sup>	<b>3,527</b>	2,989	+18.0%
<i>Core operating profit margin<sup>(2)</sup></i>	<b>11.9%</b>	10.1%	
Profit before taxation	<b>2,200</b>	2,722	-19.2%
Profit attributable to shareholders of the Company	<b>1,533</b>	1,936	-20.8%
Earnings per share — Basic (HK\$)	<b>0.15</b>	0.19	-20.8%
Interim dividend per share <sup>(4)</sup> (HK\$)	<b>0.12</b>	0.15	

(1) "Same Store Sales" ("SSS") for 1HFY2020 is the revenue from the self-operated points of sale ("POS") existing as at 30 September 2019 and which have been opened prior to 1 April 2018, measured at constant exchange rates. Revenue from wholesale and other channels are excluded. "Same Store Sales Growth" is a comparison between Same Store Sales of a particular period and sales from comparable POS in the corresponding period in previous financial year, measured at constant exchange rates

(2) Core operating profit and the corresponding margin, a non-IFRS measure, being the aggregate of gross profit and other income, less selling and distribution costs and general and administrative expenses and unrealised loss (gain) on gold loans, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its core businesses

(3) Adjusted gross profit margin, a non-IFRS measure, eliminates the effect of unrealised loss (gain) on gold loans, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its businesses

(4) The dividend payout ratio for 1HFY2020 is approximately 78.3%

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board of directors (the “Board” or “Directors”) of Chow Tai Fook Jewellery Group Limited (the “Company”, “we” or “Chow Tai Fook”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2019 (“1HFY2020”), together with comparative figures for the six months ended 30 September 2018 (“1HFY2019”) as follows:

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

For the six months ended 30 September 2019

		Six months ended 30 September	
	Notes	2019 HK\$ million (unaudited)	2018 HK\$ million (unaudited)
<b>Revenue</b>	2	<b>29,533.2</b>	29,702.9
Cost of goods sold		<b>(21,386.7)</b>	(21,174.4)
<b>Gross profit</b>		<b>8,146.5</b>	8,528.5
Other income		<b>213.0</b>	167.2
Selling and distribution costs		<b>(4,318.4)</b>	(4,111.0)
General and administrative expenses		<b>(1,431.1)</b>	(1,405.9)
Other gains and losses		<b>(142.0)</b>	(333.7)
Other expenses		<b>(52.2)</b>	(28.0)
Share of results of an associate		<b>2.0</b>	–
Interest income		<b>37.0</b>	58.7
Finance costs		<b>(255.1)</b>	(153.9)
<b>Profit before taxation</b>	3	<b>2,199.7</b>	2,721.9
Taxation	4	<b>(620.3)</b>	(728.1)
<b>Profit for the period</b>		<b>1,579.4</b>	1,993.8
<b>Other comprehensive expense:</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<b>(798.0)</b>	(1,707.7)
<b>Other comprehensive expense for the period</b>		<b>(798.0)</b>	(1,707.7)
<b>Total comprehensive income for the period</b>		<b>781.4</b>	286.1

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME (Continued)**

*For the six months ended 30 September 2019*

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Note</i>	<b>2019</b>	2018
		<b>HK\$ million</b>	HK\$ million
		<b>(unaudited)</b>	(unaudited)
<b>Profit for the period attributable to:</b>			
Shareholders of the Company		<b>1,532.6</b>	1,936.3
Non-controlling interests		<b>46.8</b>	57.5
		<u><b>1,579.4</b></u>	<u>1,993.8</u>
<b>Total comprehensive income for the period</b>			
<b>attributable to:</b>			
Shareholders of the Company		<b>766.7</b>	290.7
Non-controlling interests		<b>14.7</b>	(4.6)
		<u><b>781.4</b></u>	<u>286.1</u>
<b>Earnings per share — Basic and Diluted</b>	<b>5</b>	<u><b>HK15.3 cents</b></u>	<u>HK19.4 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2019

	Note	At 30 September 2019 HK\$ million (unaudited)	At 31 March 2019 HK\$ million (audited)
<b>Non-current assets</b>			
Property, plant and equipment		5,190.5	5,488.0
Land use rights		–	177.2
Right-of-use assets		2,265.4	–
Investment properties		213.7	219.2
Goodwill		231.5	257.8
Other intangible assets		229.0	253.7
Jewellery collectibles		1,520.1	1,520.1
Prepayment for acquisition of property, plant and equipment		82.3	38.7
Financial assets at fair value through profit or loss		21.0	11.2
Investment in associates		11.7	–
Amounts due from associates		40.0	54.7
Loan receivables		17.9	18.7
Deferred tax assets		663.4	420.1
		<u>10,486.5</u>	<u>8,459.4</u>
<b>Current assets</b>			
Inventories	7	42,520.1	39,486.1
Trade and other receivables		6,145.8	6,638.7
Loan receivables		8.6	12.3
Cash and cash equivalents		5,151.0	7,640.6
		<u>53,825.5</u>	<u>53,777.7</u>
<b>Current liabilities</b>			
Trade and other payables		12,091.5	10,684.3
Amounts due to non-controlling shareholders of subsidiaries		85.2	136.7
Taxation payable		621.8	1,178.4
Bank borrowings		10,483.0	7,460.0
Gold loans		10,454.8	8,011.5
Lease liabilities		976.3	–
		<u>34,712.6</u>	<u>27,470.9</u>
<b>Net current assets</b>		<u>19,112.9</u>	<u>26,306.8</u>
<b>Total assets less current liabilities</b>		<u>29,599.4</u>	<u>34,766.2</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)***At 30 September 2019*

	At 30 September 2019 <i>HK\$ million</i> (unaudited)	At 31 March 2019 <i>HK\$ million</i> (audited)
<b>Non-current liabilities</b>		
Bank borrowings	597.3	2,596.7
Lease liabilities	1,241.0	–
Retirement benefit obligations	234.2	238.8
Deferred tax liabilities	459.6	456.4
Other liabilities	65.6	71.3
	<u>2,597.7</u>	<u>3,363.2</u>
<b>Net assets</b>	<u>27,001.7</u>	<u>31,403.0</u>
<b>Share capital</b>	10,000.0	10,000.0
<b>Reserves</b>	<u>16,372.8</u>	<u>20,750.7</u>
<b>Equity attributable to shareholders of the Company</b>	26,372.8	30,750.7
<b>Non-controlling interests</b>	<u>628.9</u>	<u>652.3</u>
	<u>27,001.7</u>	<u>31,403.0</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the principal accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended 31 March 2019.

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 April 2019:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle

The Group had to change its accounting policies as a result of adopting IFRS 16. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The Group has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 April 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.93%.

#### Adjustments recognised on adoption of IFRS 16

##### (i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- applying the recognition exemption for lease of low value assets
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Adjustments recognised on adoption of IFRS 16 (Continued)

#### (ii) Measurement of lease liabilities

The table below explains the difference between operating lease commitments disclosed at 31 March 2019 by applying IAS 17 and lease liabilities recognised at 1 April 2019 by applying IFRS 16:

	<i>HK\$ million</i>
Operating lease commitments disclosed as at 31 March 2019	2,741.1
Less:	
Contract reassessed as service agreement	(116.8)
Short term leases recognised on a straight line basis as expense	<u>(82.6)</u>
Operating lease liabilities before discounting as at 31 March 2019	2,541.7
Effect from discounting at incremental borrowing rate as at 1 April 2019 <sup>(1)</sup>	<u>(210.7)</u>
<b>Lease liability recognised as at 1 April 2019</b>	<u><u>2,331.0</u></u>
Of which are:	
Current lease liabilities	1,056.4
Non-current lease liabilities	<u>1,274.6</u>
	<u><u>2,331.0</u></u>

<sup>(1)</sup> The weighted average incremental borrowing rate was 2.93%

#### (iii) Measurement of right-of-use assets

The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied.

The recognised right-of-use assets relate to the following types of assets:

	<b>At 30 September 2019 <i>HK\$ million</i></b>	<b>At 1 April 2019 <i>HK\$ million</i></b>
Properties, plant and equipment	<b>2,103.6</b>	2,219.5
Land use rights	<u>161.8</u>	<u>177.2</u>
<b>Total right-of-use assets</b>	<u><u>2,265.4</u></u>	<u><u>2,396.7</u></u>

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Adjustments recognised on adoption of IFRS 16 (Continued)

#### (iv) Adjustments recognised in the consolidated statement of financial position on 1 April 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 April 2019:

	At 1 April 2019 HK\$ million
Decrease in land use rights	(177.2)
Increase in right-of-use assets	2,396.7
Increase in deferred tax assets	23.4
Decrease in other receivables	(26.6)
Increase in other payables	(29.9)
Increase in lease liabilities	(2,331.0)
	<hr/>
	(144.6)
	<hr/> <hr/>

The net impact on retained earnings on 1 April 2019 was a decrease of HK\$144.6 million.

#### (v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

## 2. REVENUE AND SEGMENT INFORMATION

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

For the purposes of resource allocation and performance assessment, information reported to the chief operating decision maker (the "CODM"), which comprises executive directors of the Company, mainly focuses on the location of management. Revenue derived from each location of management is further analysed into those from retail and wholesale markets when reviewed by CODM. The Group's reportable and operating segments for the six months ended 30 September 2019 and 2018 included two segments, namely (i) business in the Mainland China and (ii) business in Hong Kong, Macau and other markets.



## 2. REVENUE AND SEGMENT INFORMATION (Continued)

### (a) Analysis of the Group's revenue and results by reportable segment

For the six months ended 30 September (unaudited)

	Mainland China		Hong Kong, Macau and other markets		Total	
	2019 HK\$ million	2018 HK\$ million	2019 HK\$ million	2018 HK\$ million	2019 HK\$ million	2018 HK\$ million
Revenue						
External sales (note i)						
— Retail	13,765.4	13,094.4	8,803.8	11,070.4	22,569.2	24,164.8
— Wholesale (note ii)	6,458.7	4,927.3	505.3	610.8	6,964.0	5,538.1
Segment/group revenue	20,224.1	18,021.7	9,309.1	11,681.2	29,533.2	29,702.9
Inter-segment sales (note iii)	–	–	1,506.8	1,887.2	1,506.8	1,887.2
	20,224.1	18,021.7	10,815.9	13,568.4	31,040.0	31,590.1
Adjusted gross profit (before elimination)	6,444.6	5,356.7	2,610.7	3,149.9	9,055.3	8,506.6
Inter-segment eliminations	–	1.3	8.4	(169.7)	8.4	(168.4)
Adjusted gross profit (note i)	6,444.6	5,358.0	2,619.1	2,980.2	9,063.7	8,338.2
Other income	121.4	102.1	91.6	65.1	213.0	167.2
Selling and distribution costs and general and administrative expenses	(3,723.5)	(3,397.7)	(2,026.0)	(2,119.2)	(5,749.5)	(5,516.9)
Core operating profit (segment result)	2,842.5	2,062.4	684.7	926.1	3,527.2	2,988.5
Unrealised (loss)/gain on gold (note iv)					(917.2)	190.3
Others (note v)					(192.2)	(361.7)
Interest income					37.0	58.7
Finance costs					(255.1)	(153.9)
Profit before taxation					2,199.7	2,721.9
Other segment information included in measurement of core operating profit (segment result):						
Concessionaire fees	865.0	852.6	0.7	7.2	865.7	859.8
Operating lease payments in respect of rented premises	76.8	166.8	41.1	602.3	117.9	769.1
Staff costs	1,476.3	1,255.5	814.6	779.0	2,290.9	2,034.5
Depreciation and amortisation	452.5	316.6	693.5	145.0	1,146.0	461.6

#### Notes:

- (i) Included in the external sales and adjusted gross profit HK\$333.0 million (2018: HK\$336.0 million) and HK\$123.1 million (2018: HK\$123.1 million) are generated from Hearts On Fire Company, LLC, respectively.
- (ii) Wholesale revenue represents revenue from jewellery trading, sales to franchisees and retailers and provision of services to franchisees.
- (iii) Inter-segment sales are charged at a price mutually agreed by both parties.
- (iv) A fair value loss on gold loans of HK\$1,303.1 million as disclosed in note 3 (2018: a fair value gain on gold loans of HK\$205.9 million) was recorded, of which HK\$917.2 million (2018: HK\$190.3 million) has not yet been realised due to timing difference in the recognition of the impact of changes in gold price between gold loans (short position) and gold inventories (long position).
- (v) Others represent other gains and losses, other expenses and share of results of an associate.

