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CHOW TAI FOOK JEWELLERY GROUP LIMITED

周大福珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1929

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020 AND THE UNAUDITED KEY OPERATIONAL DATA FROM 1 APRIL TO 31 MAY 2020

- Revenue decreased by 14.9% year-on-year, mainly attributable to the COVID-19 epidemic in 4QFY2020, a surge in international gold price that dampened the retail demand for gold products, and a weak performance in Hong Kong.
- Same Store Sales⁽¹⁾ (“SSS”) in Mainland China and Hong Kong and Macau recorded a decline of 15.1% and 38.7%, respectively.
- Core operating profit⁽²⁾ plunged by 18.4% due to revenue decline, yet the corresponding margin⁽²⁾ managed to stay at 10.0% despite a very challenging environment surrounding our key operations.
- Retail network expanded to 3,850 POS as at 31 March 2020, with a net addition of 716 POS in FY2020.
- After laying a solid foundation over the past three years through our “Smart+ 2020” strategic framework, we are well-positioned for a next chapter of growth and will continue to implement our customer-centric strategy to deliver exceptional customer experience.

FINANCIAL HIGHLIGHTS

For the year ended 31 March	2020 HK\$ million	2019 HK\$ million	YoY change
Revenue	56,751	66,661	-14.9%
Gross profit	16,096	18,602	-13.5%
<i>Gross profit margin</i>	28.4%	27.9%	
<i>Adjusted gross profit margin⁽³⁾</i>	29.6%	27.9%	
Core operating profit ⁽²⁾	5,687	6,972	-18.4%
<i>Core operating profit margin⁽²⁾</i>	10.0%	10.5%	
Profit attributable to shareholders of the Company	2,901	4,577	-36.6%
Earnings per share (HK\$)	0.29	0.46	-36.6%
Dividend per share ⁽⁴⁾ (HK\$)	0.24	0.65	
<i>Full year dividend (HK\$)</i>	0.24	0.35	
<i>Special dividend (HK\$)</i>	–	0.30	

- (1) “Same Store Sales” for FY2020 is the revenue from the self-operated points of sale (“POS”) existing as at 31 March 2020 and which have been opened prior to 1 April 2018, measured at constant exchange rates. Revenue from wholesale and other channels are excluded
- (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 administration 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 business
- (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 proposed final dividend of HK\$0.12 per share is subject to the approval of shareholders at the forthcoming annual general meeting. Dividend payout ratio for FY2020 is approximately 82.7% on a full year basis

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

The board of directors (the “Board” or “Directors”) of Chow Tai Fook Jewellery Group Limited (the “Company”, “we” or “Chow Tai Fook”) is pleased to announce the audited annual results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 March 2020 (“FY2020”), together with comparative figures for the year ended 31 March 2019 (“FY2019”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

		2020	2019
	<i>Notes</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue	2	56,750.8	66,660.9
Cost of goods sold		<u>(40,654.6)</u>	<u>(48,059.1)</u>
Gross profit		16,096.2	18,601.8
Other income		436.6	395.8
Selling and distribution costs		(8,689.7)	(9,037.8)
General and administrative expenses		(2,867.1)	(2,986.7)
Other gains and losses		(147.1)	(276.2)
Other expenses		(146.3)	(57.3)
Share of profits of an associate		3.5	–
Interest income		78.0	82.7
Finance costs		<u>(559.6)</u>	<u>(370.3)</u>
Profit before taxation	3	4,204.5	6,352.0
Taxation	4	<u>(1,221.4)</u>	<u>(1,668.0)</u>
Profit for the year		<u>2,983.1</u>	<u>4,684.0</u>

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

For the year ended 31 March 2020

	Note	2020 HK\$ million	2019 HK\$ million
Other comprehensive expense			
<i>Item that will not be reclassified to profit or loss:</i>			
— remeasurement of defined benefit scheme		<u>(24.0)</u>	<u>(7.5)</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>			
— exchange differences arising on translation of foreign operations		<u>(980.6)</u>	<u>(1,288.1)</u>
Other comprehensive expense for the year		<u>(1,004.6)</u>	<u>(1,295.6)</u>
Total comprehensive income for the year		<u><u>1,978.5</u></u>	<u><u>3,388.4</u></u>
Profit for the year attributable to:			
Shareholders of the Company		2,901.0	4,576.8
Non-controlling interests		<u>82.1</u>	<u>107.2</u>
		<u><u>2,983.1</u></u>	<u><u>4,684.0</u></u>
Total comprehensive income for the year attributable to:			
Shareholders of the Company		1,937.2	3,327.3
Non-controlling interests		<u>41.3</u>	<u>61.1</u>
		<u><u>1,978.5</u></u>	<u><u>3,388.4</u></u>
Earnings per share — Basic and Diluted	5	<u><u>HK29.0 cents</u></u>	<u><u>HK45.8 cents</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Notes	2020 HK\$ million	2019 HK\$ million
Non-current assets			
Property, plant and equipment		4,641.3	5,488.0
Land use rights		–	177.2
Right-of-use assets		2,288.0	–
Investment properties		225.4	219.2
Goodwill		231.5	257.8
Other intangible assets		207.6	253.7
Jewellery collectibles		1,520.1	1,520.1
Prepayment and deposits		248.3	38.7
Financial assets at fair value through profit or loss		21.0	11.2
Investments in associates		11.7	–
Amounts due from associates		57.5	54.7
Loan receivables		15.6	18.7
Deferred tax assets		570.1	420.1
		<u>10,038.1</u>	<u>8,459.4</u>
Current assets			
Inventories	7	42,538.4	39,486.1
Trade and other receivables	8	5,340.8	6,638.7
Loan receivables		7.9	12.3
Taxation recoverable		99.0	–
Cash and cash equivalents		7,219.2	7,640.6
		<u>55,205.3</u>	<u>53,777.7</u>
Current liabilities			
Trade and other payables	9	12,430.0	10,684.3
Amounts due to non-controlling shareholders of subsidiaries		97.9	136.7
Taxation payable		388.6	1,178.4
Bank borrowings		10,533.0	7,460.0
Gold loans		11,280.4	8,011.5
Lease liabilities		896.8	–
		<u>35,626.7</u>	<u>27,470.9</u>
Net current assets		<u>19,578.6</u>	<u>26,306.8</u>
Total assets less current liabilities		<u>29,616.7</u>	<u>34,766.2</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31 March 2020

	2020 <i>HK\$ million</i>	2019 <i>HK\$ million</i>
Non-current liabilities		
Bank borrowings	897.5	2,596.7
Lease liabilities	900.3	–
Retirement benefit obligations	260.2	238.8
Deferred tax liabilities	505.1	456.4
Other liabilities	62.8	71.3
	<u>2,625.9</u>	<u>3,363.2</u>
Net assets	<u>26,990.8</u>	<u>31,403.0</u>
Share capital	10,000.0	10,000.0
Reserves	<u>16,343.3</u>	<u>20,750.7</u>
Equity attributable to shareholders of the Company	26,343.3	30,750.7
Non-controlling interests	<u>647.5</u>	<u>652.3</u>
	<u>26,990.8</u>	<u>31,403.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. BASIS OF PREPARATION

New and amended standards adopted by the Group

The Group has applied the following standards and amendments which are first effective 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 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvement to IFRS Standards 2015–2017 Cycle

Except as described below, the application of other new and amended IFRSs in current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amended standards early adopted by the Group

The Group has early adopted the following amendments of IFRS, which are relevant to its operations.

Amendments to IFRS 16	COVID-19-related rent concessions
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Amendments to IFRS 16 "COVID-19-related rent concessions" allow lessee to elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Such practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- There is no substantive change to other terms and conditions of the lease.

IFRS 16 *Leases*

The Group has adopted IFRS 16 *Leases* 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 balance sheet 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%.

1. BASIS OF PREPARATION (Continued)

IFRS 16 Leases (Continued)

(a) 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.

Upon the adoption of IFRS 16, the Group reclassified leasehold land from property, plant and equipment and land use rights to right-of-use assets for presentation purpose.

(b) 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	(82.6)
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*	(210.7)
Lease liabilities recognised as at 1 April 2019	2,331.0
Of which are:	
Current lease liabilities	1,056.4
Non-current lease liabilities	1,274.6
	2,331.0

* The weighted average incremental borrowing rate was 2.93%.

1. BASIS OF PREPARATION (Continued)

IFRS 16 Leases (Continued)

(c) 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:

	At 31 March 2020 <i>HK\$ million</i>	At 1 April 2019 <i>HK\$ million</i>
Leasehold land/land use rights	592.4	648.8
Retail stores	1,592.3	2,104.7
Office, warehouse and others	103.3	114.8
Total right-of-use assets	2,288.0	2,868.3

(d) 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 31 March 2019 (as previously presented) <i>HK\$ million</i>	Effect on adoption of IFRS 16 <i>HK\$ million</i>	At 1 April 2019 (as adjusted) <i>HK\$ million</i>
Non-current assets			
Property, plant and equipment	5,488.0	(471.6)	5,016.4
Land use rights	177.2	(177.2)	–
Right-of-use assets	–	2,868.3	2,868.3
Deferred tax assets	420.1	23.4	443.5
Current asset			
Trade and other receivables	6,638.7	(26.6)	6,612.1
Current liabilities			
Trade and other payables	(10,684.3)	(29.9)	(10,714.2)
Lease liabilities	–	(1,056.4)	(1,056.4)
Non-current liability			
Lease liabilities	–	(1,274.6)	(1,274.6)
Equity			
Retained profits	(11,547.3)	144.6	(11,402.7)
	<u>(9,507.6)</u>	<u>–</u>	<u>(9,507.6)</u>

(e) 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 the CODM. The Group’s reportable and operating segments for the years ended 31 March 2020 and 2019 included two segments, namely (i) business in the Mainland China and (ii) business in Hong Kong, Macau and other markets.

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

For the year ended 31 March

	Mainland China		Hong Kong, Macau and other markets		Total	
	2020 HK\$ million	2019 HK\$ million	2020 HK\$ million	2019 HK\$ million	2020 HK\$ million	2019 HK\$ million
Revenue						
External sales						
— Retail	26,796.0	30,423.7	14,875.3	23,058.3	41,671.3	53,482.0
— Wholesale (note i)	13,966.8	12,008.3	1,112.7	1,170.6	15,079.5	13,178.9
Segment/group revenue	40,762.8	42,432.0	15,988.0	24,228.9	56,750.8	66,660.9
Inter-segment sales (note ii)	—	—	2,126.3	3,405.3	2,126.3	3,405.3
	40,762.8	42,432.0	18,114.3	27,634.2	58,877.1	70,066.2
Adjusted gross profit (before elimination)	12,432.2	12,237.2	4,244.3	6,524.0	16,676.5	18,761.2
Inter-segment eliminations	—	1.3	130.5	(161.7)	130.5	(160.4)
Adjusted gross profit	12,432.2	12,238.5	4,374.8	6,362.3	16,807.0	18,600.8
Other income	279.4	252.7	157.2	143.1	436.6	395.8
Selling and distribution costs and general and administrative expenses	(7,615.7)	(7,486.7)	(3,941.1)	(4,537.8)	(11,556.8)	(12,024.5)
Core operating profit (segment result)	5,095.9	5,004.5	590.9	1,967.6	5,686.8	6,972.1
Unrealised (loss)/gain on gold (note iii)					(710.8)	1.0
Others (note iv)					(289.9)	(333.5)
Interest income					78.0	82.7
Finance costs					(559.6)	(370.3)
Profit before taxation					4,204.5	6,352.0
Other segment information included in measurement of core operating profit (segment result):						
Concessionaire fees	1,583.3	1,891.7	1.4	16.3	1,584.7	1,908.0
Operating lease rentals in respect of rented premises	135.6	353.8	116.0	1,204.1	251.6	1,557.9
Staff costs	3,027.7	2,852.4	1,532.8	1,769.3	4,560.5	4,621.7
Depreciation and amortisation	964.2	616.5	1,405.7	349.9	2,369.9	966.4

2. REVENUE AND SEGMENT INFORMATION (Continued)

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

Notes:

- (i) Wholesale revenue represents revenue from jewellery trading, sales to franchisees and retailers and provision of services to franchisees.
- (ii) Inter-segment sales are charged at a price mutually agreed by both parties.
- (iii) A fair value loss on gold loans of HK\$1,276.1 million (2019: HK\$117.2 million) was recorded as disclosed in note 3, of which HK\$710.8 million (2019: fair value gain of HK\$1.0 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).
- (iv) Others represent other gains and losses, other expenses and share of profits of an associate.