## 2. REVENUE AND SEGMENT INFORMATION (Continued)

### (a) Analysis of the Group's revenue and results by reportable segment (Continued)

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

### (b) Analysis of the Group's assets by reportable segment:

	Mainland China		Hong Kong, Macau and other markets		Total	
	At 30 September 2019 HK\$ million (unaudited)	At 31 March 2019 HK\$ million (audited)	At 30 September 2019 HK\$ million (unaudited)	At 31 March 2019 HK\$ million (audited)	At 30 September 2019 HK\$ million (unaudited)	At 31 March 2019 HK\$ million (audited)
Property, plant and equipment	3,503.1	3,769.8	1,687.4	1,718.2	5,190.5	5,488.0
Right-of-use assets	600.3	–	1,665.1	–	2,265.4	–
Investment properties	–	–	213.7	219.2	213.7	219.2
Jewellery collectibles	–	–	1,520.1	1,520.1	1,520.1	1,520.1
Inventories	23,574.6	20,838.1	18,945.5	18,648.0	42,520.1	39,486.1
Total segment assets	<u>27,678.0</u>	<u>24,607.9</u>	<u>24,031.8</u>	<u>22,105.5</u>	<u>51,709.8</u>	<u>46,713.4</u>

#### Segment liabilities

No liabilities are included in the measures of the Group's segment reporting that are reviewed by the CODM. Accordingly, no segment liabilities are presented.

### (c) Analysis of the Group's assets by geographical area

The Group's non-current assets, excluding loan receivables, investments in associates, amounts due from associates, financial assets at fair value through profit or loss and deferred tax assets, by geographical areas are as follows:

	At 30 September 2019 HK\$ million (unaudited)	At 31 March 2019 HK\$ million (audited)
Mainland China	4,703.5	4,544.2
Hong Kong, Macau and other markets	<u>5,029.0</u>	<u>3,410.5</u>
	<u>9,732.5</u>	<u>7,954.7</u>

**(d) Disaggregation of revenue from contracts with customers**

The Group derives revenue from the transfer of goods and services at a point in time and over time in the following major product categories:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$ million</b>	<b>HK\$ million</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>At a point in time</b>		
Retail sales of		
— Gem-set jewellery	<b>5,288.2</b>	5,608.7
— Gold products	<b>12,886.1</b>	14,358.0
— Platinum/Karat gold products	<b>2,523.0</b>	2,556.0
— Watches	<b>1,871.9</b>	1,642.1
	<b>22,569.2</b>	24,164.8
Wholesale to franchisees/retailers	<b>6,750.2</b>	5,143.9
Jewellery trading	<b>102.7</b>	309.3
<b>Over time</b>		
Service income from franchisees	<b>111.1</b>	84.9
	<b>29,533.2</b>	29,702.9

**3. PROFIT BEFORE TAXATION**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$ million</b>	<b>HK\$ million</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Profit before taxation has been arrived at after charging/(crediting):		
Staff costs	<b>2,290.9</b>	2,034.5
Concessionaire fees	<b>865.7</b>	859.8
Operating lease payments in respect of rented premises	<b>117.9</b>	769.1
Depreciation of property, plant and equipment	<b>473.1</b>	419.6
Depreciation of investment properties	<b>5.5</b>	7.1
Depreciation of right-of-use assets	<b>642.7</b>	—
Amortisation of land use rights	<b>—</b>	7.2
Amortisation of other intangible assets	<b>24.7</b>	27.7
Impairment of goodwill (included in other expenses)	<b>26.3</b>	—
Impairment of amount due from an associate	<b>4.8</b>	—
Reversal of allowances on inventories (included in cost of goods sold)	<b>(45.9)</b>	(153.2)
Reversal of loss allowance	<b>(5.9)</b>	(1.3)
Fair value loss/(gain) on gold loans (included in cost of goods sold)	<b>1,303.1</b>	(205.9)

#### 4. TAXATION

	Six months ended 30 September	
	2019	2018
	HK\$ million (unaudited)	HK\$ million (unaudited)
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax (“EIT”) in Mainland China	510.6	455.8
Hong Kong Profits Tax	65.6	247.6
Macau complementary tax	19.5	23.0
Taxation in other jurisdictions	0.8	2.4
	<u>596.5</u>	<u>728.8</u>
Deferred tax credit	(27.4)	(9.3)
Withholding tax <sup>(1)</sup>	<u>51.2</u>	<u>8.6</u>
	<u><u>620.3</u></u>	<u><u>728.1</u></u>

<sup>(1)</sup> Withholding tax mainly represents withholding tax on intra-group licence income and interest income from Mainland China subsidiaries.

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

Under the Enterprise Income Tax Law (the “EIT Law”) of the People’s Republic of China and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in Mainland China is 25.0% for both periods.

For certain subsidiaries of the Company in Mainland China, they are entitled to the tax incentives in connection with the development of the western part of Mainland China. The applicable tax rate is 15.0% for both periods.

Macau complementary tax is calculated at the maximum progressive rate of 12.0% on the estimated assessable profit for both periods.

#### 5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the consolidated profit attributable to shareholders of the Company for the period and on the 10,000,000,000 (six months ended 30 September 2018: 10,000,000,000) shares in issue during the period.

Diluted earnings per share is the same as basic earnings per share as there was no potential ordinary share dilution during both periods.

## 6. DIVIDENDS

	Six months ended 30 September			
	2019		2018	
	<i>HK cents per share</i>	<i>HK\$ million</i>	<i>HK cents per share</i>	<i>HK\$ million</i>
Dividends paid and recognised as distribution during the period:				
For prior year:				
– Final dividends	20.0	2,000.0	15.0	1,500.0
– Special dividends	30.0	3,000.0	30.0	3,000.0
		<u>5,000.0</u>		<u>4,500.0</u>

On 28 November 2019, the directors of the Company have determined to declare an interim dividend of HK12.0 cents per share, totalling HK\$1,200.0 million for the six months ended 30 September 2019.

## 7. INVENTORIES

	At 30 September 2019 <i>HK\$ million</i> (unaudited)	At 31 March 2019 <i>HK\$ million</i> (audited)
Raw materials for:		
Gem-set jewellery	6,332.5	5,810.6
Gold products	1,185.2	1,719.0
Platinum/Karat gold products	378.0	391.6
	<u>7,895.7</u>	<u>7,921.2</u>
Finished goods:		
Gem-set jewellery	16,188.4	15,583.5
Gold products	13,614.8	11,706.6
Platinum/Karat gold products	3,032.5	2,443.7
Watches	1,591.4	1,672.2
	<u>34,427.1</u>	<u>31,406.0</u>
Packaging materials	<u>197.3</u>	<u>158.9</u>
	<u>42,520.1</u>	<u>39,486.1</u>

The Group reversed HK\$45.9 million of inventory write-down (30 September 2018: HK\$153.2 million) and recognised in “cost of goods sold” in consolidated statement of profit or loss for the period ended 30 September 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

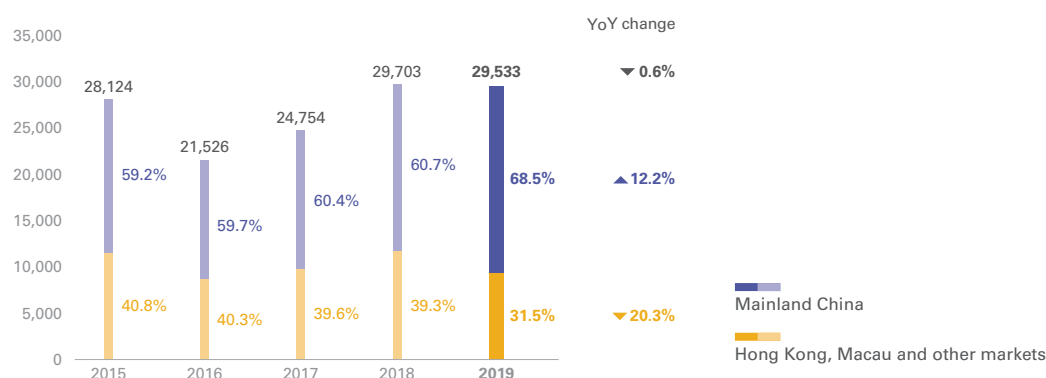
The Group's revenue was stable during 1HFY2020, thanks to our expansion strategy in Mainland China, which made up 68.5% of the Group's revenue. Our continuous enhancement on product offerings and retail experience also supported the operations to gauge customers' demand.

#### Revenue Breakdown

##### Group

##### Revenue by reportable segment

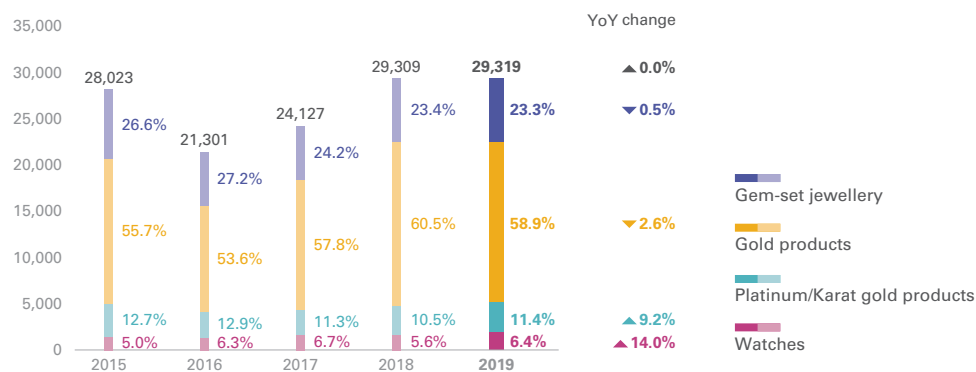
Six months ended 30 September  
(HK\$ million)



- The Group's revenue was stable at HK\$29,533 million in 1HFY2020. Mainland China delivered a decent revenue growth of 12.2% during the period, supported by POS openings and steady SSSG. Its contribution to the Group's revenue was lifted to 68.5%.
- In Hong Kong, Macau and other markets, revenue dropped by 20.3% largely due to a tough base of comparison, weakened consumer sentiment and a surge in international gold price.

##### Revenue by product (excluding jewellery trading and service income from franchisees)

Six months ended 30 September  
(HK\$ million)

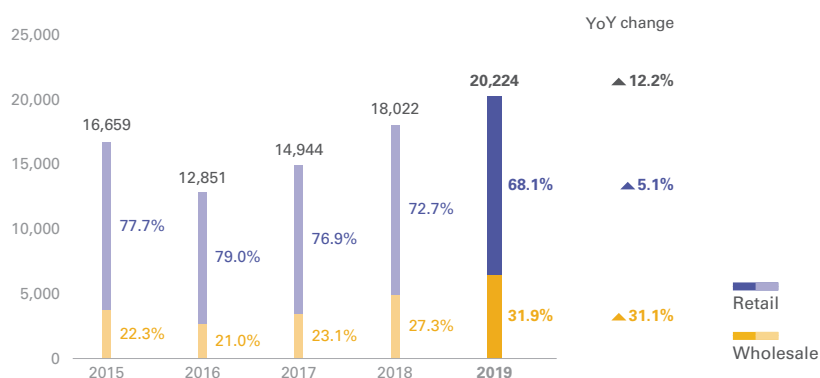


- Revenue of gold products declined by 2.6% amid a relatively higher base of comparison and the waning gold demand resulted from a surge in international gold price. Gold products' contribution to the Group's revenue was reduced by 160 basis points year-on-year to 58.9%.
- Revenue of watches increased by 14.0% during the period as the supply situation improved and the demand remained resilient in 1HFY2020.