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 profits 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 and liabilities by reportable segment

As at 31 March

Segment assets

	Mainland China		Hong Kong, Macau and other markets		Total	
	2020	2019	2020	2019	2020	2019
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Property, plant and equipment	3,437.8	3,769.8	1,203.5	1,718.2	4,641.3	5,488.0
Land use rights	–	153.8	–	23.4	–	177.2
Right-of-use assets	589.5	–	1,698.5	–	2,288.0	–
Investment properties	17.2	–	208.2	219.2	225.4	219.2
Goodwill	193.3	193.3	38.2	64.5	231.5	257.8
Other intangible assets	142.8	171.2	47.6	57.0	190.4	228.2
Jewellery collectibles	–	–	1,520.1	1,520.1	1,520.1	1,520.1
Prepayment and deposits	96.5	32.1	151.8	6.6	248.3	38.7
Inventories	24,547.8	20,838.1	17,990.6	18,648.0	42,538.4	39,486.1
Trade and other receivables	4,698.2	5,830.4	642.6	808.3	5,340.8	6,638.7
Taxation recoverable	–	–	99.0	–	99.0	–
Total segment assets	33,723.1	30,988.7	23,600.1	23,065.3	57,323.2	54,054.0
Unallocated:						
Other intangible assets					17.2	25.5
Financial assets at fair value through profit or loss					21.0	11.2
Investments in associates and amounts due from associates					69.2	54.7
Loan receivables					23.5	31.0
Deferred tax assets					570.1	420.1
Cash and cash equivalents					7,219.2	7,640.6
Total assets					65,243.4	62,237.1

2. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Analysis of the Group's assets and liabilities by reportable segment (Continued)

As at 31 March

Segment liabilities

	Mainland China		Hong Kong, Macau and other markets		Total	
	2020	2019	2020	2019	2020	2019
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Trade and other payables	(11,338.5)	(9,364.1)	(1,091.5)	(1,320.2)	(12,430.0)	(10,684.3)
Taxation payables	(227.9)	(489.3)	(160.7)	(689.1)	(388.6)	(1,178.4)
Lease liabilities	(472.3)	–	(1,324.8)	–	(1,797.1)	–
Total segment liabilities	(12,038.7)	(9,853.4)	(2,577.0)	(2,009.3)	(14,615.7)	(11,862.7)
Unallocated:						
Amount due to non-controlling shareholders of subsidiaries					(97.9)	(136.7)
Bank borrowings					(11,430.5)	(10,056.7)
Gold loans					(11,280.4)	(8,011.5)
Retirement benefits obligations					(260.2)	(238.8)
Deferred tax liabilities					(505.1)	(456.4)
Other liabilities					(62.8)	(71.3)
Total liabilities					(38,252.6)	(30,834.1)

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

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

As at 31 March

	2020	2019
	HK\$ million	HK\$ million
Mainland China	4,853.9	4,766.9
Hong Kong, Macau and other markets	4,331.4	3,187.8
	9,185.3	7,954.7

2. REVENUE AND SEGMENT INFORMATION (Continued)

(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:

For the year ended 31 March

	2020 <i>HK\$ million</i>	2019 <i>HK\$ million</i>
At a point in time		
Retail sales of		
– Gem-set jewellery	9,346.8	12,187.7
– Gold products	24,003.4	31,892.3
– Platinum/karat gold products	4,908.0	5,756.6
– Watches	3,413.1	3,645.4
	41,671.3	53,482.0
Wholesale to franchisees/retailers	14,578.9	12,484.2
Jewellery trading	245.2	494.7
Over time		
Service income from franchisees	255.4	200.0
	56,750.8	66,660.9

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

3. PROFIT BEFORE TAXATION

	2020 <i>HK\$ million</i>	2019 <i>HK\$ million</i>
Profit before taxation has been arrived at after charging/(crediting):		
Directors' remuneration	97.1	92.6
Staff's retirement benefits scheme contributions	606.2	613.3
Staff costs	3,857.2	3,915.8
	4,560.5	4,621.7
Cost of inventories recognised as expenses	38,333.7	46,723.5
Concessionaire fees	1,584.7	1,908.0
Operating lease rentals in respect of rented premises	251.6	1,557.9
Depreciation of property, plant and equipment	975.0	885.1
Depreciation of right-of-use assets	1,337.5	–
Depreciation of investment properties	11.3	14.3
Amortisation of land use rights	–	14.3
Amortisation of other intangible assets	46.1	52.7
Utilisation of allowances on inventories (included in cost of goods sold)	(24.1)	(113.5)
Loss allowance (written back)/recognised on trade and other receivables	(3.2)	27.5
Fair value loss of gold loans (included in cost of goods sold)		
– realised loss on gold	565.3	118.2
– unrealised loss/(gain) on gold (<i>note 2</i>)	710.8	(1.0)
	1,276.1	117.2
Gain on acquisition of ENZO (included in other gains and losses)	18.0	–
Donations (included in other expenses)	20.1	9.9
Auditors' remuneration for the Company's auditor		
– audit and related services	6.2	5.0
– non-audit services	2.2	1.7
Auditor's remuneration for other auditors		
– audit and related services	3.9	4.2
– non-audit services	–	0.9

4. TAXATION

	2020 <i>HK\$ million</i>	2019 <i>HK\$ million</i>
The taxation charge comprises:		
Current tax:		
Enterprise Income Tax (“EIT”) in Mainland China	789.9	1,035.8
Hong Kong Profits Tax	129.8	289.7
Macau complementary tax	31.6	60.5
Taxation in other jurisdictions	3.3	3.5
	<u>954.6</u>	<u>1,389.5</u>
(Over)/underprovision in prior years:		
EIT in Mainland China	(6.8)	25.7
Hong Kong Profits Tax	0.1	111.5
Taxation in other jurisdictions	1.5	2.4
	<u>(5.2)</u>	<u>139.6</u>
Deferred tax charge	<u>149.3</u>	<u>114.8</u>
Withholding tax*	<u>122.7</u>	<u>24.1</u>
	<u><u>1,221.4</u></u>	<u><u>1,668.0</u></u>

* 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 years.

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

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

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

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the consolidated profit attributable to shareholders of the Company for the year and on the number of 10,000,000,000 (2019: 10,000,000,000) shares in issue during the year.

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

6. DIVIDENDS

	2020		2019	
	<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 year				
For current year:				
– Interim dividends	12.0	1,200.0	15.0	1,500.0
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>6,200.0</u>		<u>6,000.0</u>

Subsequent to the end of the reporting period, a final dividend of HK12.0 cents (2019: a final dividend of HK20.0 cents and a special dividend of HK30.0 cents) per share, totalling HK\$1,200.0 million (2019: HK\$5,000.0 million) in respect of the year ended 31 March 2020 have been proposed by the directors of the Company and are subject to approval by the shareholders in the forthcoming annual general meeting.

7. INVENTORIES

	2020	2019
	<i>HK\$ million</i>	<i>HK\$ million</i>
Raw materials for:		
Gem-set jewellery	6,888.3	5,810.6
Gold products	2,114.2	1,719.0
Platinum/karat gold products	364.4	391.6
	<u>9,366.9</u>	<u>7,921.2</u>
Finished goods:		
Gem-set jewellery	14,827.1	15,583.5
Gold products	13,471.1	11,706.6
Platinum/karat gold products	3,039.6	2,443.7
Watches	1,638.7	1,672.2
	<u>32,976.5</u>	<u>31,406.0</u>
Packaging materials	<u>195.0</u>	<u>158.9</u>
	<u>42,538.4</u>	<u>39,486.1</u>

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$2,683.8 million (2019: HK\$3,883.4 million) and the aging by invoice date is as follows:

	2020 <i>HK\$ million</i>	2019 <i>HK\$ million</i>
0 to 30 days	2,206.8	3,128.3
31 to 90 days	382.4	603.6
91 to 180 days	54.2	88.1
Over 180 days	40.4	63.4
	<u>2,683.8</u>	<u>3,883.4</u>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$253.4 million (2019: HK\$574.1 million) and the aging by invoice date is as follows:

	2020 <i>HK\$ million</i>	2019 <i>HK\$ million</i>
0 to 30 days	200.7	542.0
31 to 90 days	36.9	19.2
91 to 180 days	12.6	3.8
Over 180 days	3.2	9.1
	<u>253.4</u>	<u>574.1</u>

10. SUBSEQUENT EVENTS

The Group's business severely suffered in the fourth quarter ended 31 March 2020 due to the outbreak of COVID-19 in early 2020. The Group has been closely monitoring the development and the impact of COVID-19 since then and taking appropriate responses in a timely manner in order to mitigate the impact on the Group's business. Majority of the Group's POS in Mainland China and Hong Kong and Macau resumed operations in April 2020.

Up to the date on which this set of consolidated financial statements were authorised for issue, the Group has seen signs of recovery especially in the Mainland China market. The recent sales performances in both reportable segments were within the management's expectations. Please refer to the unaudited key operational data on page 61.

For further details, please refer to "Business Outlook and Strategies" on page 60.

Except for the above, there is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

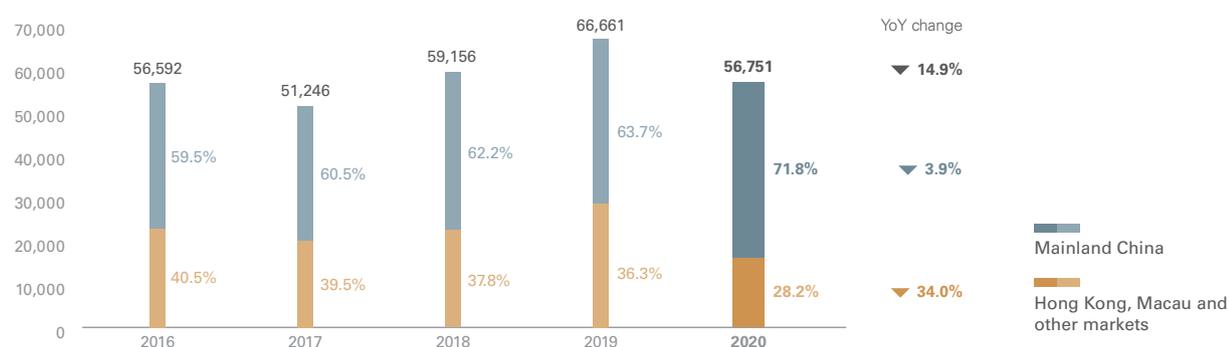
The Group had a stable performance in 1HFY2020 as supported by a steady growth in Mainland China, while it was overshadowed by macro uncertainties and COVID-19 epidemic in 2HFY2020.

Overview

Revenue

Revenue by reportable segment

For the year ended 31 March
(HK\$ million)

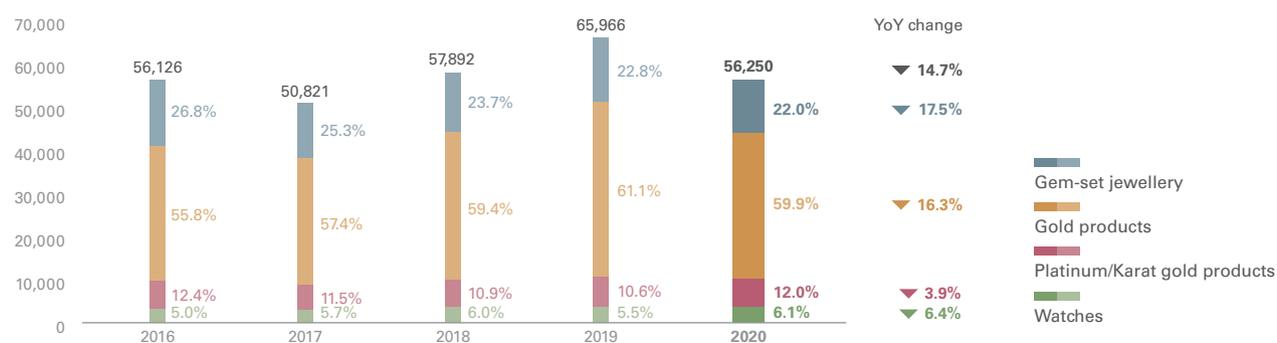


Revenue (HK\$ million)	1HFY2019	2HFY2019	1HFY2020	2HFY2020	1HFY YoY change	2HFY YoY change
Mainland China	18,022	24,410	20,224	20,539	▲ 12.2%	▼ 15.9%
Hong Kong, Macau and other markets	11,681	12,548	9,309	6,679	▼ 20.3%	▼ 46.8%
Overall	29,703	36,958	29,533	27,218	▼ 0.6%	▼ 26.4%

- The Group's revenue declined by 14.9% to HK\$56,751 million in FY2020, mainly attributable to the COVID-19 epidemic in 4QFY2020, a surge in international gold price that dampened the retail demand for gold products, and a weak performance in Hong Kong.
- Revenue from Mainland China was down slightly by 3.9% in FY2020. Our store expansion strategy and steady SSSG there supported a decent revenue growth of 12.2% during 1HFY2020, which buffered a 15.9% decline in 2HFY2020 in the backdrop of the epidemic. Its contribution to the Group's revenue was lifted to 71.8% in FY2020.
- In Hong Kong, Macau and other markets, revenue dropped by 34.0% during FY2020. Revenue decline accelerated to 46.8% year-on-year in 2HFY2020 due to the virus outbreak.

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

For the year ended 31 March
(HK\$ million)

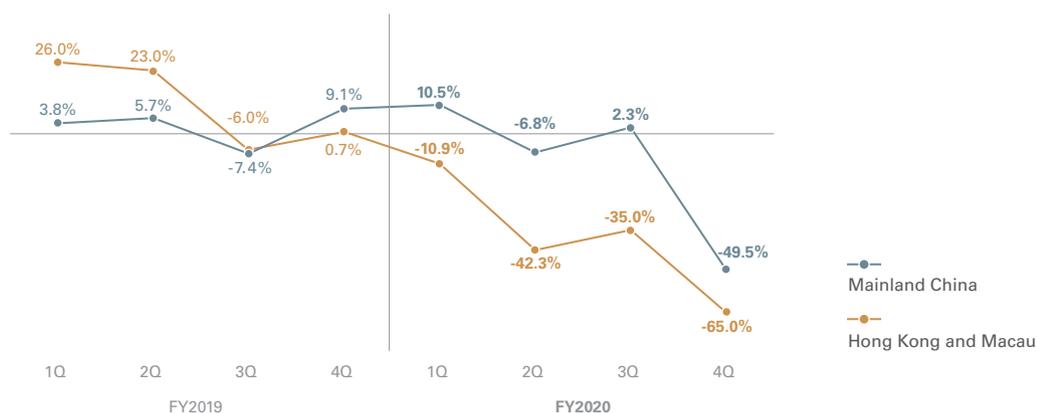


% of Revenue	1HFY2019	2HFY2019	1HFY2020	2HFY2020
Gem-set jewellery	23.4%	22.2%	23.3%	20.6%
Gold products	60.5%	61.5%	58.9%	61.1%
Platinum/Karat gold products	10.5%	10.7%	11.4%	12.6%
Watches	5.6%	5.5%	6.4%	5.7%

- Revenue of gold products declined by 16.3% in FY2020 as a result of high comparison base and gold price volatility. Gold products' contribution to the Group's revenue was reduced by 120 basis points year-on-year to 59.9%.
- Revenue of gem-set jewellery also fell 17.5% during the financial year due to challenging macros.
- On the other hand, platinum/karat gold products demonstrated a relatively better performance, backed by the successful launch of more contemporary collections and fixed-price gold jewellery in FY2020.

SSSG

SSSG by major market



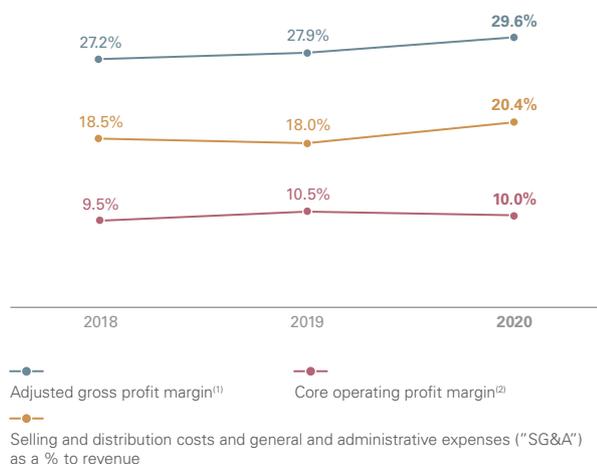
	FY2019	FY2020	
	SSSG	SSSG	SSS volume growth
Mainland China	▲ 3.4%	▼ 15.1%	▼ 24.0%
Hong Kong and Macau	▲ 8.7%	▼ 38.7%	▼ 43.5%

- The epidemic and volatile macro environment inevitably affected both the businesses in Mainland China and Hong Kong and Macau, in particular during 4QFY2020. This led to a significant volume decline in both Mainland China and Hong Kong and Macau.
- In Mainland China, SSSG in the first nine months of FY2020 stayed positive at 2.0% while it plummeted to negative 49.5% in 4QFY2020. As a result, SSS in Mainland China dropped by 15.1% during FY2020. Yet, Same Store ASP stayed on a favourable trend with 11.7% increment in FY2020. Including e-commerce business, our Mainland China SSS dropped approximately by 14.0%, with SSS volume declined by 21.0%.
- In FY2020, the performance of Hong Kong and Macau was further shadowed by the sluggish business environment in Hong Kong, resulting in a decrease of 38.7% in SSS during the financial year.

Profitability

Group

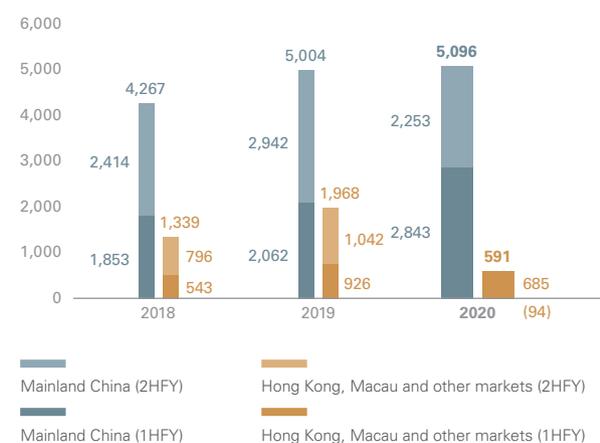
For the year ended 31 March



Core operating profit⁽²⁾ by reportable segment

For the year ended 31 March

(HK\$ million)



- (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 business

(HK\$ million)	1HFY2019	2HFY2019	1HFY2020	2HFY2020	YoY change	YoY change
Revenue	29,703	36,958	29,533	27,218	▼ 0.6%	▼ 26.4%
Adjusted gross profit	8,338	10,263	9,064	7,743	▲ 8.7%	▼ 24.5%
Adjusted gross profit margin	28.1%	27.8%	30.7%	28.4%	▲ 2.6% pts	▲ 0.6% pts
Other income	167	229	213	224	▲ 27.4%	▼ 2.2%
SG&A	(5,517)	(6,508)	(5,750)	(5,807)	▲ 4.2%	▼ 10.8%
SG&A as a % to revenue	18.6%	17.6%	19.5%	21.3%	▲ 0.9% pts	▲ 3.7% pts
Core operating profit	2,989	3,984	3,527	2,160	▲ 18.0%	▼ 45.8%
Core operating profit margin	10.1%	10.8%	11.9%	7.9%	▲ 1.8% pts	▼ 2.9% pts

- Adjusted gross profit margin increased in FY2020, thanks to the like-for-like gross profit margin improvement of gold products as international gold price surged. Core operating profit margin managed to stay at 10.0% despite a very challenging environment surrounding our key operations.
- In FY2020, the Group's core operating profit dropped by 18.4% year-on-year.
- Among the two segments, Mainland China continued to be our main profit contributor and accounted for almost 90% of the Group's core operating profit in FY2020. Its core operating profit recorded a growth of 1.8% during the financial year.
- On the other hand, core operating profit of Hong Kong, Macau and other markets turned negative in 2HFY2020. Thus, core operating profit of the segment registered a 70.0% decline for full year.

Gross profit margin

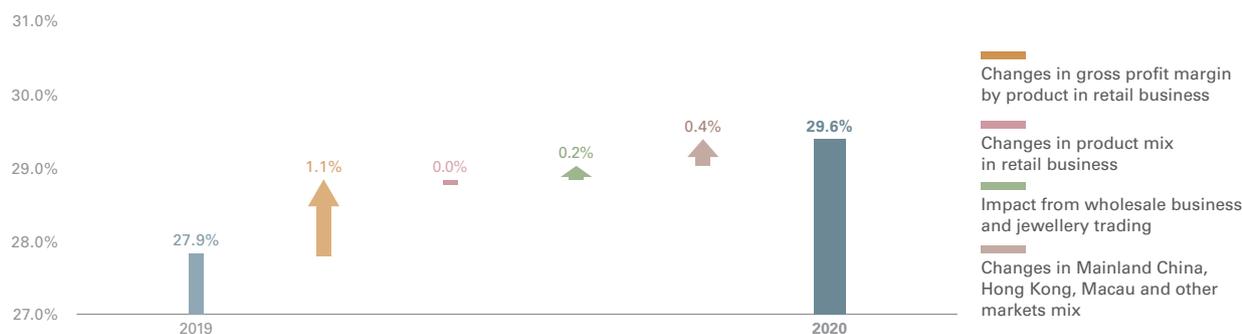
Unrealised loss (gain)

For the year ended 31 March	2018	2019	2020
Gross profit margin	27.4%	27.9%	28.4%
Unrealised loss (gain) on gold loans	(0.2)%	0.0%	1.2%
Adjusted gross profit margin	27.2%	27.9%	29.6%

- Impact from the unrealised loss on gold loans increased during the financial year due to the surge in international gold price of which the average international gold price was 15.9% higher when compared to last financial year.
- The increase in gold loan borrowings also have significant impact on the unrealised loss. Inventory was built up before Chinese New Year to meet festive demand. With the weakened customer sentiment and sluggish demand during 4QFY2020, the inventory as well as the gold loan borrowings were maintained at a higher level than usual.
- During FY2020, fair value loss on gold loans of HK\$1,276 million was recorded, of which HK\$711 million was unrealised.
- 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.
- Unrealised loss (gain) for the year 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 year.

Movements in adjusted gross profit margin

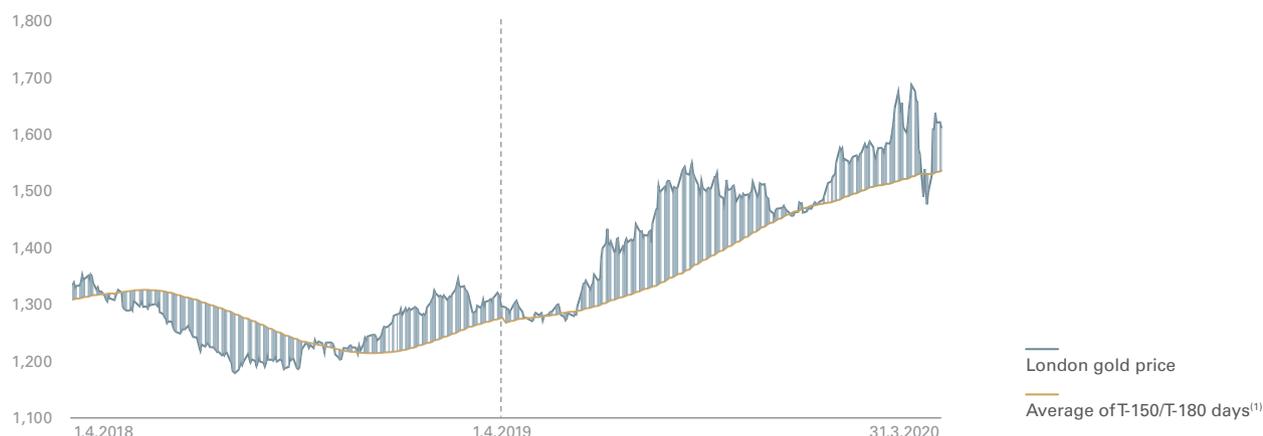
For the year ended 31 March



- At group level, FY2020 adjusted gross profit margin improved by 170 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.
- The higher contribution from our wholesale business led to the contraction of gross profit margin which was offset by the improvement in gross profit margin by product in wholesale business and jewellery trading.