## Mainland China

### Revenue by operation model

Six months ended 30 September  
(HK\$ million)

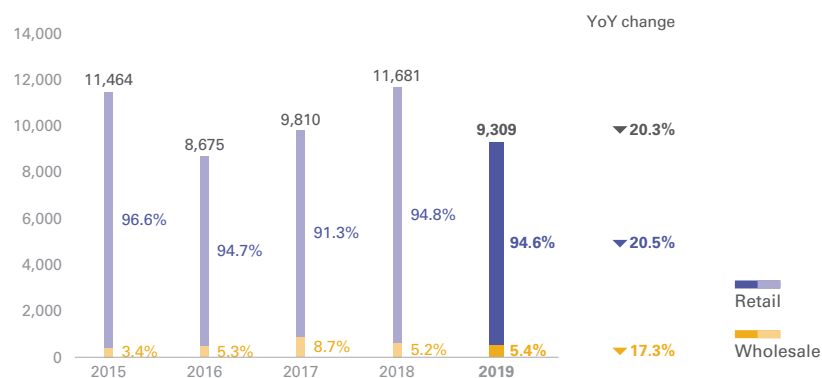


- In Mainland China, our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees and provision of services to franchisees.
- Revenue in Mainland China increased by 12.2% in 1HFY2020. On a constant exchange rate basis, revenue grew 17.4% during the period.
- Wholesale revenue continued to demonstrate a robust growth of 31.1%, boosted by our expansion of POS in lower tier and county level cities through franchisees. As a result, its revenue contribution expanded further by 460 basis points to 31.9% during the period.
- Franchised CHOW TAI FOOK JEWELLERY POS in county level cities are mainly operated under sell-in model where sales is recognised when products are delivered to our franchisees. For the remaining franchised POS in Mainland China, which making up the majority, sales is recognised on consignment. We retain inventory ownership until sales transactions are completed with retail consumers, upon which wholesale revenue is recognised. As at 30 September 2019, we had 1,624 franchised CHOW TAI FOOK JEWELLERY POS. 27.8% out of the franchised CHOW TAI FOOK JEWELLERY POS were operated under the sell-in model and the rest was under consignment.

## Hong Kong, Macau and other markets

### Revenue by operation model

Six months ended 30 September  
(HK\$ million)

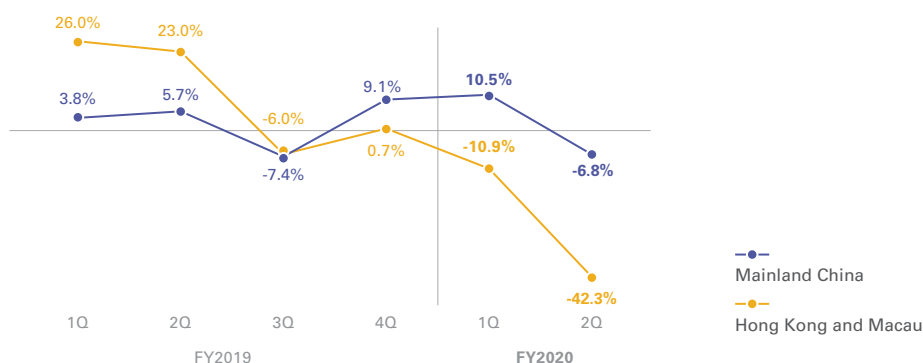


- In Hong Kong, Macau and other markets, our retail revenue represents sales from self-operated POS, e-commerce and other direct channels, while wholesale revenue represents sales to franchisees, sales to retailers and sales from jewellery trading.
- Retail revenue declined by 20.5% in 1HFY2020, while wholesale revenue fell by 17.3% due to a drop in the sales of jewellery trading during the period.

## SSSG

### Group

#### SSSG by major market



	1HFY2019	1HFY2020	
	SSSG	SSSG	SSS volume growth
Mainland China	▲ 4.9%	▲ 1.8%	▼ 11.7%
Hong Kong and Macau	▲ 24.4%	▼ 27.5%	▼ 29.7%

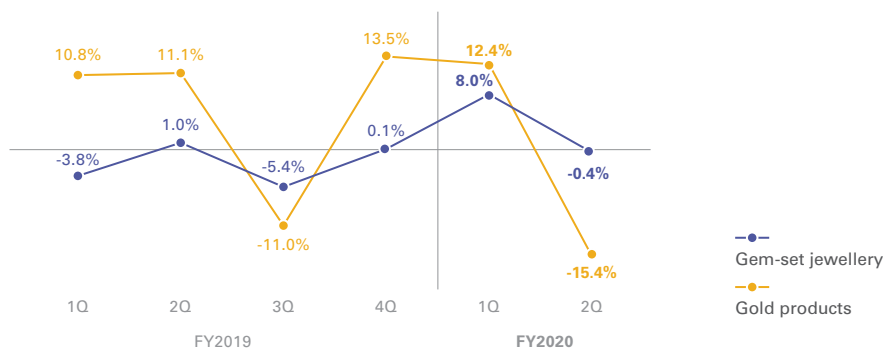
- The volatile macro backdrop and a surge in international gold price dampened consumer demand in both Mainland China and Hong Kong and Macau, in particular during 2QFY2020. Volume declined by 11.7% and 29.7% in Mainland China and Hong Kong and Macau, respectively in 1HFY2020.



- In Mainland China, Same Store ASP recorded a robust increase in 1HFY2020. SSSG in 1HFY2020 stood at 1.8%. Including our e-commerce business, Mainland China SSSG approximated 2.3%, with SSS volume declined by 9.0%.
- On the other hand, SSS in Hong Kong and Macau dropped by 27.5% during the period, due to a tough base of comparison and sluggish business environment.

## Mainland China

### SSSG of major products



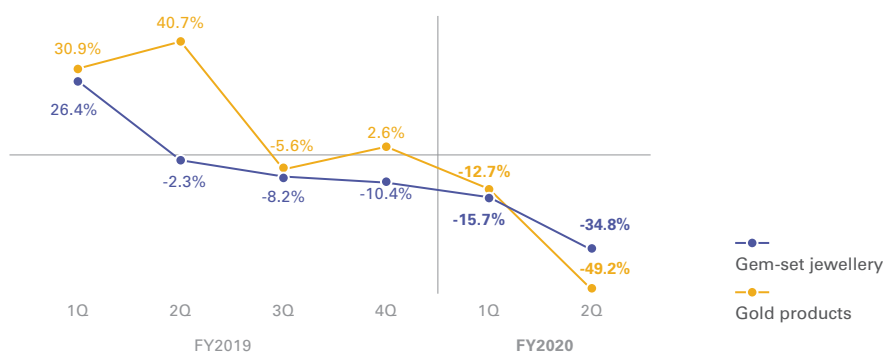
	SSSG	1HFY2020 SSS volume growth	Same Store ASP	1HFY2019 Same Store ASP <sup>(1)</sup>
Gem-set jewellery	▲ 4.1%	▲ 4.3%	HK\$6,300	HK\$6,300
Gold products	▼ 2.0%	▼ 21.9%	HK\$4,900	HK\$3,900
Platinum/Karat gold products	▲ 5.9%	▼ 0.3%	HK\$1,800	HK\$1,700
Watches	▲ 13.8%	▼ 3.3%	HK\$17,500	HK\$14,800
Overall	▲ 1.8%	▼ 11.7%		

(1) Same Store ASP on 1HFY2020 Same Store basis

- In Mainland China, gem-set jewellery, platinum/karat gold products and watches delivered a positive SSSG during 1HFY2020.
- Demand for gold products was dampened by the surge in average international gold price of 10.7% year-on-year in the period. Yet, gold products ASP enjoyed an uplift of 25.5% as CTF • HUÁ Collection continued to gain popularity and the average weight per gold product sold increased during the period.
- Gem-set jewellery SSS delivered a positive growth of 4.1% in 1HFY2020, fuelled by a healthy volume growth. Same Store ASP trend remained steady during the period.

## Hong Kong and Macau

### SSSG of major products



	SSSG	1HFY2020 SSS volume growth	Same Store ASP	1HFY2019 Same Store ASP <sup>(1)</sup>
Gem-set jewellery	▼ 24.6%	▼ 24.7%	HK\$10,400	HK\$10,400
Gold products	▼ 33.1%	▼ 37.8%	HK\$8,800	HK\$8,200
Platinum/Karat gold products	▼ 21.8%	▼ 19.5%	HK\$1,900	HK\$1,900
Watches	▲ 12.1%	▼ 6.2%	HK\$64,700	HK\$54,100
Overall	▼ 27.5%	▼ 29.7%		

(1) Same Store ASP on 1HFY2020 Same Store basis

- In Hong Kong and Macau, gold products underperformed other product categories during 1HFY2020, with volume declined by 37.8% year-on-year at Same Store level.
- The weakened consumer sentiment continued to take toll on the gem-set jewellery performance, resulted in a SSS drop of 24.6% during the period.

## Mainland China Business

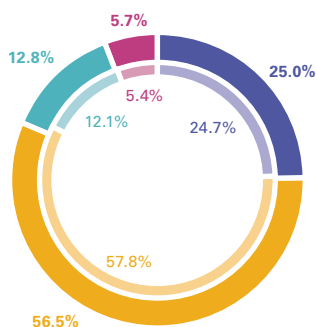
### POS movement by store brand<sup>(1)</sup> — Mainland China

As at	31.3.2018 Total	31.3.2019 Total	During 1HFY2020			30.9.2019 Total
			Addition	Reduction	Net	
CHOW TAI FOOK JEWELLERY <sup>(2)</sup>	2,317	2,803	407	(74)	333	3,136
CTF WATCH	106	113	3	(3)	–	113
T MARK	–	4	–	–	–	4
HEARTS ON FIRE	6	3	–	(2)	(2)	1
SOINLOVE	9	27	9	–	9	36
MONOLOGUE	11	38	12	(2)	10	48

(1) Shop-in-Shop ("SIS") and Counter-in-Shop ("CIS") excluded

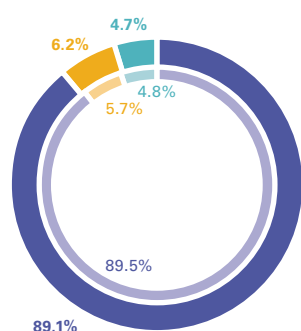
(2) ARTRIUM and JEWELRIA POS included

## RSV by product



1HFY2019	1HFY2020		RSV YoY change
		Gem-set jewellery	▲ 14.9%
		Gold products	▲ 10.9%
		Platinum/Karat gold products	▲ 19.2%
		Watches	▲ 19.3%
		Overall	▲ 13.3%

## RSV by channel



1HFY2019	1HFY2020		RSV YoY change
		CHOW TAI FOOK JEWELLERY	▲ 12.8%
		Other store brands <sup>(3)</sup>	▲ 23.7%
		E-commerce <sup>(4)</sup>	▲ 10.7%
		Overall	▲ 13.3%

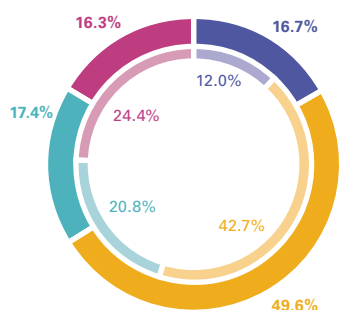
(3) CTF WATCH, T MARK, HEARTS ON FIRE, SOINLOVE and MONOLOGUE included

(4) Major platforms included Chow Tai Fook eShop, Tmall, JD.com, Vipshop; online order distribution excluded (i.e. routing online orders to POS for delivery service)

The following analyses focus on CHOW TAI FOOK JEWELLERY POS which contributed approximately 90% of the RSV in Mainland China:

## CHOW TAI FOOK JEWELLERY POS

### RSV and POS by tier of cities<sup>(1)</sup>



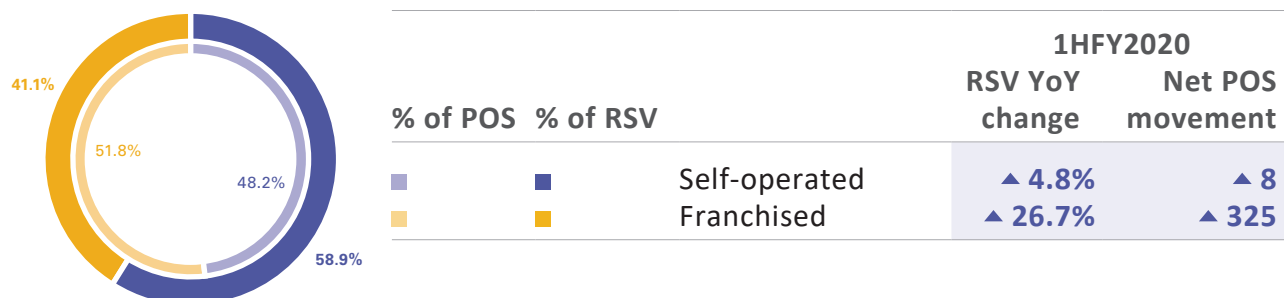
		1HFY2020	
% of POS	% of RSV	RSV YoY change	Net POS movement
	Tier I cities	▲ 6.7%	▲ 47
	Tier II cities	▲ 11.3%	▲ 103
	Tier III cities	▲ 18.0%	▲ 90
	Tier IV cities and others	▲ 19.1%	▲ 93

(1) As an initiative to better reflect the economic development and strategic significance of cities in Mainland China, we have adopted the city-tier ranking published by Yicai Global since 1HFY2020. New first-tier cities were grouped under Tier II cities in our analysis. Please refer to the ranking released on 24 May 2019

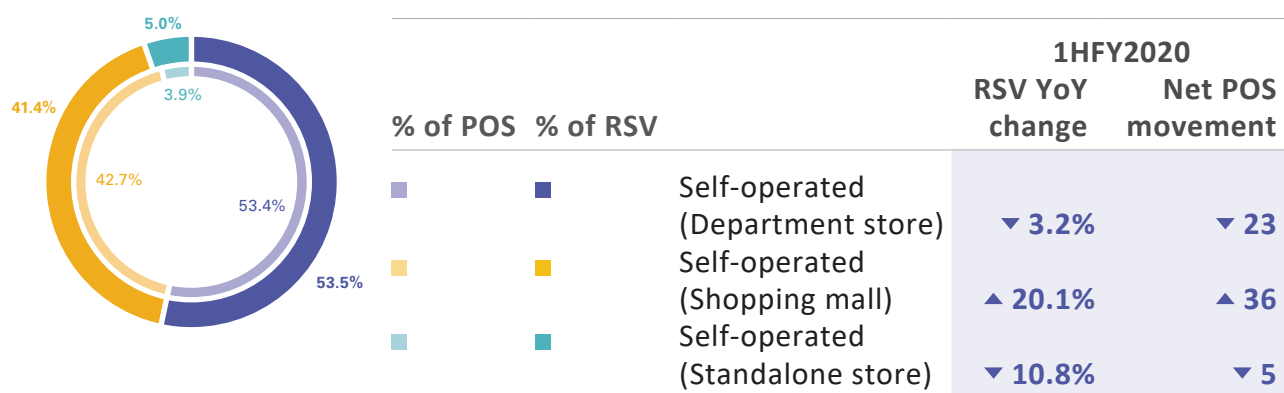
- During 1HFY2020, we opened a net of 333 CHOW TAI FOOK JEWELLERY POS in Mainland China.

- Approximately 55.0% of the net openings were located in Tier III, IV and other cities. Tier III, IV and other cities achieved a robust high-teens RSV growth during the period, mainly driven by the new openings and a relatively stronger Same Store performance.
- By operation model, 97.6% of the net openings were in franchised format and 51.4% of these franchised POS were under sell-in model.

#### RSV and POS by operation model



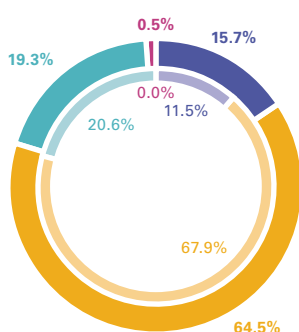
#### RSV and POS by self-operated model



- In 1HFY2020, self-operated POS at shopping mall outperformed the other formats with a RSV growth of 20.1%, partly due to its more appealing shopping experience and partly due to new openings.
- We consolidated a net of 28 standalone stores and POS at department stores during 1HFY2020.

## E-commerce business

### RSV by product



1HFY2019 1HFY2020

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

	1HFY2020 RSV YoY change	ASP	1HFY2019 ASP
Gem-set jewellery	▲ 49.6%	HK\$1,600	HK\$1,600
Gold products	▲ 4.3%	HK\$1,500	HK\$1,600
Platinum/Karat gold products	▲ 3.0%	HK\$900	HK\$800
Overall	▲ 9.7%	HK\$1,400	HK\$1,300

### E-commerce business performance

1HFY2020

RSV



ASP



1HFY2020

1HFY2019

4.9% 5.1%

of respective RSV

1HFY2020

1HFY2019

14.1% 14.0%

of respective retail sales volume

E-commerce platforms



Unique daily visitors<sup>(1)</sup>



Number of followers<sup>(2)</sup>



(1) Source: Chow Tai Fook eShop, Tmall and JD.com

(2) Source: Official Sina Weibo, Tencent Weibo and WeChat accounts

- RSV of our e-commerce business rose 9.7% in 1HFY2020, backed by a 49.6% growth of gem-set jewellery.
- Contribution of the e-commerce business to the RSV in Mainland China was 4.9% during the period. In terms of retail sales volume, its accounted for 14.1% of Mainland China's operations during the period, with 13.5% and 0.6% of the contribution coming from e-commerce platforms and online order distribution, respectively.

### Hong Kong, Macau and Other Markets Business

POS movement by store brand<sup>(1)</sup> — Hong Kong, Macau and other markets

As at	31.3.2018	31.3.2019	During 1HFY2020		30.9.2019	
	Total	Total	Addition	Reduction	Net	Total
<b>CHOW TAI FOOK JEWELLERY<sup>(2)</sup></b>	122	130	12	(3)	9	139
Hong Kong, China	80	80	6	(1)	5	85
Macau, China	19	19	–	(2)	(2)	17
Other markets	23	31	6	–	6	37
<b>T MARK</b>	–	1	–	–	–	1
<b>HEARTS ON FIRE</b>	14	15	–	(4)	(4)	11
<b>MONOLOGUE</b>	–	–	1	–	1	1

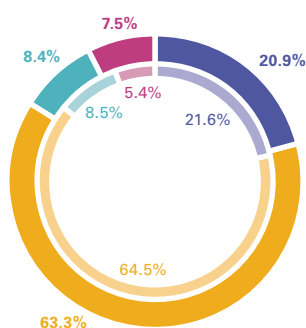
(1) SIS and CIS excluded

(2) ARTRIUM POS included

- For CHOW TAI FOOK JEWELLERY, we selectively opened a net of 3 POS in Hong Kong and Macau in 1HFY2020, primarily located in shopping malls. A MONOLOGUE POS also first opened in Hong Kong during the period.
- Meanwhile, we continued to expand foothold in other markets, 6 CHOW TAI FOOK JEWELLERY POS opened during the period, covering neighbouring countries such as Korea, the Philippines and Singapore.

### Hong Kong and Macau business

RSV by product



	1HFY2019	1HFY2020	RSV YoY change
■	■	Gem-set jewellery	▼ 23.5%
■	■	Gold products	▼ 22.6%
■	■	Platinum/Karat gold products	▼ 22.1%
■	■	Watches	▲ 8.8%
Overall			▼ 21.1%

## Hong Kong and Macau industry performance

1HFY2020

Retail sales of jewellery industry in Hong Kong<sup>(1)</sup>



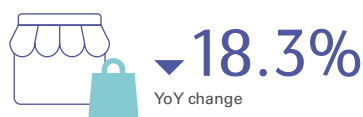
Number of Mainland visitors<sup>(2)</sup>



## Our Hong Kong and Macau performance

1HFY2020

Customer traffic at POS



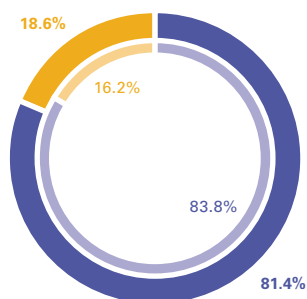
RSV settled by China UnionPay, Alipay, WeChat Pay or RMB



(1) Value of retail sales of jewellery, watches and clocks, and valuable gifts in Hong Kong according to Census and Statistics Department of the HKSAR Government

(2) Source: Commerce and Economic Development Bureau of the HKSAR Government and Macao Statistics and Census Service

## RSV and POS by geography



% of POS	% of RSV	1HFY2020	
		RSV YoY change	Net POS movement
■ Hong Kong	■ Hong Kong	▼ 24.9%	▲ 6
■ Macau	■ Macau	▲ 5.9%	▼ 2

- Customer traffic in Hong Kong and Macau softened and fell by 18.3% year-on-year in 1HFY2020.
- Yet, Macau outperformed Hong Kong during the period and registered a positive RSV growth of 5.9%.
- The percentage of RSV settled by China UnionPay, Alipay, WeChat Pay or RMB to the total RSV of Hong Kong and Macau market, a proxy for sales contribution from Mainland tourists, lowered from 45.4% in 1HFY2019 to 39.7% in 1HFY2020.

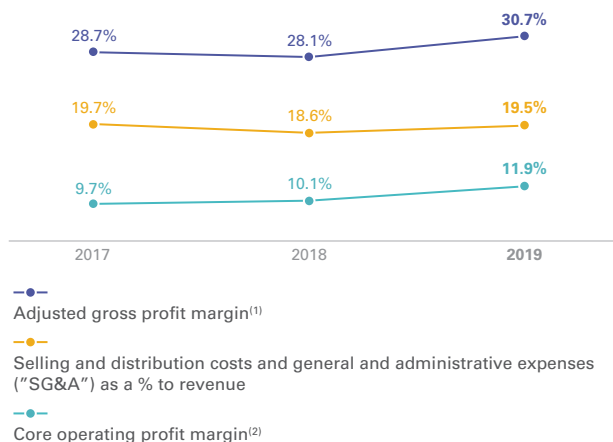
## FINANCIALS

Despite the uncertain macroeconomics and situation in Hong Kong, our profitability remained stable, benefitting from the positive fundamentals and steady growth of the Mainland China segment.

### Profitability

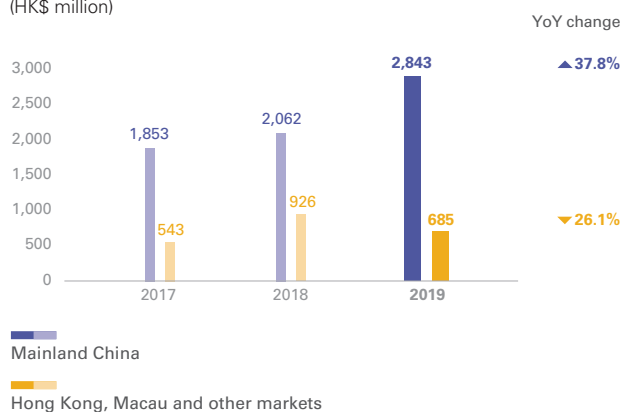
#### Overall

Six months ended 30 September



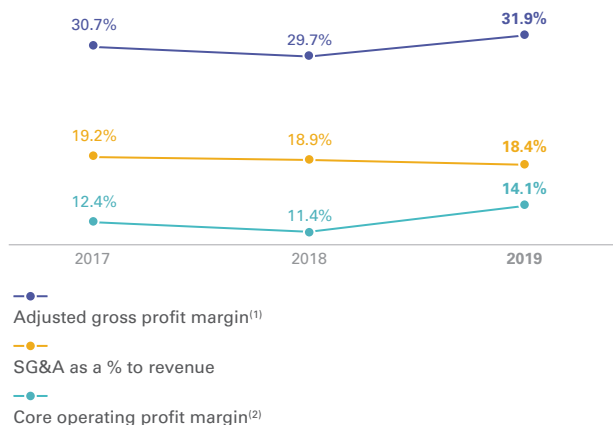
#### Core operating profit<sup>(2)</sup> by reportable segment

Six months ended 30 September  
(HK\$ million)



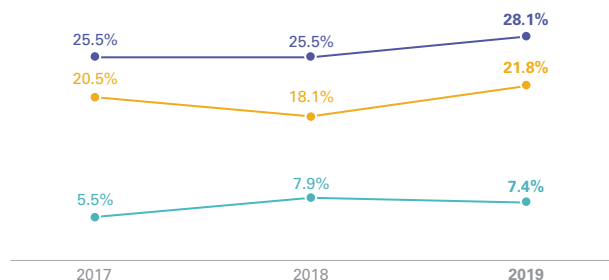
#### Mainland China

Six months ended 30 September



#### Hong Kong, Macau and other markets

Six months ended 30 September



- (1) Adjusted gross profit and the corresponding margin, a non-IFRS measure, eliminates the effect of unrealised loss (gain) on gold loans, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its businesses
- (2) Core operating profit and the corresponding margin, a non-IFRS measure, being the aggregate of adjusted gross profit and other income, less SG&A, which the Company believes is useful in gaining a more complete understanding of its operational performance and the underlying trend of its core businesses



## Group

- Adjusted gross profit margin increased in 1HFY2020, thanks to the improvement in like-for-like gross profit margin of gold products resulted from the surge of international gold price. Core operating profit margin benefitted from the adjusted gross profit margin improvement despite SG&A also edged higher year-on-year.
- Mainland China continued to be our main profit contributor and accounted for around 81% of the Group's core operating profit in 1HFY2020, while Hong Kong, Macau and other markets registered a significant decline in core operating profit by 26.1% due to the uncertain situation in Hong Kong.

## Mainland China

- Adjusted gross profit margin expanded by 220 basis points in 1HFY2020 as like-for-like gross profit margin improved when compared to the same period last year, while SG&A ratio also improved by 50 basis points due to operating leverage.
- As a result, core operating profit grew by 37.8% in 1HFY2020 and its corresponding margin was lifted by 270 basis points.