London gold price

(US\$ per ounce)



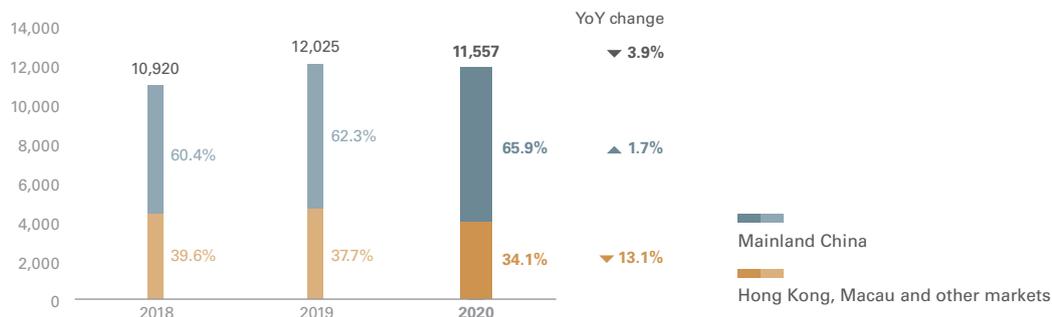
(1) Average of T-150/T-180 days refers to the average gold price of previous 150 or 180 days on rolling basis, being a proxy of the average price of our hedged inventories. As gold inventory turnover lengthened in FY2020, average of T-150 days and T-180 days was used for FY2019 and FY2020, respectively

FY2020	Closing price YoY change	Average price YoY change
London gold price	▲ 24.2%	▲ 15.9%

SG&A

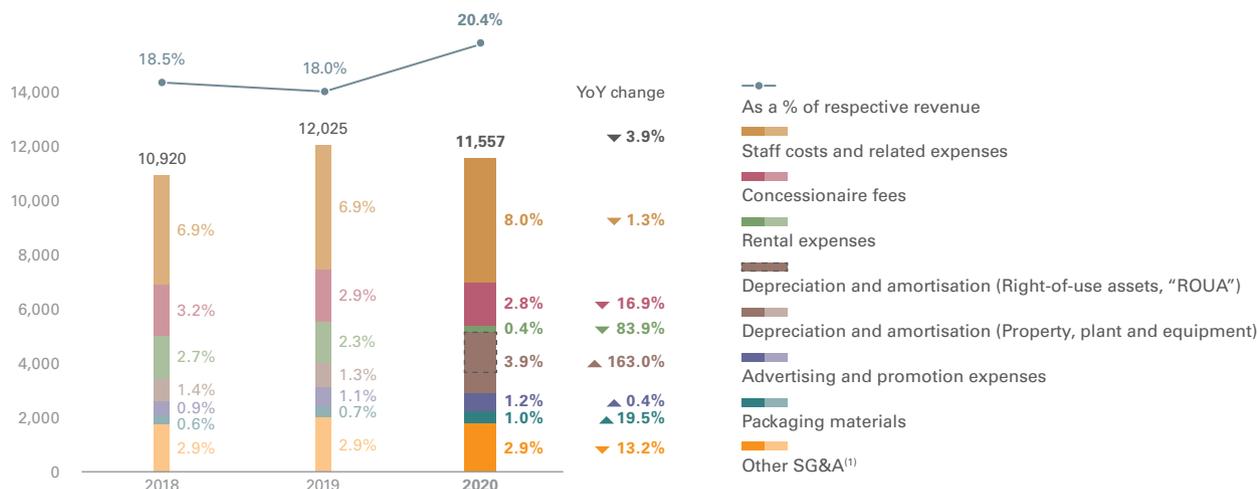
SG&A by reportable segment

For the year ended 31 March
(HK\$ million)



SG&A to revenue ratio

For the year ended 31 March
(HK\$ million)



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

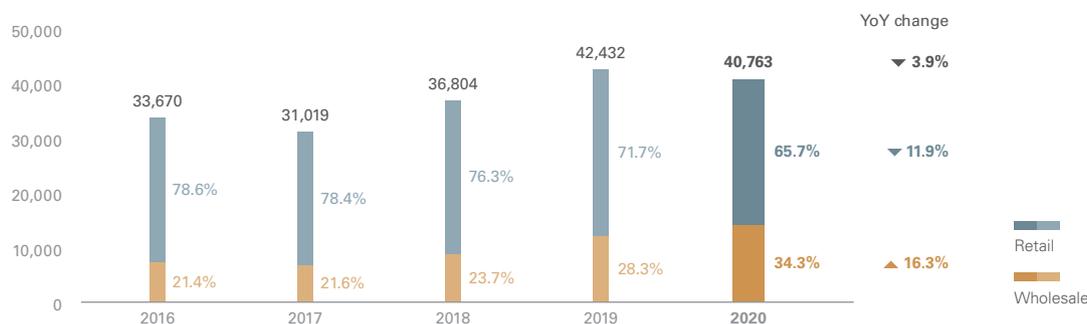
- FY2020 SG&A expenses decreased by 3.9% to HK\$11,557 million, whereas the 2HFY2020 portion dropped 10.8% year-on-year. Yet, full-year SG&A ratio expanded by 240 basis points to 20.4% due to operating leverage.
- Analyses of the major SG&A components, including staff costs and related expenses, concessionaire fees and lease-related expenses are provided on pages 26 and 35 of this announcement.
- With the adoption of IFRS 16, depreciation and amortisation increased while rental expenses decreased significantly comparing to FY2019. If the impact from IFRS 16 was excluded, depreciation and amortisation would increase by 8.8% and its corresponding ratio to revenue would be 1.6%.
- Packaging materials expenses increased 19.5% year-on-year as we have been enhancing our product packaging to lift brand value and provide better customer experiences.

Mainland China

Revenue

Revenue by operation model

For the year ended 31 March
(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 decreased by 3.9% to HK\$40,763 million during FY2020. On a constant exchange rate basis, revenue stayed flat with 0.1% decline during the financial year.
- Wholesale revenue grew robustly by 16.3%, boosted by our expansion strategy in lower tier and county level cities through franchisees. As a result, its revenue contribution expanded further by 600 basis points to 34.3% during the financial year.
- 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 31 March 2020, we had 1,936 franchised CHOW TAI FOOK JEWELLERY POS, of which 34.0% were operated under the sell-in model and these POS contributed approximately 31.9% of the wholesale revenue in Mainland China.

SSSG

SSSG of major products



	SSSG	FY2020 SSS volume growth	Same Store ASP	FY2019 Same Store ASP ⁽¹⁾
Gem-set jewellery	▼ 12.4%	▼ 13.9%	HK\$6,400	HK\$6,300
Gold products	▼ 20.1%	▼ 31.8%	HK\$5,000	HK\$4,200
Platinum/Karat gold products	▼ 5.0%	▼ 15.0%	HK\$1,800	HK\$1,600
Watches	▼ 1.4%	▼ 13.9%	HK\$18,100	HK\$15,800
Overall	▼ 15.1%	▼ 24.0%		

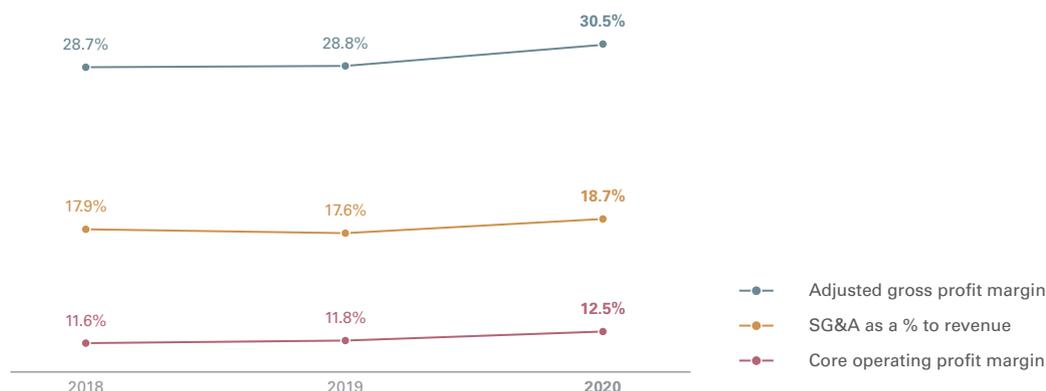
(1) Same Store ASP on FY2020 Same Store basis

- In Mainland China, Same Store ASP for all product categories illustrated a positive trend in FY2020.
- Retail demand for gold products was dampened by the surge in average international gold price of 15.9% year-on-year during FY2020. SSS volume of gold products dropped by 31.8% during the financial year. Yet, ASP of gold products jumped to HK\$5,000 from HK\$4,200 in FY2019, benefitting from the rising gold price trend and the increasing popularity of CTF • HUÁ Collection.
- Gem-set jewellery SSSG was relatively stable in the first nine months of FY2020. However, a notable 49.5% decline was recorded in 4QFY2020 in the midst of virus outbreak, dragged the overall SSS of gem-set jewellery, resulting in a decline of 12.4% in FY2020. Same Store ASP increased slightly to HK\$6,400 in FY2020 from HK\$6,300 in FY2019.

Profitability

Mainland China

For the year ended 31 March



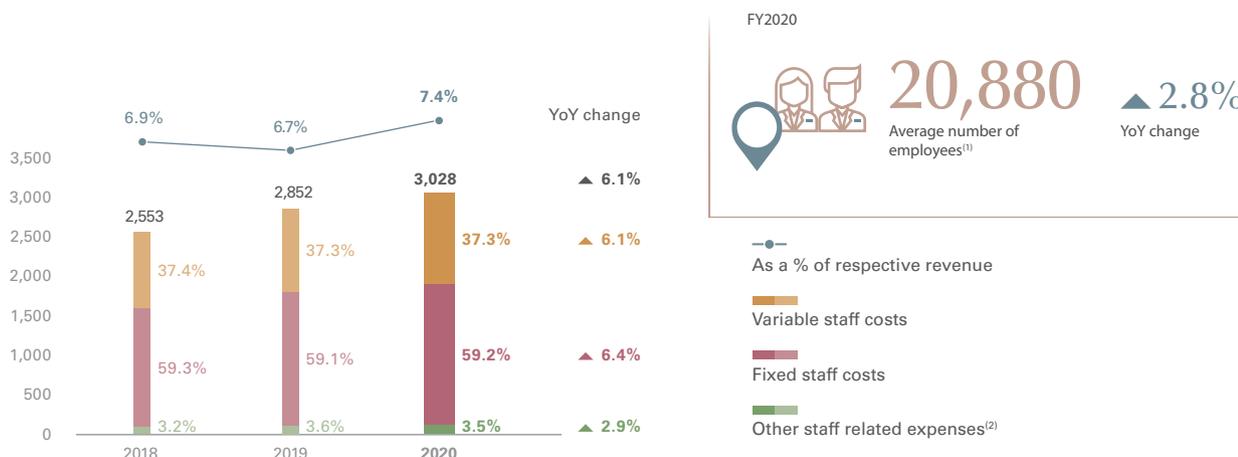
(HK\$ million)	1HFY2019	2HFY2019	1HFY2020	2HFY2020	1HFY YoY change	2HFY YoY change
Revenue	18,022	24,410	20,224	20,539	▲ 12.2%	▼ 15.9%
Adjusted gross profit	5,358	6,881	6,445	5,988	▲ 20.3%	▼ 13.0%
<i>Adjusted gross profit margin</i>	29.7%	28.2%	31.9%	29.2%	▲ 2.2% pts	▲ 1.0% pts
Other income	102	151	121	158	▲ 18.9%	▲ 4.9%
SG&A	(3,398)	(4,089)	(3,724)	(3,892)	▲ 9.6%	▼ 4.8%
<i>SG&A as a % to revenue</i>	18.9%	16.8%	18.4%	19.0%	▼ 0.5% pts	▲ 2.2% pts
Core operating profit	2,062	2,942	2,843	2,253	▲ 37.8%	▼ 23.4%
<i>Core operating profit margin</i>	11.4%	12.1%	14.1%	11.0%	▲ 2.7% pts	▼ 1.1% pts

- Adjusted gross profit margin improved sharply by 170 basis points to 30.5% in FY2020 as like-for-like gross profit margin improved when compared to the last financial year.
- SG&A ratio increased by 110 basis points to 18.7% in FY2020 due to operating deleverage in 2HFY2020.
- As a result, core operating profit margin dropped from 14.1% in 1HFY2020 to 11.0% in 2HFY2020. On a year-on-year basis, core operating profit margin was down by 110 basis points in 2HFY2020. Nevertheless, full year core operating profit margin still expanded by 70 basis points year-on-year, demonstrating a continuous improvement across the previous three financial years.