## Hong Kong, Macau and other markets

- Adjusted gross profit margin improved by 260 basis points to 28.1%, driven by both the surge in gold price and the improvement in gross profit margin of our jewellery trading business.
- SG&A ratio increased by 370 basis points to 21.8% due to operating deleverage.
- Core operating profit dropped significantly by 26.1% in 1HFY2020 and its corresponding margin declined by 50 basis points to 7.4%.

## Gross profit margin

Unrealised loss (gain)

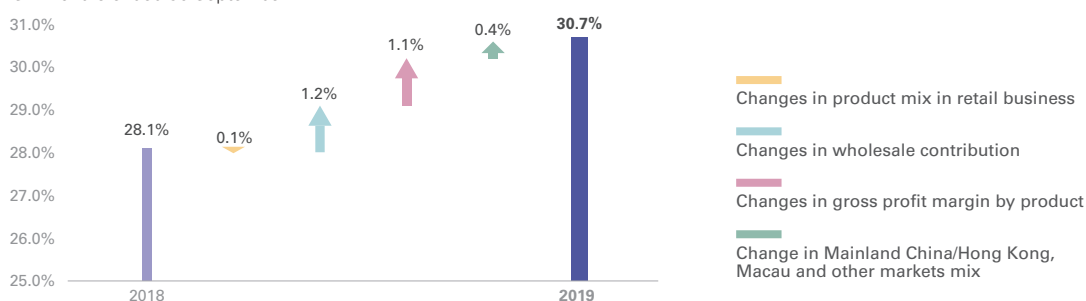
Six months ended 30 September	2017	2018	2019
Gross profit margin	28.9%	28.7%	27.6%
Unrealised loss (gain) on gold loans	(0.2)%	(0.6)%	3.1%
Adjusted gross profit margin	28.7%	28.1%	30.7%

- Impact from the unrealised loss on gold loans increased due to the surge in international gold price as well as the increase in gold loan balance during 1HFY2020. During 1HFY2020, fair value loss on gold loans of HK\$1,303 million was recorded, of which HK\$917 million was unrealised.

- Unrealised loss (gain) for the period represents the net effect of (i) the reversal of the loss (gain) recorded due to the timing difference in recognising the effect of long and short position in gold when we take a snapshot position at the end of the previous financial year; and (ii) the loss (gain) arising from such timing difference at the end of the current financial period.
- We use gold loans (short position in gold) for economic hedge purpose to mitigate the financial impact of the gold price fluctuations in our gold inventories (long position). While the long-term effect of long and short positions in gold is expected to net out each other through the sales of gold products, a loss (gain) may arise due to a short-term timing difference between the time when a loss (gain) on gold loans is recorded in the cost of goods sold and the time when sales of hedged gold inventories are recognised, when we take a snapshot position at the end of the reporting period.

### Changes in adjusted gross profit margin

Six months ended 30 September



- At group level, 1HFY2020 adjusted gross profit margin was up by 260 basis points year-on-year. An improvement in gross profit margin by product in both retail and wholesale businesses led to an expansion of margin.

### London gold price

(US\$ per ounce)



(1) Average of T-150/T-180 days refers to the average gold price of previous 150 or 180 days on rolling basis, being a proxy of the average price of our hedged inventories. As gold inventories turnover lengthened in 1HFY2020, average of T-150 days and T-180 days was used for FY2019 and 1HFY2020, respectively

## Impact of IFRS 16 Leases

- IFRS 16 – Leases was first applied to supersede IAS 17 – Leases in the consolidated financial statements for the six months ended 30 September 2019.
- We elected to adopt the “modified retrospective” approach for the transition to IFRS 16 under which the prior-period comparative financial information was not restated.
- This new standard has no impact on the Group’s operations nor cash flows.
- The table below illustrates the impact of the new standard on the Group’s financial performance:

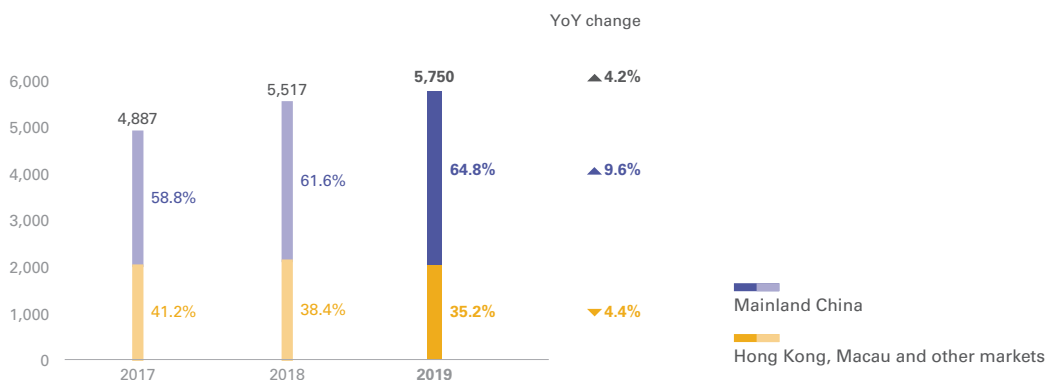
Six months ended 30 September (HK\$ million)	2018	2019 (Pre- IFRS 16 Leases)	YoY Change	Post- IFRS 16/ Pre- IFRS 16	2019 (Post- IFRS 16 Leases)	YoY Change
<b>Revenue</b>	29,703	29,533	▼ 0.6%	–	<b>29,533</b>	<b>▼ 0.6%</b>
<b>Adjusted gross profit</b>	8,338	9,064	▲ 8.7%	–	<b>9,064</b>	<b>▲ 8.7%</b>
Adjusted gross profit margin	28.1%	30.7%	▲ 2.6% pts	–	<b>30.7%</b>	<b>▲ 2.6% pts</b>
<b>SG&amp;A</b>	5,517	5,773	▲ 4.6%	<b>(24)</b>	<b>5,750</b>	<b>▲ 4.2%</b>
SG&A to revenue ratio	18.6%	19.5%	▲ 0.9% pts	–	<b>19.5%</b>	<b>▲ 0.9% pts</b>
Depreciation and amortisation (ROU)	N/A	N/A	N/A	<b>636</b>	<b>636</b>	<b>N/A</b>
Rental expenses	769	761	▼ 1.0%	<b>(643)</b>	<b>118</b>	<b>▼ 84.7%</b>
<b>Core operating profit</b>	2,989	3,503	▲ 17.2%	<b>24</b>	<b>3,527</b>	<b>▲ 18.0%</b>
Core operating profit margin	10.1%	11.9%	▲ 1.8% pts	–	<b>11.9%</b>	<b>▲ 1.8% pts</b>
<b>Finance costs</b>	154	222	▲ 44.5%	<b>33</b>	<b>255</b>	<b>▲ 65.8%</b>
Finance costs on leases	N/A	N/A	N/A	<b>33</b>	<b>33</b>	<b>N/A</b>
<b>Profit before taxation</b>	2,722	2,209	▼ 18.9%	<b>(9)</b>	<b>2,200</b>	<b>▼ 19.2%</b>

- Revenue stayed unchanged under IFRS 16.
- For SG&A, there was a significant increase in depreciation expenses of the leased assets of which the majority of the increase was offset by the decrease in rental expenses.
- The impact on core operating profit was immaterial.

## SG&A

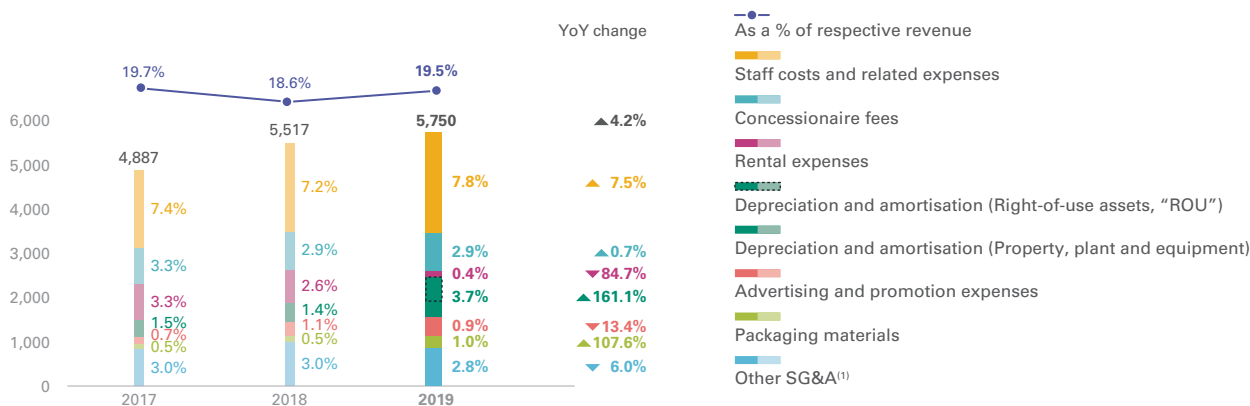
### SG&A by reportable segment

Six months ended 30 September  
(HK\$ million)



### SG&A to revenue ratio

Six months ended 30 September  
(HK\$ million)



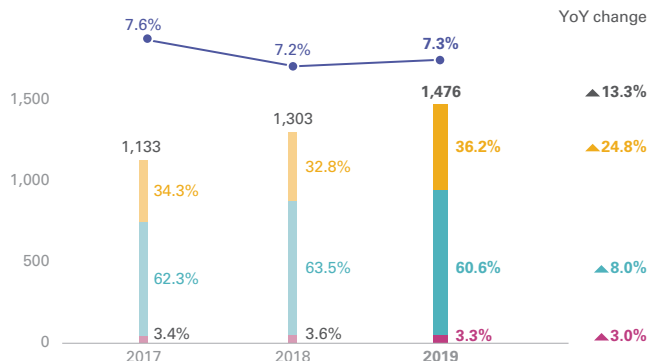
(1) Other SG&A mainly represented bank charges incurred for sales transaction settlement, royalty fees for the sales of licensed products, certificate expenses and utilities

- SG&A expenses increased by 4.2% to HK\$5,750 million in 1H FY2020 while SG&A ratio increased 90 basis points to 19.5%.
- With the adoption of IFRS 16, depreciation and amortisation increased while rental expenses decreased, both significantly changed when compared to 1H FY2019. If the impact from IFRS 16 was excluded, depreciation and amortisation would increase by 7.1% and its corresponding ratio to revenue would be 1.5% which is similar to the first half of the past two financial years.
- Packaging materials increased by 50 basis points to 1.0% as we enhanced our product packaging during the period to lift brand value and provide better customer experiences.

## Staff costs and related expenses

### Mainland China

Six months ended 30 September  
(HK\$ million)



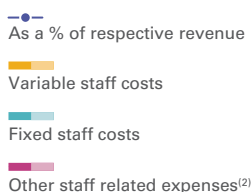
1HFY2020



21,000

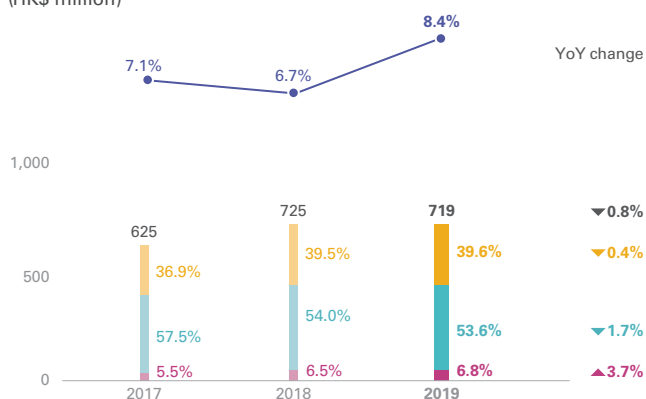
Average number of employees<sup>(1)</sup>

$\uparrow$  3.3%  
YoY change



### Hong Kong and Macau

Six months ended 30 September  
(HK\$ million)



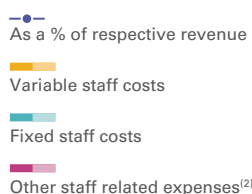
1HFY2020



3,270

Average number of employees<sup>(1)</sup>

$\uparrow$  4.1%  
YoY change



(1) Employees in production function excluded

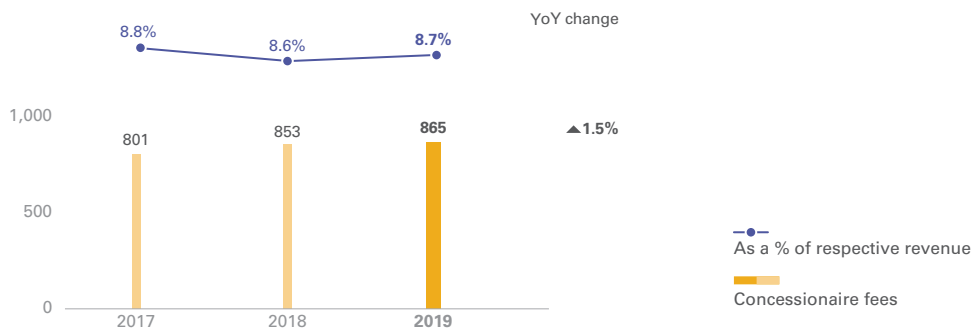
(2) Other staff related expenses mainly included staff messing, medical care, educational expenses, etc.

- In Mainland China, staff costs and related expenses were up by 13.3% in 1HFY2020. The incremental expenses were mostly related to the variable performance based component, which was in line with the business growth in Mainland China.
- In Hong Kong and Macau, staff costs and related expenses were slightly decreased by 0.8%. The variable staff costs was flat year-on-year as some short-term sales incentives were given to staff, particularly the frontline staff, to boost their morale.

## Concessionaire fees and lease-related expenses<sup>(1)</sup>

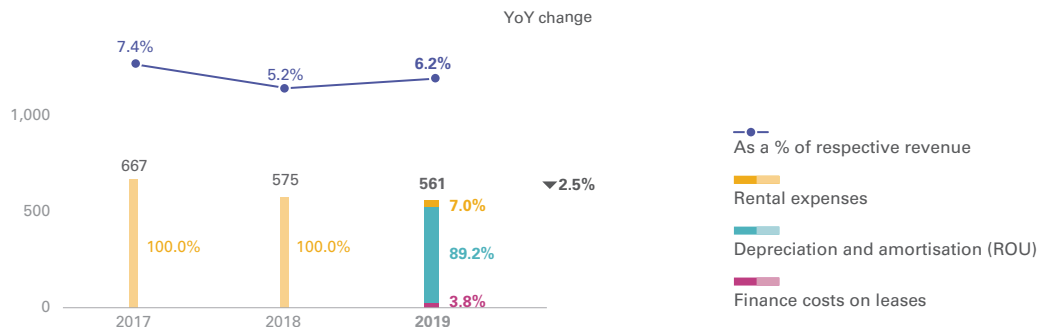
### Mainland China

Six months ended 30 September  
(HK\$ million)



### Hong Kong and Macau

Six months ended 30 September  
(HK\$ million)



(1) Under IFRS 16 — leases, depreciation and amortisation (ROU) and finance costs on leases replace the majority of rental expenses and therefore we combined these three elements for the analysis of lease-related expenses in Hong Kong and Macau

- In Mainland China, concessionaire fees slightly increased by 1.5% as sales improved. The higher concessionaire fees ratio was mainly due to the shift of sales mix towards gem-set products which are generally subject to higher rates.
- Lease-related expenses fell by 2.5% as the benefit of POS closures in FY2019 was fully reflected in 1HFY2020. Yet lease-related expenses ratio expanded by 100 basis points to 6.2% in 1HFY2020 due to the operating deleverage. The average increment on lease renewal during 1HFY2020 was 20%, or in a range of approximately 0% to 50%.

## Other income, other gains and losses and other expenses

Six months ended 30 September	2017 HK\$ million	2018 HK\$ million	2019 HK\$ million	2019 vs 2018 YoY change
Other income	186	167	213	▲ 27.4%
Other gains and losses	111	(334)	(142)	▼ 57.4%
Other expenses	(24)	(28)	(52)	▲ 86.4%

- Other income mainly arose from the government grants received by the subsidiaries in Mainland China.
- Other gains and losses mainly represented a net foreign exchange loss of HK\$142 million (1HFY2019: a net foreign exchange loss of HK\$326 million) due to the depreciation of RMB during the period.
- Other expenses mainly represented the goodwill impairment of HK\$26 million and the amortisation of other intangible assets of HK\$20 million arising from the acquisition of Hearts On Fire.

## Interest income, finance costs and taxation

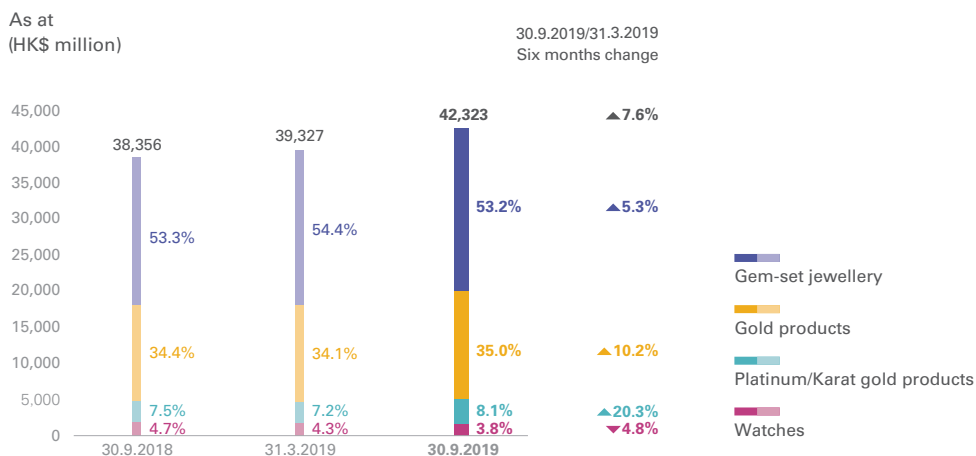
Six months ended 30 September	2017 HK\$ million	2018 HK\$ million	2019 HK\$ million	2019 vs 2018 YoY change
Interest income from banks	38	49	37	▼ 24.2%
Other interest income	6	10	–	▼ 100.0%
Finance costs on bank borrowings	(44)	(94)	(131)	▲ 39.5%
Finance costs on gold loans	(48)	(60)	(91)	▲ 52.3%
Finance costs on leases	N/A	N/A	(33)	N/A
Taxation	(675)	(728)	(620)	▼ 14.8%

- Finance costs on gold loans increased by 52.3% was mainly due to a relatively higher average ratio between gold loans and gold inventory in 1HFY2020 as compared to 1HFY2019 as the Group stocked up more gold inventories amid POS openings in Mainland China.
- Finance costs on bank borrowings increased by 39.5% as both bank borrowings and bank borrowing rates increased during 1HFY2020.
- Effective tax rate increased from 26.7% to 28.2% in 1HFY2020 as the contribution of Mainland China segment on profit before taxation increased in 1HFY2020.

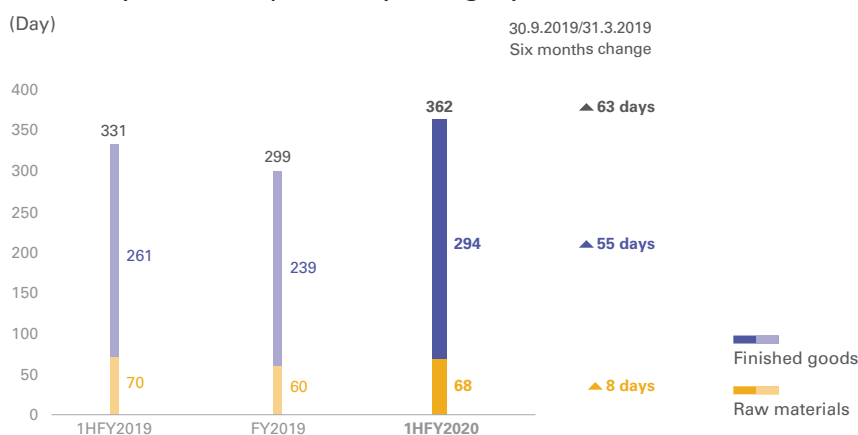
## Inventory Turnover and Capital Structure

### Inventory balances and turnover period

#### Inventory balances by product<sup>(1)</sup>



#### Inventory turnover period by category<sup>(2)</sup>



(1) Packaging materials excluded

(2) Being inventory balances, excluding packaging materials, at the end of the reporting period divided by cost of goods sold for the period, multiplied by 365 (for FY)/183 (for 1HFY)

- Inventory balances, excluding packaging materials, increased by 7.6% and stood at HK\$42,323 million as at 30 September 2019.
- Inventory turnover period prolonged by 31 days when compared to that of 1HFY2019 as inventory balances increased as at 30 September 2019.
- As at 30 September 2019, approximately HK\$5,689 million or 13.4% of our total inventory balances were held by franchised POS (31 March 2019: approximately HK\$4,590 million or 11.6% were held by franchised POS).
- If the inventory balances held by franchisees were excluded, inventory turnover period in 1HFY2020 would reduce to 313 days (1HFY2019: 299 days).



## Capital structure

As at	31.3.2019 HK\$ million	% to total equity	30.9.2019 HK\$ million	% to total equity	Increase (decrease) HK\$ million	Denominated currency <sup>(1)</sup>	Interest rate structure <sup>(1)</sup>
Non-current assets	8,459	26.9%	<b>10,487</b>	<b>38.8%</b>	2,027	N/A	N/A
Inventories	39,486	125.7%	<b>42,520</b>	<b>157.5%</b>	3,034	N/A	N/A
Cash and cash equivalents <sup>(2)</sup>	7,641	24.3%	<b>5,151</b>	<b>19.1%</b>	(2,490)	Mainly HKD, RMB and USD	Mainly variable interest rate
Total borrowings <sup>(3)</sup>	18,069	57.5%	<b>21,535</b>	<b>79.8%</b>	3,467		
Bank borrowings	10,057	32.0%	<b>11,080</b>	<b>41.0%</b>	1,024	HKD	Variable interest rate
Gold loans	8,012	25.5%	<b>10,455</b>	<b>38.7%</b>	2,443	RMB and USD	Fixed interest rate
Net debt <sup>(4)</sup>	10,428	33.2%	<b>16,384</b>	<b>60.7%</b>	5,957	N/A	N/A
Working capital <sup>(5)</sup>	26,307	83.8%	<b>19,113</b>	<b>70.8%</b>	(7,194)	N/A	N/A
Total equity	31,403	100.0%	<b>27,002</b>	<b>100.0%</b>	(4,401)	N/A	N/A

(1) Information about denominated currency and interest rate structure related to the condition as at 30 September 2019

(2) Bank balances and cash equivalents included

(3) As at 30 September 2019, bank borrowings amounted to HK\$10,483 million and all the gold loans would be matured within 12 months while bank borrowings amounted to HK\$597 million would be matured in more than 2 years but not exceeding 5 years

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

(5) Being net current assets

- We principally meet our working capital and other liquidity requirements through a combination of capital contributions, including cash flows from operations, bank borrowings and gold loans. Gold loans are also used for economic hedge purpose to mitigate the financial impact of the price fluctuations in the Group's gold inventories.
- The Group's daily operation was mainly financed by operating cash flows, and mainly relied on short-term borrowings to satisfy inventory financing needs during peak seasons, working capital for future expansion plans and unexpected needs. The Group has not experienced any difficulties in repaying its borrowings.
- The Group's income and expenditure were mostly denominated in HKD and RMB, while its assets and liabilities were mostly denominated in HKD, RMB and USD.

## Effect of RMB fluctuation

- As part of our business operation was in Mainland China, the fluctuation in RMB would post some impact to our performance.
- Transactions entered by the Hong Kong entities but denominated in RMB, including the inter-group transactions with the Mainland China subsidiaries, are converted into HKD, the functional currency of the Group, initially using the spot rate at the date of transaction and the unsettled transactions are retranslated at closing exchange rate at the balance sheet date. Such translation differences between the spot rate and closing exchange rate are recognised in profit or loss, negatively affecting our profit for the period when RMB depreciated.
- Exchange difference also arises when i) incomes and expenses of the Mainland China segment are translated into HKD, the presentation currency of the Group, at the average exchange rate, while the corresponding assets and liabilities are translated at closing exchange rate and ii) change in closing exchange rates at the current financial period of the net assets of the Mainland China segment from the closing rates at the previous financial year. Such differences are recognised in the translation reserve in equity.
- The tables below illustrate the fluctuation of RMB and the impact on our financial performance:

	30.9.2019/31.3.2019 Closing exchange rate six months change	1HFY2020 vs 1HFY2019 Average exchange rate YoY change
RMB to HKD	▼ 4.9%	▼ 4.4%

Six months ended 30 September	2018		2019	
	As reported	Constant exchange rate basis	As reported	Constant exchange rate basis
Revenue YoY change	▲ 20.0%	▲ 17.7%	▼ 0.6%	▲ 2.6%
Core operating profit YoY change	▲ 24.7%	▲ 22.1%	▲ 18.0%	▲ 22.4%
Changes in inventory balances (30 September vs 31 March)	▲ 10.0%	▲ 15.3%	▲ 7.7%	▲ 10.6%
Changes in cash and cash equivalents (30 September vs 31 March)	▼ 39.2%	▼ 35.2%	▼ 32.6%	▼ 30.9%

- Revenue and core operating profit on constant exchange rate basis are calculated by translating current period's revenue and core operating profit of the Mainland China segment in RMB into HKD using the prior period's average RMB to HKD exchange rates. We believe using constant exchange rate basis could enhance the comparability between two financial periods.