Major SG&A components

Staff costs and related expenses

For the year ended 31 March
(HK\$ million)



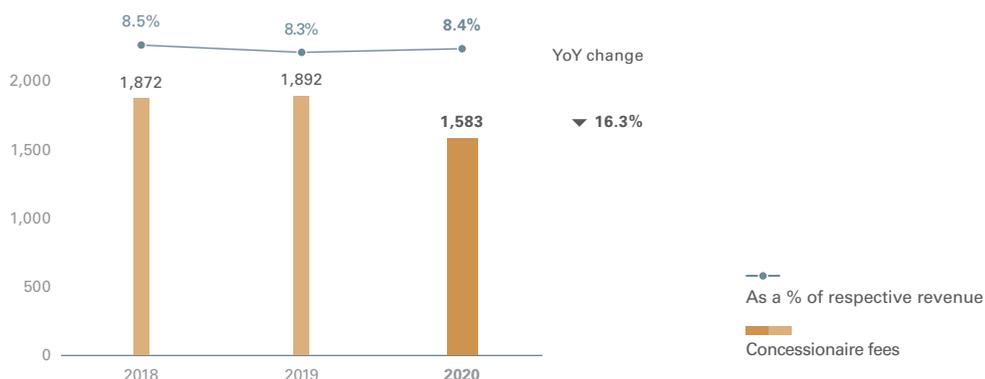
(1) Employees in production function excluded

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

- Staff costs and related expenses were up by 6.1% in FY2020. Incremental expenses were mainly attributable to the increase in variable performance based portion in first nine months of FY2020 as business growth was positive during that period. Such variable component was trimmed by over 40% year-on-year in the fourth quarter as business was adversely affected due to the epidemic.

Concessionaire fees

For the year ended 31 March
(HK\$ million)



- Concessionaire fees decreased by 16.3% as retail revenue dropped. The slightly higher concessionaire fees ratio was mainly due to the shift of sales mix towards gem-set products which are generally subject to higher rates.

POS network

POS movement by store brand⁽¹⁾ — Mainland China

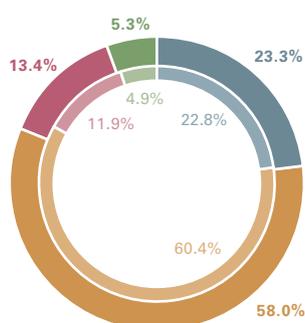
As at	31.3.2018	31.3.2019	During FY2020		Net	31.3.2020
	Total	Total	Addition	Reduction		Total
CHOW TAI FOOK JEWELLERY ⁽²⁾	2,317	2,803	761	(138)	623	3,426
CTF WATCH	106	113	8	(5)	3	116
T MARK	—	4	—	(1)	(1)	3
HEARTS ON FIRE	6	3	—	(2)	(2)	1
ENZO	—	—	60	(1)	59	59
SOINLOVE	9	27	18	(2)	16	43
MONOLOGUE	11	38	19	(6)	13	51

(1) SIS and CIS excluded

(2) ARTRIUM and JEWELRIA POS included

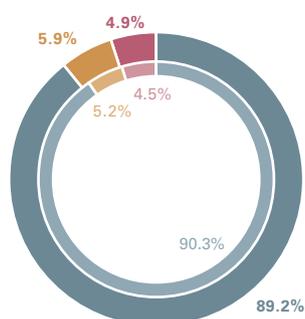
RSV analysis

RSV by product



FY2019	FY2020		RSV YoY change
		Gem-set jewellery	▼ 2.8%
		Gold products	▼ 8.6%
		Platinum/Karat gold products	▲ 7.0%
		Watches	▲ 3.1%
		Overall	▼ 4.9%

RSV by channel



FY2019	FY2020		RSV YoY change
		CHOW TAI FOOK JEWELLERY	▼ 6.0%
		Other store brands ⁽¹⁾	▲ 8.6%
		E-commerce ⁽²⁾	▲ 2.4%
		Overall	▼ 4.9%

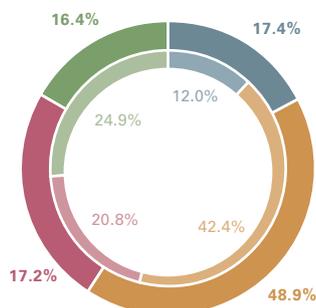
(1) CTF WATCH, T MARK, HEARTS ON FIRE, ENZO, SOINLOVE and MONOLOGUE included

(2) Major platforms included Chow Tai Fook eShop, Tmall, JD.com, Vipshop; O2O 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⁽¹⁾

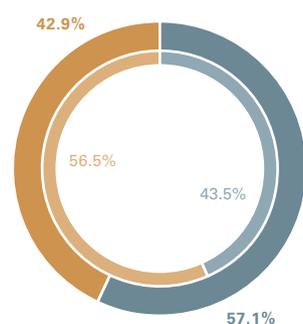


% of POS	% of RSV		FY2020	
			RSV YoY change	Net POS movement
■	■	Tier I cities	▼ 8.0%	▲ 80
■	■	Tier II cities	▼ 7.7%	▲ 214
■	■	Tier III cities	▼ 3.6%	▲ 148
■	■	Tier IV cities and others	▼ 0.9%	▲ 181

(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 FY2020, we opened a net of 623 CHOW TAI FOOK JEWELLERY POS in Mainland China to expand our presence in lower tier and county level cities.
- Approximately 53% of the net openings in FY2020 were located in Tier III, IV and other cities. These cities achieved stronger growth than Tier I and II cities during the financial year, mainly driven by the new openings.

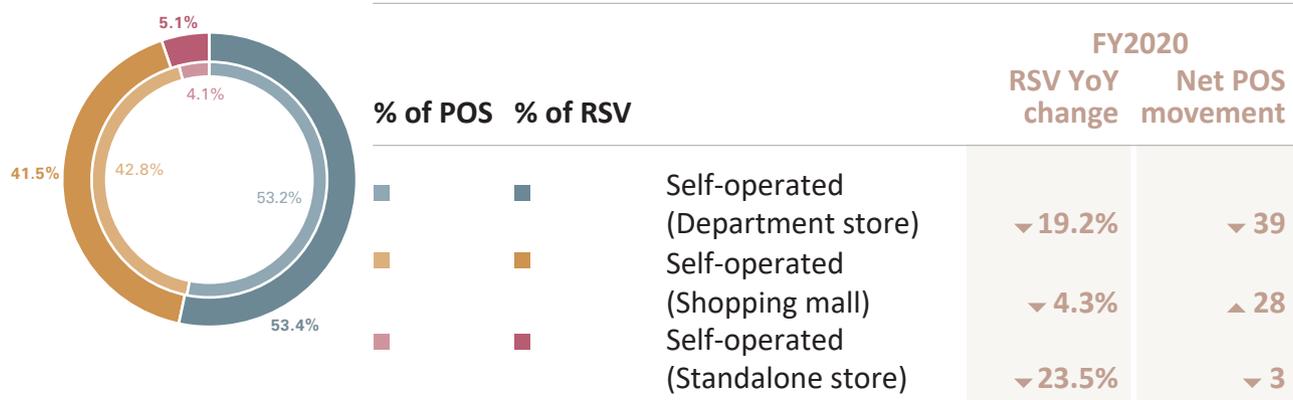
RSV and POS by operation model



% of POS	% of RSV		FY2020	
			RSV YoY change	Net POS movement
■	■	Self-operated	▼ 13.9%	▼ 14
■	■	Franchised	▲ 7.1%	▲ 637

- By operation model, all net openings were in franchised format and about half of these franchised POS openings were under sell-in model. As at 31 March 2020, 56.5% of our POS in Mainland China were in franchised format.
- Performance of the franchised POS was generally similar or slightly lower than that of the self-operated POS located in an alike city tier during FY2020.

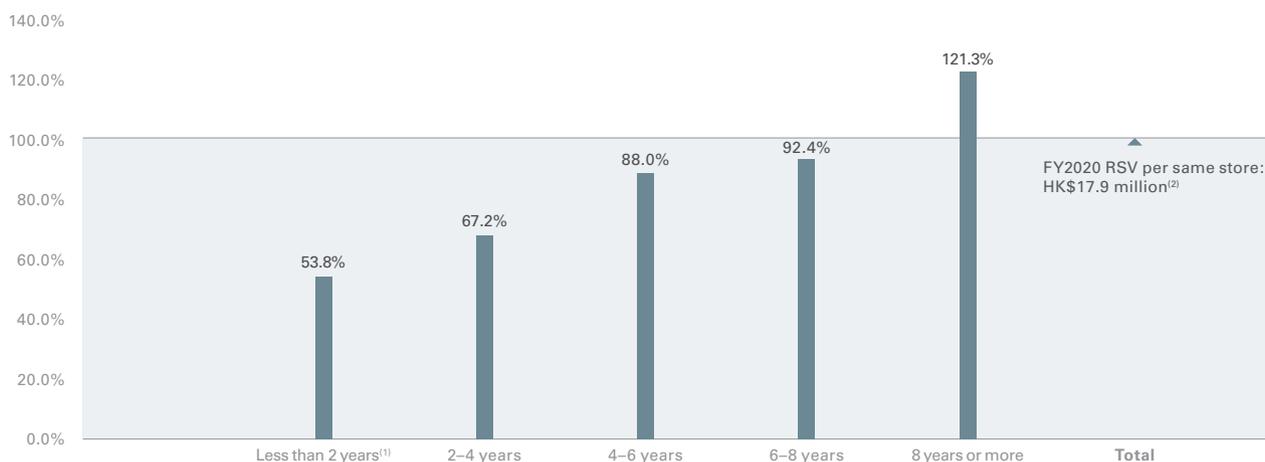
RSV and POS by self-operated model



- In FY2020, self-operated POS at shopping malls outperformed the other formats as they generally have more appealing shopping experiences and we also added POS there during the financial year.
- We consolidated a net of 42 standalone stores and POS at department stores during FY2020.