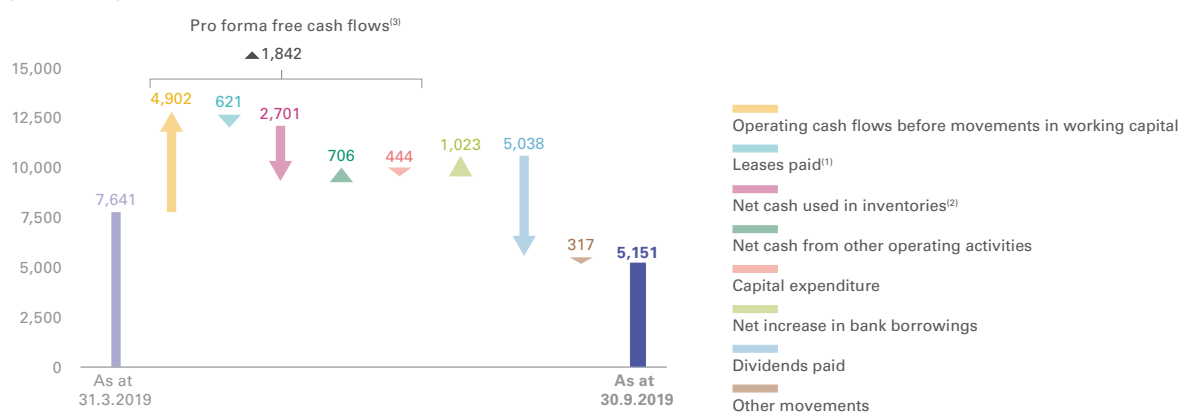
## Cash Flows and Others

### Cash flows

Six months ended 30 September	2017 HK\$ million	2018 HK\$ million	2019 HK\$ million
Operating cash flows before movements in working capital	2,869	3,124	4,902
Leases paid <sup>(1)</sup>	N/A	N/A	(621)
Net cash used in inventories <sup>(2)</sup>	(2,948)	(2,992)	(2,701)
Net cash from (used in) other operating activities	(187)	317	706
Purchase of jewellery collectibles	(553)	–	–
Capital expenditure	(410)	(528)	(444)
<b>Pro forma free cash flows<sup>(3)</sup></b>	<b>(1,229)</b>	<b>(79)</b>	<b>1,842</b>
Net change in bank borrowings	1,297	1,860	1,023
Dividends paid	(3,027)	(4,561)	(5,038)
Other movements	95	(333)	(317)
<b>Net decrease in bank balances and cash</b>	<b>(2,864)</b>	<b>(3,113)</b>	<b>(2,490)</b>

### Major cash flows items for 1HFY2020

(HK\$ million)



(1) With adoption of IFRS 16, leases paid was included in financing activities

(2) Net cash used in inventories included net change in inventories, gold loan raised and repayment of gold loans

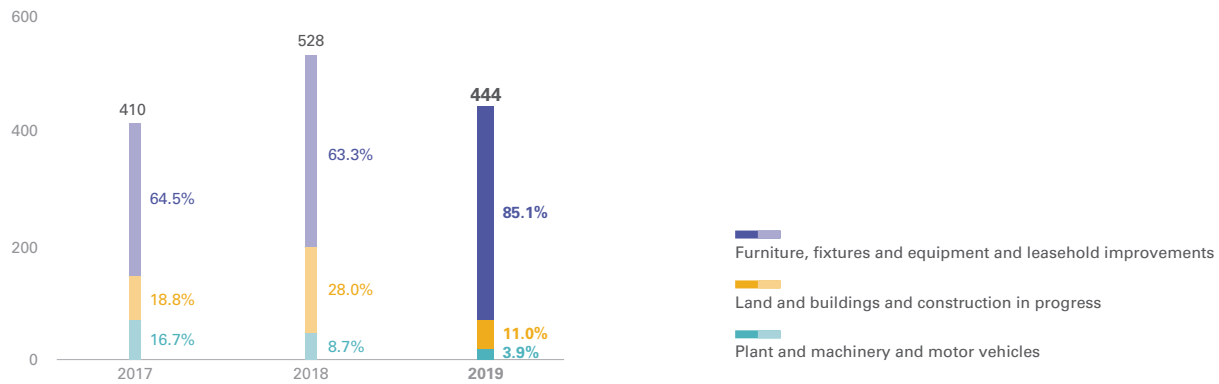
(3) Net cash from (used in) operating activities less leases paid, purchase of jewellery collectibles, capital expenditure and net movements for gold loans

## Capital expenditure

- The Group's capital expenditure incurred during 1HFY2020 amounted to HK\$444 million (1HFY2019: HK\$528 million).

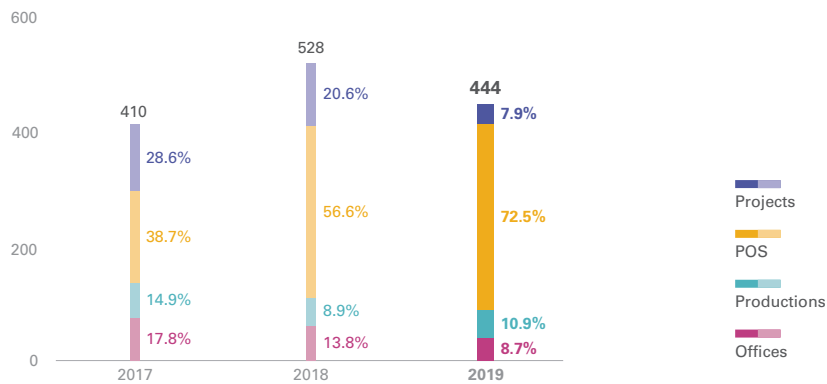
### Capital expenditure by nature

Six months ended 30 September  
(HK\$ million)



### Capital expenditure by function

Six months ended 30 September  
(HK\$ million)



## **CORPORATE STRATEGIES**

### **Business Development**

Our business encountered a rather soft performance in 1HFY2020 as high base of comparison, ongoing US-China trade conflicts and cautious consumer sentiment stretched our operations during the period with the scenario being aggravated by the situation in Hong Kong.

We remain prudent in FY2020 amidst the escalating macro uncertainties with cost saving measures in place, while we remain agile in order to capture new opportunities through continuous market penetration and the rollout of our multi-brand strategy to expand our customer base in Mainland China. Meanwhile, our expansion plan into other markets, in particular Asian countries, over the past few years is on track and has been effective in capitalising on the growth potential from Mainland tourists.

We continue to enrich our customer experience through the implementation of our “Smart+2020” strategic framework. Our response to the transforming retail industry has gained positive feedback and has enabled us to maintain our industry leadership.

### **Mainland China**

#### **CHOW TAI FOOK JEWELLERY and endorsed brands**

- POS with elevated shop images including ARTRIUM and JEWELRIA expanded to new locations mainly in Tier I to II cities for customers with sophisticated demands.
- Expansion through penetration to lower tier cities was further executed by franchisees leveraging their local knowledge and access. County level expansion plans are being implemented on schedule in new locations.
- During the period, there were 319 net POS openings of CHOW TAI FOOK JEWELLERY, 1 and 13 net POS openings of ARTRIUM and JEWELRIA, respectively.

#### **Other brands**

- In line with our multi-brand strategy, we have in the pipeline the rollout of different brands in order to further enrich customer choice and cater for different customer demands.
- 10 MONOLOGUE and 9 SOINLOVE POS were opened during the period.

## Retail network in Mainland China

As at 30 September 2019

### CHOW TAI FOOK Brands

#### CHOW TAI FOOK JEWELLERY

3,088 POS

#### ARTRIUM

3 POS

#### JEWELRIA

45 POS

#### CTF WATCH

113 POS

### Other Brands

#### HEARTS ON FIRE

1 POS 173 SIS/CIS

#### T MARK

4 POS 721 CIS

#### SOINLOVE

36 POS

#### MONOLOGUE

48 POS

Total POS in  
Mainland China

3,338 POS

## Hong Kong, Macau and Other Markets

### Hong Kong and Macau

#### **CHOW TAI FOOK JEWELLERY and endorsed brands**

- A net of 3 CHOW TAI FOOK JEWELLERY POS were opened during 1HFY2020. Their presence captured new demand from different locations.
- We continued to refresh our customer experiences at the store level, such as the new experience shop located at Victoria Dockside in Tsim Sha Tsui, Hong Kong and the upgrade of some selective POS with new shop layouts.
- Responding to the current situation in Hong Kong, the Group will seek POS network optimisation in Hong Kong to enhance store profitability.

#### **Other brands**

- MONOLOGUE, targeting young millennials, was first introduced in Hong Kong with its POS opened in Tsim Sha Tsui, Hong Kong this August.

#### **Other markets**

- 4 POS were opened in Korea, the Philippines and Singapore, and 2 POS were opened in duty free shops in Mainland China during 1HFY2020. We are proactive in expanding our retail network into neighbouring countries which offer high future growth potential.