Self-operated CHOW TAI FOOK JEWELLERY POS

RSV per store by store age



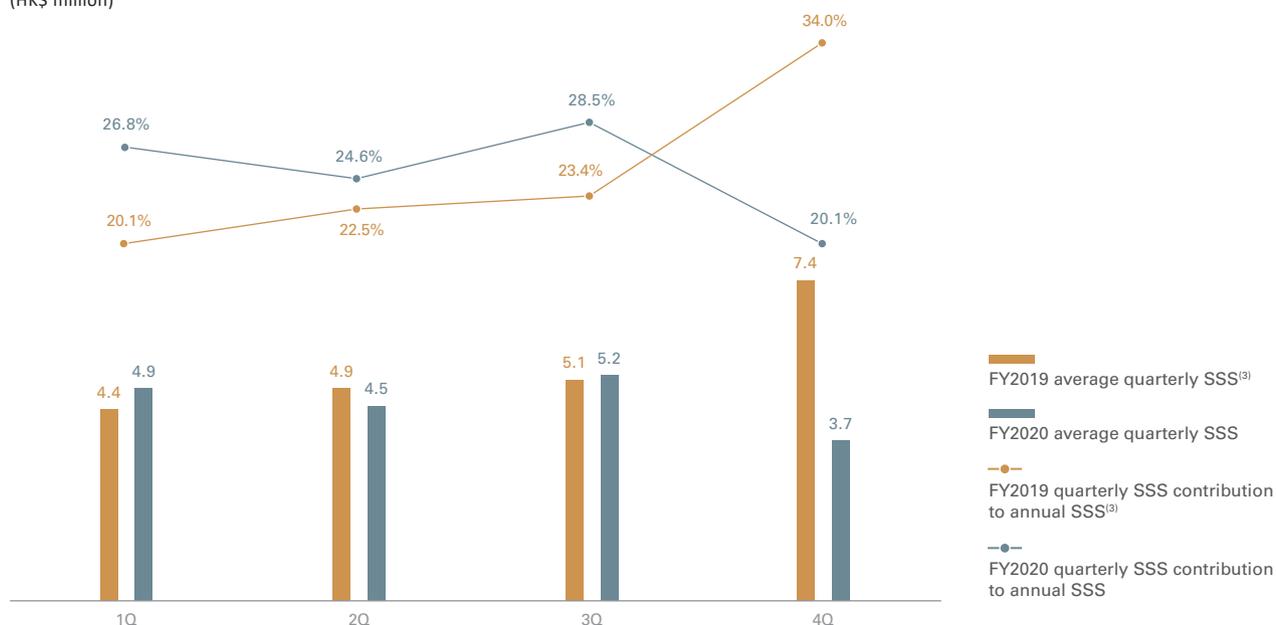
POS opening date	4/2018-3/2020	4/2016-3/2018	4/2014-3/2016	4/2012-3/2014	3/2012 or before	Total
POS	254	242	218	201	575	1,490
% of POS	17.0%	16.3%	14.6%	13.5%	38.6%	100.0%

Ratio of annual RSV per store to RSV per Same Store

- (1) For POS of age less than 1 year, RSV is adjusted on an annualised basis
 (2) Value-added tax ("VAT") included

Average quarterly sales

(HK\$ million)

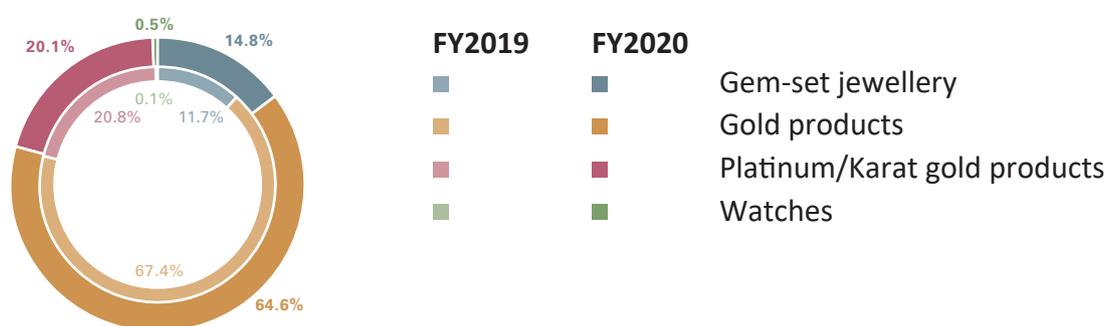


(3) SSS on FY2020 Same Store basis

- Average SSS contribution for 2HFY2020 was approximately 49% of full year SSS, less than 57% in 2HFY2019.
- 4Q, being our peak season as driven by festive occasions such as Chinese New Year and Valentine's Day, usually account for the highest quarterly SSS contribution. However, with the epidemic, the SSS contribution for 4QFY2020 was reduced to 20.1%, much less than that of our normal course of business.

E-commerce business

RSV by product



	FY2020 RSV YoY change	FY2020 ASP	FY2019 ASP
Gem-set jewellery	▲ 30.7%	HK\$1,600	HK\$1,500
Gold products	▼ 0.8%	HK\$1,600	HK\$1,500
Platinum/Karat gold products	▲ 0.1%	HK\$900	HK\$800
Overall	▲ 3.4%	HK\$1,400	HK\$1,300

E-commerce business performance

FY2020

RSV



FY2020	FY2019	FY2020	FY2019
5.2%	4.8%	14.4%	13.6%
of respective RSV		of respective retail sales volume	

ASP



HK\$1,400

FY2019: HK\$1,300

E-commerce platforms



80+

Unique daily visitors⁽¹⁾



739,000

Number of followers⁽²⁾



10,631,000+

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

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

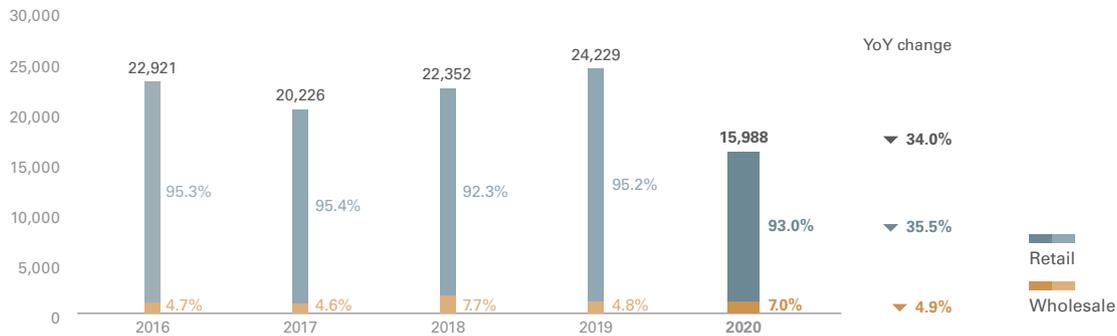
- RSV of our e-commerce business rose 3.4% in FY2020, backed by a 30.7% growth of gem-set jewellery as we strengthened our online promotional effort on fashionable jewellery.
- Contribution of the e-commerce business to the RSV in Mainland China edged up to 5.2% during the financial year. In terms of retail sales volume, its share to Mainland China's operations further expanded to 14.4% in FY2020, with 13.6% and 0.8% of the contribution coming from e-commerce platforms and O2O distribution, respectively.

Hong Kong, Macau and other markets

Revenue

Revenue by operation model

For the year ended 31 March
(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 35.5% in FY2020 mainly due to the sluggish business environment in Hong Kong.

SSSG

SSSG of major products



	SSSG	FY2020 SSS volume growth	Same Store ASP	FY2019 Same Store ASP ⁽¹⁾
Gem-set jewellery	▼ 42.4%	▼ 41.6%	HK\$10,900	HK\$11,100
Gold products	▼ 39.4%	▼ 47.0%	HK\$9,400	HK\$8,200
Platinum/Karat gold products	▼ 40.5%	▼ 40.0%	HK\$1,800	HK\$1,800
Watches	▼ 16.5%	▼ 27.9%	HK\$66,700	HK\$57,500
Overall	▼ 38.7%	▼ 43.5%		

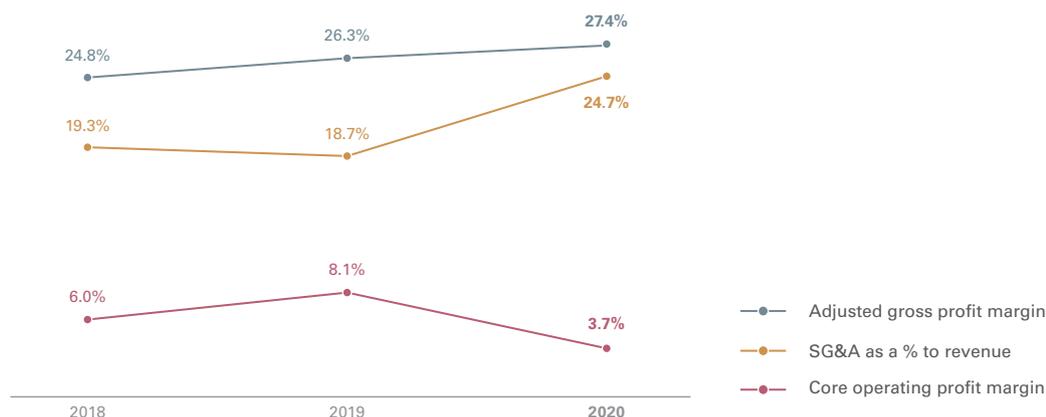
(1) Same Store ASP on FY2020 Same Store basis

- The prevailing macro headwinds and situation in Hong Kong, coupled with the spread of COVID-19, hindered consumer demand during FY2020.
- SSS volume of gold products was further muted amid gold price volatility, dragging SSS of gold products. Yet, ASP of gold products surged from HK\$8,200 to HK\$9,400.
- SSS of gem-set jewellery dropped by 42.4% during FY2020 on the back of cautious consumer spending. ASP stood at HK\$10,900, similar to last year's level.

Profitability

Hong Kong, Macau and other markets

For the year ended 31 March



(HK\$ million)	1HFY2019	2HFY2019	1HFY2020	2HFY2020	1HFY YoY change	2HFY YoY change
Revenue	11,681	12,548	9,309	6,679	▼ 20.3%	▼ 46.8%
Adjusted gross profit	2,980	3,382	2,619	1,756	▼ 12.1%	▼ 48.1%
<i>Adjusted gross profit margin</i>	25.5%	27.0%	28.1%	26.3%	▲ 2.6% pts	▼ 0.7% pts
Other income	65	78	92	66	▲ 40.7%	▼ 15.9%
SG&A	(2,119)	(2,419)	(2,026)	(1,915)	▼ 4.4%	▼ 20.8%
<i>SG&A as a % to revenue</i>	18.1%	19.3%	21.8%	28.7%	▲ 3.7% pts	▲ 9.4% pts
Core operating profit	926	1,042	685	(94)	▼ 26.1%	N/A
<i>Core operating profit margin</i>	7.9%	8.3%	7.4%	(1.4)%	▼ 0.5% pts	▼ 9.7% pts

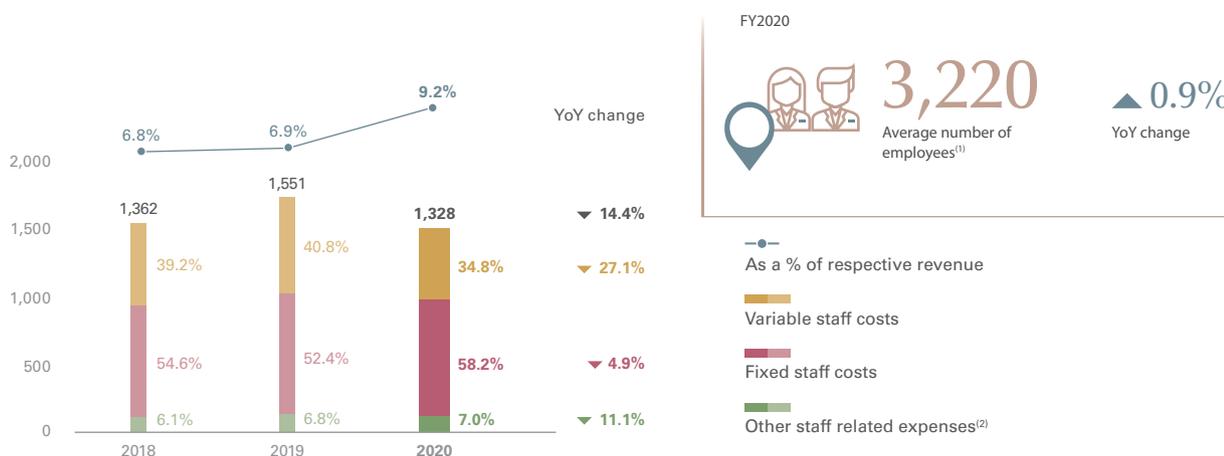
- In FY2020, adjusted gross profit margin expanded by 110 basis points to 27.4% driven by both the surge in gold price and the improvement in gross profit margin of our jewellery trading business.
- SG&A ratio increased by 600 basis points to 24.7% in the financial year due to operating deleverage especially in 4QFY2020.
- As a result, a core operating loss of HK\$94 million was recorded in 2HFY2020.
- Core operating profit dropped significantly by 70.0% in FY2020 and its corresponding margin declined by 440 basis points to 3.7%.

Major SG&A Components

Hong Kong and Macau

Staff costs and related expenses

For the year ended 31 March
(HK\$ million)



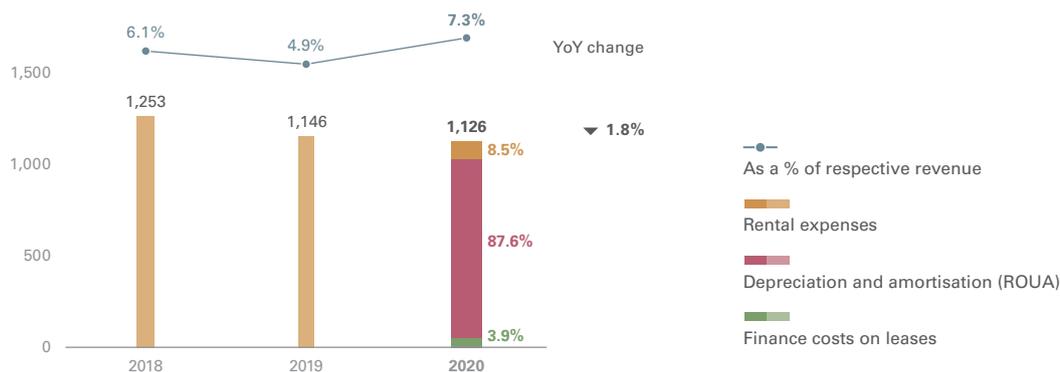
(1) Employees in production function excluded

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

- Staff costs and related expenses was down by 14.4%. The variable staff costs shrank by 27.1% year-on-year in FY2020. 2HFY2020 related variable staff costs dropped by nearly 50% year-on-year.

Lease-related expenses⁽³⁾

For the year ended 31 March
(HK\$ million)



(3) Under IFRS 16 — leases, depreciation and amortisation (ROUA) 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

- Lease-related expenses ratio expanded by 240 basis points to 7.3% in FY2020 due to the operating deleverage. During the financial year, we renewed leases of around 20 POS, which accounted for a relatively small contribution to our overall leasing portfolio in value and therefore, the overall impact of rental renewal on the lease-related expenses was limited.

POS network

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

As at	31.3.2018	31.3.2019	During FY2020		Net	31.3.2020
	Total	Total	Addition	Reduction		Total
CHOW TAI FOOK JEWELLERY ⁽²⁾	122	130	17	(10)	7	137
Hong Kong, China	80	80	8	(6)	2	82
Macau, China	19	19	1	(2)	(1)	18
Other markets	23	31	8	(2)	6	37
T MARK	–	1	–	–	–	1
HEARTS ON FIRE	14	15	–	(5)	(5)	10
SOINLOVE	–	–	1	–	1	1
MONOLOGUE	–	–	2	–	2	2

(1) SIS and CIS excluded

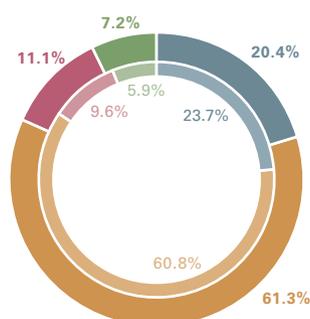
(2) ARTRIUM POS included

- For CHOW TAI FOOK JEWELLERY, we opened a net of 1 POS in Hong Kong and Macau in FY2020, which was located in a shopping mall.
- 2 MONOLOGUE POS and 1 SOINLOVE POS were also opened in Hong Kong during the financial year as part of the rollout of our multi-brand strategy.

RSV analysis

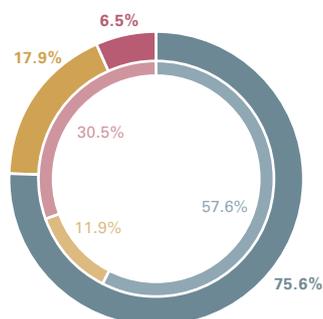
Hong Kong, Macau and other markets

RSV by product



FY2019	FY2020		RSV YoY change
		Gem-set jewellery	▼ 43.2%
		Gold products	▼ 33.7%
		Platinum/Karat gold products	▼ 24.1%
		Watches	▼ 19.9%
Overall			▼ 34.2%

RSV and POS by geography



% of POS % of RSV

Geography	% of POS	% of RSV
Hong Kong	57.6%	75.6%
Macau	30.5%	17.9%
Other markets	11.9%	6.5%

FY2020
RSV YoY change Net POS movement

▼40.3%	▲5
▼12.7%	▼1
▲81.7%	▲1

Hong Kong and Macau business

Hong Kong and Macau industry performance

FY2020

Retail sales of jewellery industry in Hong Kong⁽¹⁾



▼38.6%
YoY change

Number of Mainland visitors⁽²⁾



Hong Kong

▼40.4%
YoY change

Macau

▼14.7%
YoY change

Our Hong Kong and Macau performance

FY2020

Customer traffic at POS



▼32.1%
YoY change

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

36.9%

FY2020

46.5%

FY2019

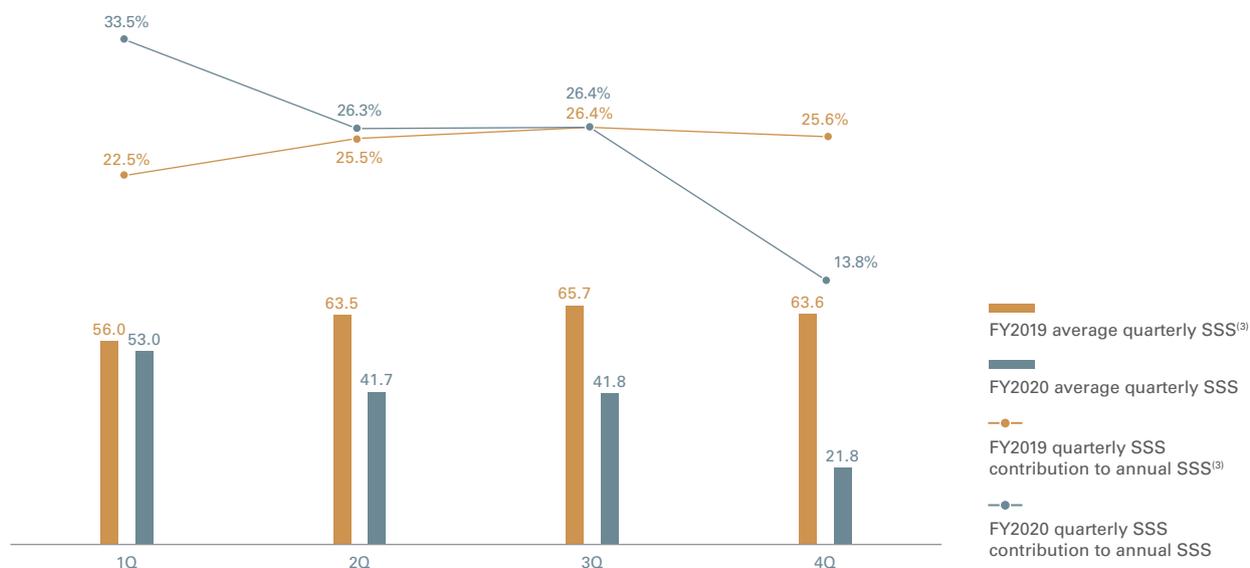
(1) Value of retail sales of jewellery, watches and clocks, and valuable gifts in Hong Kong according to Census and Statistics Department of the HKSAR Government

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

- Customer traffic in Hong Kong and Macau contracted by 32.1% year-on-year in FY2020.
- Macau outperformed Hong Kong during the financial year and recorded a relatively smaller decline in RSV.
- With a rapid decline in Mainland visitor arrivals particularly during 2HFY2020 amid the situation in Hong Kong and cross-border restrictions to tackle the epidemic, 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 46.5% in FY2019 to 36.9% in FY2020.

Average quarterly sales

(HK\$ million)



(3) SSS on FY2020 Same Store basis

- 3Q, being the peak season for the industry as driven by Christmas, usually accounted for the highest quarterly SSS contribution and average SSS for our Hong Kong and Macau market.
- The situation in Hong Kong since 2QFY2020 and the pandemic in the fourth quarter heavily weighted on our business performance, resulted in a skewed quarterly SSS contribution towards 1QFY2020. SSS contribution of 2HFY2020 was 40.2% of full year SSS, far less than that of our normal course of business.

Other markets business

- In FY2020, a net of 1 POS was opened in other markets, including 6 CHOW TAI FOOK JEWELLERY POS net openings in neighbouring countries such as Korea, the Philippines, Singapore and Thailand. RSV of other markets business registered a growth of 81.7% during the financial year.
- Overseas market remains a strategic component in our market development plans. We continued to expand foothold in Asia through franchise model in order to leverage franchisees' local knowledge and access.

OTHER FINANCIAL REVIEW

Other income, other gains and losses and other expenses

For the year ended 31 March	2018 HK\$ million	2019 HK\$ million	2020 HK\$ million	YoY change
Other income	408	396	437	▲ 10.3%
Other gains and losses	342	(276)	(147)	▼ 46.7%
Other expenses	(48)	(57)	(146)	▲ 155.3%

- Other income mainly arose from the government grants received by the subsidiaries in Mainland China, commission income, other income received from franchisees and other interest income.
- Other gains and losses mainly represented a net foreign exchange loss of HK\$234 million (FY2019: HK\$241 million) due to the depreciation of RMB and gain on surrender of ROUA of HK\$79 million.
- Other expenses mainly represented the assets impairment (including property, plant and equipment and ROUA) of HK\$63 million and the goodwill impairment of HK\$26 million and the amortisation of other intangible assets of HK\$36 million arising from the acquisition of Hearts On Fire.

Interest income, finance costs and taxation

For the year ended 31 March	2018 HK\$ million	2019 HK\$ million	2020 HK\$ million	YoY change
Interest income from banks	67	83	78	▼ 5.7%
Other interest income	13	–	–	N/A
Finance costs on bank borrowings	(111)	(209)	(284)	▲ 36.0%
Finance costs on gold loans	(133)	(161)	(207)	▲ 28.0%
Finance costs on lease liabilities	–	–	(69)	N/A
Taxation	(1,629)	(1,668)	(1,221)	▼ 26.8%

- Finance costs on gold loans increased by 28.0% was mainly due to a relatively higher average gold loan balance in FY2020 as compared to FY2019 as the Group stocked up more gold inventories amid POS openings in Mainland China.
- Finance costs on bank borrowings increased by 36.0%, mainly due to a relatively higher average bank borrowing balance during FY2020.
- Effective tax rate increased from 26.3% in FY2019 to 29.0% in FY2020 as more withholding tax expenses incurred and the contribution of Mainland China segment on profit before taxation increased in FY2020.