## Retail network in Hong Kong, Macau and other markets

As at 30 September 2019

### Hong Kong and Macau

#### CHOW TAI FOOK Brands

##### CHOW TAI FOOK JEWELLERY

101 POS

##### ARTRIUM

1 POS

#### Other Brands

##### HEARTS ON FIRE

1 POS 25 SIS/CIS

##### T MARK

1 POS 44 CIS

##### MONOLOGUE

1 POS

Total POS in  
Hong Kong, Macau  
and other markets

152 POS

### Other markets

#### CHOW TAI FOOK Brands

##### CHOW TAI FOOK JEWELLERY

37 POS

#### Other Brands

##### HEARTS ON FIRE

10 POS 1 SIS/CIS

##### T MARK

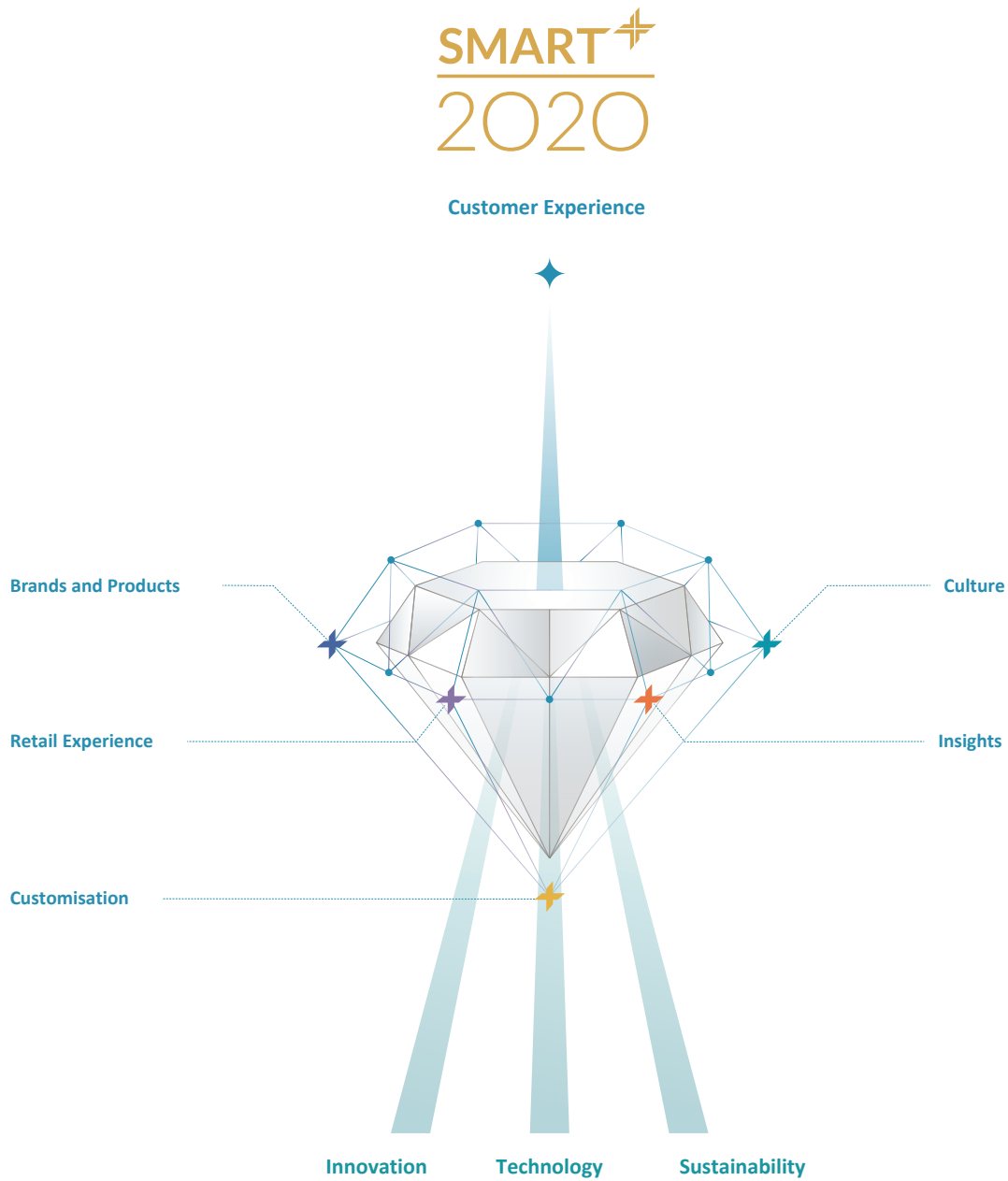
17 CIS

## Wholesale Business

- With our strong global retail network, we are capable of extending our jewellery wholesale business around the world.
- Based in the United States, Chow Tai Fook North America (“CTFNA”) continues to act as a business hub and single source wholesaler that brings profit and growth to jewellery retailers across the North American market.

## “Smart+ 2020” Strategic Framework

Our “Smart+ 2020” framework is a three-year strategic work plan supported by our dedicated Smart working teams, which are tasked with the delivery of each strategy from conception through to execution.





## Brands and Products

### CHOW TAI FOOK JEWELLERY and endorsed brands

#### **CHOW TAI FOOK JEWELLERY**

- The revamp initiatives continued in selective CHOW TAI FOOK JEWELLERY POS to offer varied store layouts with interactive technology. For instance, some were installed with cloud kiosks and self-service experience corners to enhance the customer experience.
- CTF • HUÁ Collection built on its success by presenting the natural balance of culture, heritage and modern aesthetics in 1HFY2020. CTF • HUÁ Collection contributed 30.6% of the RSV of our gold products in Mainland China during the period compared to 11.6% same period last year. Its new design Imperial Jade • HUÁ Collection is crafted in pure gold with precious jade demonstrating exquisite craftsmanship and deep affiliation with ancient Chinese culture.

#### **ARTRIUM**

- The latest ARTRIUM, in an elegant showroom style, was opened in Guangzhou, Mainland China this June. The showroom's private setting provides an exclusive experience to customers and allows them to appreciate fine jewellery in an elegant and tranquil ambience.

#### **JEWELRIA**

- JEWELRIA captures product offerings from select international designers and jewellery brands. Annoushka and Kagayoi are two international brands that have recently joined the JEWELRIA family. They provide a sense of delightful novelty to our sophisticated customers. Renowned designer Annoushka Ducas MBE established Annoushka brand which displays playfulness, wearability and daily glamour through the bold colour combinations. Kagayoi, a jewellery brand from Japan founded in 1861, embodies Kyoto's unique aesthetic sense and deep heritage.

#### **T MARK**

- T MARK diamond is awarded the certification of ISO 18323:2015 – Jewellery – Consumer Confidence in the Diamond Industry by the International Organisation for Standardisation ("ISO") for transparent traceability of natural diamonds. This certification award therefore further enhances the consumer confidence in our brand's diamond integrity and transparency.
- A personalised T MARK embossment service has launched in October to enable selected customers to customise their own codes for their T MARK diamonds.
- In 1HFY2020, T MARK products accounted for 19.2% and 28.1% of the RSV of our diamond products in Mainland China and Hong Kong and Macau, respectively.
- RSV raised by 10.2% in Mainland China, whereas it dropped 15.0% in Hong Kong and Macau.

## **HEARTS ON FIRE**

- The brand is delighted to introduce a new jewellery collection designed by Hayley Paige, one of the most sought-after bridal dress designers from the United States. The new Hayley Paige for HEARTS ON FIRE Collection combined the whimsical and modern aesthetics of Paige's dresses that translated into a unique and captivating bridal jewellery line, was unveiled in October 2019.
- In 1HFY2020, HEARTS ON FIRE accounted for 1.4% and 3.9% of the RSV of our diamond products in Mainland China and Hong Kong and Macau, respectively.
- RSV dropped 33.9% and 21.8% in Mainland China and Hong Kong and Macau, respectively. The HEARTS ON FIRE retail network in Mainland China is being restructured to target sophisticated customers in the high-end markets.

## **SOINLOVE and MONOLOGUE**

- We have been adventurous in exploring innovative promotional channels to connect SOINLOVE and MONOLOGUE with younger customers.
- For instance, MONOLOGUE x Coca-Cola pop-ups were held in Tier I cities such as Beijing and Shanghai, showcasing the exclusive jewellery collection. Moreover, seizing on the wave of e-sports, MONOLOGUE sponsored the e-sports festival in Hong Kong in August 2019 with e-sports lovers as its target audiences.

## **Retail Experience**

- Building on our omni-channel retailing initiatives, cloud kiosk is one of the latest examples of our relentless innovation. It is an online-to-offline ("O2O") hub linking online orders at physical locations to our e-commerce platform. Thanks to this flexible setup, there were over 200 spots, primarily at our POS in Mainland China as of 30 September 2019, where customers can experience a shorter transaction time and wider product selection anytime and anywhere.
- To increase our brand visibility and awareness, pop-up stores with different themes and layouts were introduced in numerous cities across Mainland China, and they delivered novel and engaging customer experience.

## **Customer relationship management**

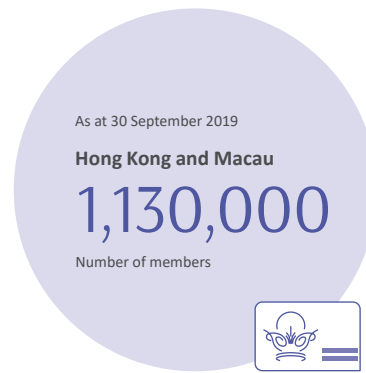
- Digitalisation of customer relationship programme in Mainland China facilitates members' privileges to be consolidated and managed under one account with all brands under the Group. Redemption of lifestyle privileges increases the attractiveness of our customer relationship programme.



1H FY2020

**24.1%**

Members' repeat purchase as a % of respective RSV



1H FY2020

**32.9%**

Members' repeat purchase as a % of respective RSV

## Customisation

- C2M experience centre has been in operation since September 2019. The centre facilitates customers who purchase on the D-ONE platform to witness their jewellery production journey in person. Selected automated equipment is deployed to upgrade the production framework at the C2M centre and expedite the production process, so that customisation orders can be finalised within 24 hours.
- D-ONE platform is now available for customers on eShop and in physical stores in Hong Kong. The recently opened experience shop at Victoria Dockside, Tsim Sha Tsui, is the first POS in Hong Kong to be equipped with the D-ONE platform.

## Insights

- Ongoing efforts in using big data analytics enable us to evaluate customer satisfaction on products and services in order to generate useful insights for enhancing staff training and product quality, as well as optimising inventory replenishment.

## Culture

### Celebrating our 90<sup>th</sup> Anniversary

- Entering our 90<sup>th</sup> Anniversary, a series of roadshows has been taking place in 10 cities in Mainland China to exhibit the aesthetics of jewellery from different eras.

### Loupe

- Offering a common design incubation space for talents in the jewellery industry, Loupe, an external innovation incubator, provides an exhibition space allowing artists to showcase their work and share their visions. From August to September 2019, the Oriental Dreamland exhibition by Sun Chin, an acclaimed Chinese jewellery designer, was held in Loupe. Her work combined the natural beauty of gold, with the refined and humble spirit of the East and the resplendence of Western jewellery design.

### Loupe Jewellery Academy

- As part of the Group's relentless efforts to incubate our potential talents, the Group was honoured to partner with the Haute École de Joaillerie, one of the most prestigious jewellery institutions in the world to set up the Loupe Jewellery Academy. The academy offers students with professional and vocational trainings which are taught by experienced and professional lecturers.

## BUSINESS OUTLOOK AND STRATEGIES

A challenging benchmark for 1HFY2020 was set against a tough comparison base to the same period last year. The market has been softening amidst the escalating US-China trade conflicts and macro headwinds. The Hong Kong and Macau market will remain challenging in the near term. Yet, our strategy on market penetration to lower tier and county level cities in Mainland China will continue to keep our growth momentum.

Regardless of the near-term challenges, the Group maintains the focus on its long-term goals and sustainable development, and invests for the future with foresight. We have examined the operations and financial position and laid out three key immediate measures to mitigate the short-term impact and improve our risk management. These are to enhance our healthy financial position, to optimise the use of our resources and to empower our people to be “intrapreneurs”.

“Smart+ 2020” strategic framework continues to translate identifiable initiatives into exceptional customer experiences and operating efficiency enhancement. Our multi-brand strategy extended the spectrum of product offerings to meet the needs of our customers. Leveraging technology, our innovative ideas are converted into notable retail experiences and creating joyous moments along the customers’ shopping journey. A better understanding of our customers, derived from our analytic tools, shapes new directions and business plans. The aforementioned initiatives were strengthened over the past few years with the support of the “Smart+ 2020” strategic framework underpinned by technology, innovation and sustainability. Upon completion of the three-year framework, we will evaluate overall effectiveness of our work plan and formulate new strategies.

### THE UNAUDITED KEY OPERATIONAL DATA FROM 1 OCTOBER TO 21 NOVEMBER 2019

From 1 October up to 21 November 2019, the year-on-year changes of Retail Sales Value and Same Store Sales are as follows:

	(% change compared to the same period last year)	
	Mainland China	Hong Kong and Macau
Retail Sales Value growth	▲ 15%	▼ 39%
Same Store Sales growth	▲ 1%	▼ 38%
Same Store Sales volume growth	▼ 11%	▼ 48%
<b>Same Store Sales growth by product</b>		
— Gem-set jewellery	▲ 2%	▼ 50%
— Gold products	▼ 4%	▼ 35%

*Remark: The above data has not been reviewed nor audited by the auditors of the Company*

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK\$0.12 per share, amounting to approximately HK\$1,200 million, to shareholders whose names appear on the register of members of the Company on Friday, 13 December 2019. The interim dividend is expected to be paid on or around Monday, 23 December 2019.

## **REVIEW OF INTERIM RESULTS**

The Audit Committee of the Company has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2019 and discussed the financial related matters with the management. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2019 have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

## **CLOSURE OF REGISTER OF MEMBERS**

In order to establish entitlements to the interim dividend, the register of members of the Company will be closed on Friday, 13 December 2019 and no transfer of share of the Company will be registered on that day. All transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 12 December 2019.

## **CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 September 2019, the Company was in full compliance with all applicable principles and code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard as set out in the Model Code and the Company's code of conduct during the six months ended 30 September 2019.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2019.

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

Hong Kong, 28 November 2019

*As at the date of this announcement, the executive directors are Dr. Cheng Kar-Shun, Henry, Mr. Wong Siu-Kee, Kent, Dr. Cheng Chi-Kong, Adrian, Mr. Cheng Chi-Heng, Conroy, Mr. Cheng Ping-Hei, Hamilton, Mr. Chan Sai-Cheong, Mr. Suen Chi-Keung, Peter, Mr. Chan Hiu-Sang, Albert, Mr. Liu Chun-Wai, Bobby and Mr. Cheng Kam-Biu, Wilson; the non-executive director is Ms. Cheng Chi-Man, Sonia; and the independent non-executive directors are Dr. Fung Kwok-King, Victor, Dr. Or Ching-Fai, Raymond, Mr. Kwong Che-Keung, Gordon, Mr. Cheng Ming-Fun, Paul, Mr. Lam Kin-Fung, Jeffrey and Ms. Cheng Ka-Lai, Lily.*