Impact of IFRS 16 Leases

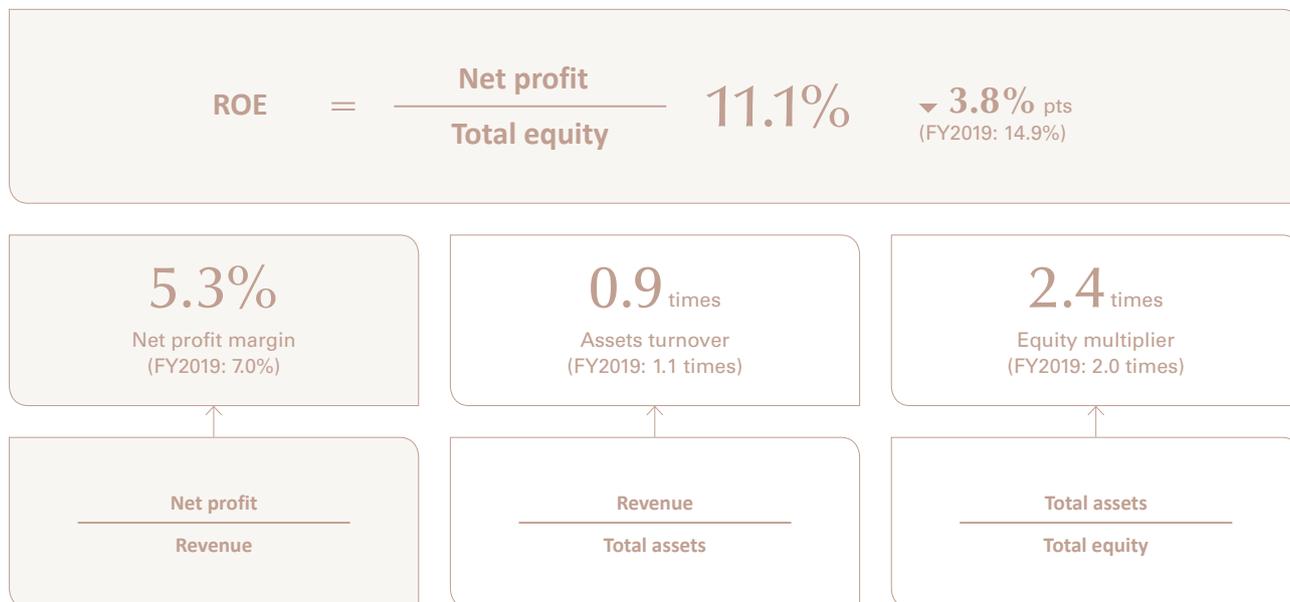
- IFRS 16 – Leases was first applied to supersede IAS 17 – Leases in the consolidated financial statements for the year ended 31 March 2020.
- We elected to adopt the “modified retrospective” approach for the transition to IFRS 16 under which the prior-period comparative financial information was not 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:

For the year ended 31 March (HK\$ million)	2020		YoY change	Post IFRS 16/ Pre-IFRS 16	2020		YoY change
	2019	(Pre-IFRS 16 Leases)			(Post-IFRS 16 Leases)		
Revenue	66,661	56,751	▼ 14.9%	–	56,751	▼ 14.9%	
Adjusted gross profit	18,601	16,807	▼ 9.6%	–	16,807	▼ 9.6%	
Adjusted gross profit margin	27.9%	29.6%	▲ 1.7% pts	–	29.6%	▲ 1.7% pts	
SG&A	12,025	11,567	▼ 3.8%	(10)	11,557	▼ 3.9%	
SG&A to revenue ratio	18.0%	20.4%	▲ 2.4% pts	–	20.4%	▲ 2.4% pts	
Depreciation and amortisation	847	921	▲ 8.8%	1,307	2,228	▲ 163.0%	
Rental expenses	1,558	1,507	▼ 3.2%	(1,255)	252	▼ 83.9%	
Core operating profit	6,972	5,676	▼ 18.6%	11	5,687	▼ 18.4%	
Core operating profit margin	10.5%	10.0%	▼ 0.5% pts	–	10.0%	▼ 0.5% pts	
Finance costs	370	491	▲ 32.5%	69	560	▲ 51.1%	
Finance costs on lease liabilities	N/A	N/A	N/A	69	69	N/A	
Profit before taxation	6,352	4,188	▼ 34.1%	17	4,205	▼ 33.8%	

- 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.

Return on equity

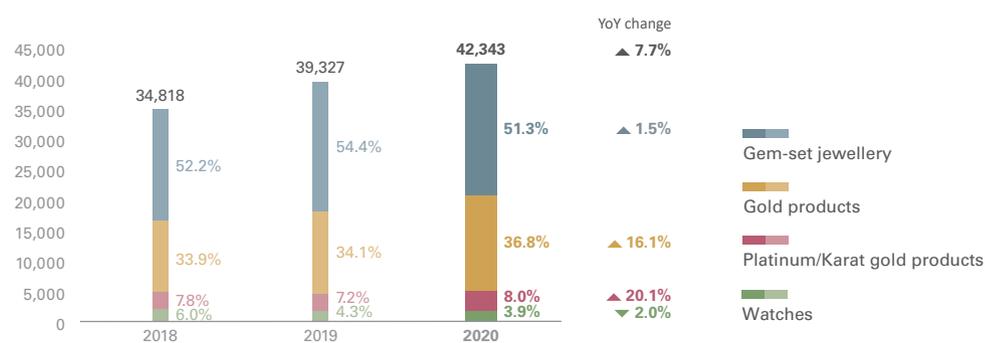
- We use return on equity (“ROE”) to measure the efficiency of generating profits from each unit of shareholder equity.
- Net profit margin decreased to 5.3%. ROE dropped by 380 basis points to 11.1% while the equity multiplier increased.



Inventory balances and turnover period

Inventory balances by product⁽¹⁾

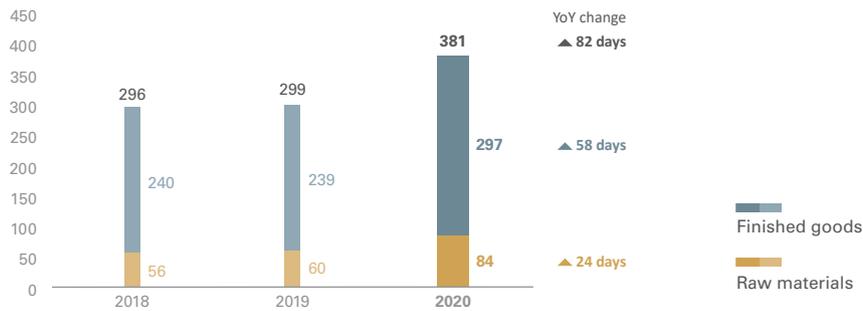
As at 31 March
(HK\$ million)



(1) Packaging materials excluded

Inventory turnover period by category⁽²⁾

For the year ended 31 March
(Day)



(2) Being inventory balances, excluding packaging materials, at the end of the reporting period divided by cost of goods sold for the year, multiplied by 365 or 366

- Inventory balances, excluding packaging materials, increased by 7.7% and reached HK\$42,343 million as at 31 March 2020, mainly due to business disruption in 4QFY2020.
- Inventory turnover period prolonged by 82 days when compared to that of FY2019.
- As at 31 March 2020, approximately HK\$5,440 million or 12.8% 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 FY2020 would reduce to 332 days (FY2019: 264 days).

Capital structure

As at	31.3.2019 HK\$ million	% to total equity	31.3.2020 HK\$ million	% to total equity	Increase (decrease) HK\$ million	Denominated currency ⁽¹⁾	Interest rate structure ⁽¹⁾
Non-current assets	8,459	26.9%	10,038	37.2%	1,579	N/A	N/A
Inventories	39,486	125.7%	42,538	157.6%	3,052	N/A	N/A
Cash and cash equivalents ⁽²⁾	7,641	24.3%	7,219	26.7%	(422)	Mainly HKD, RMB and USD	Mainly variable interest rate
Total borrowings ⁽³⁾	18,069	57.5%	22,711	84.1%	4,642		
Bank borrowings	10,057	32.0%	11,431	42.3%	1,374	HKD	Fixed and variable interest rate
Gold loans	8,012	25.5%	11,280	41.8%	3,268	RMB and USD	Fixed interest rate
Net debt ⁽⁴⁾	10,428	33.2%	15,492	57.4%	5,064	N/A	N/A
Working capital ⁽⁵⁾	26,307	83.8%	19,579	72.5%	(6,728)	N/A	N/A
Total equity	31,403	100.0%	26,991	100.0%	(4,412)	N/A	N/A

(1) Information about denominated currency and interest rate structure related to the condition as at 31 March 2020

(2) Bank balances and cash equivalents included

(3) As at 31 March 2020, bank borrowings amounted to HK\$10,533 million and all the gold loans would be matured within 12 months while bank borrowings amounted to HK\$598 million would be matured in more than 1 year but not exceeding 2 years and HK\$300 million would be mature in more than 2 years but not exceeding five 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. No hedging instrument is deployed against RMB fluctuation as most of the daily receipts and payments for our Mainland operations are both made in RMB, which do not pose a substantive currency exposure to our business.
- It is our treasury policy to maintain high liquidity in response to the requirement of operating cash flows; and to upkeep financial prudence by not engaging in highly leveraged or speculative derivative products.

Effect of RMB fluctuation

- As part of our business operation was in Mainland China, the fluctuation in RMB would post some impact on 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 year 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 year 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 table below illustrates the fluctuation of RMB and the impact on our financial performance:

FY2020	Closing exchange rate YoY change	Average exchange rate YoY change
RMB to HKD	▼ 6.1%	▼ 3.9%

For the year ended 31 March	2019		2020	
	As reported	Constant exchange rate basis	As reported	Constant exchange rate basis
Revenue YoY change	▲ 12.7%	▲ 13.2%	▼ 14.9%	▼ 12.4%
Core operating profit YoY change	▲ 24.4%	▲ 24.9%	▼ 18.4%	▼ 15.5%
Changes in inventory balances	▲ 13.0%	▲ 16.7%	▲ 7.7%	▲ 11.4%
Changes in cash and cash equivalents	▼ 3.8%	▲ 0.7%	▼ 5.5%	▼ 3.4%

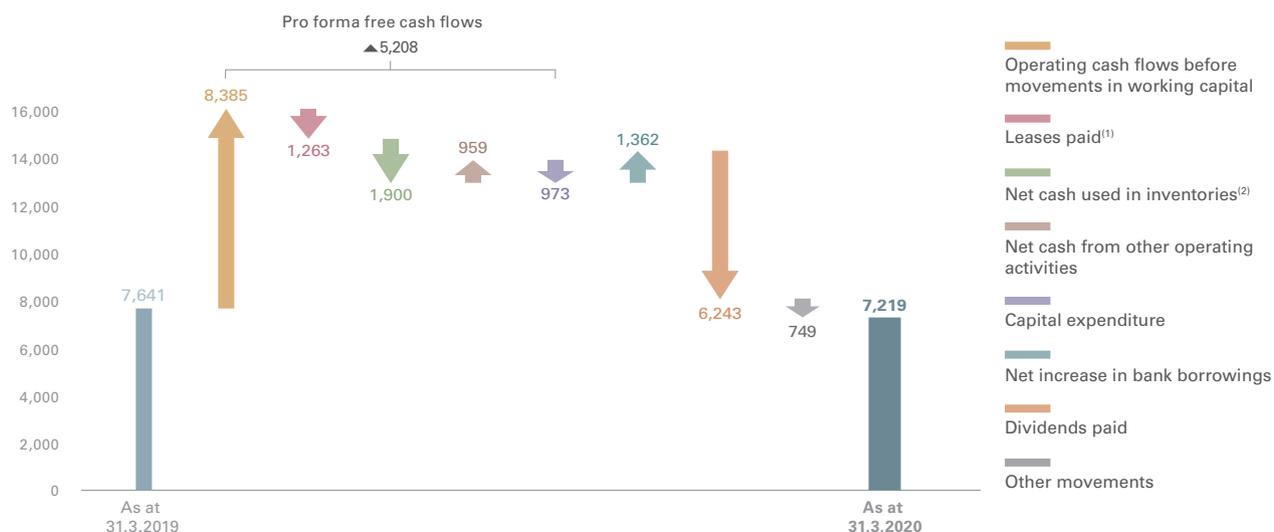
Cash flows and others

Cash flows

For the year ended 31 March	2018 HK\$ million	2019 HK\$ million	2020 HK\$ million
Operating cash flows before movements in working capital	6,879	7,774	8,385
Leases paid ⁽¹⁾	–	–	(1,263)
Net cash used in inventories ⁽²⁾	(2,455)	(2,911)	(1,900)
Net cash from other operating activities	232	629	959
Purchase of jewellery collectibles	(553)	–	–
Capital expenditure	(1,084)	(1,392)	(973)
Pro forma free cash flows	3,019	4,100	5,208
Net change in bank borrowings	1,102	2,133	1,362
Dividends paid	(4,260)	(6,081)	(6,243)
Other movements	140	(455)	(749)
Net increase (decrease) in cash and cash equivalents	1	(303)	(422)

Major cash flows items for FY2020

(HK\$ million)



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

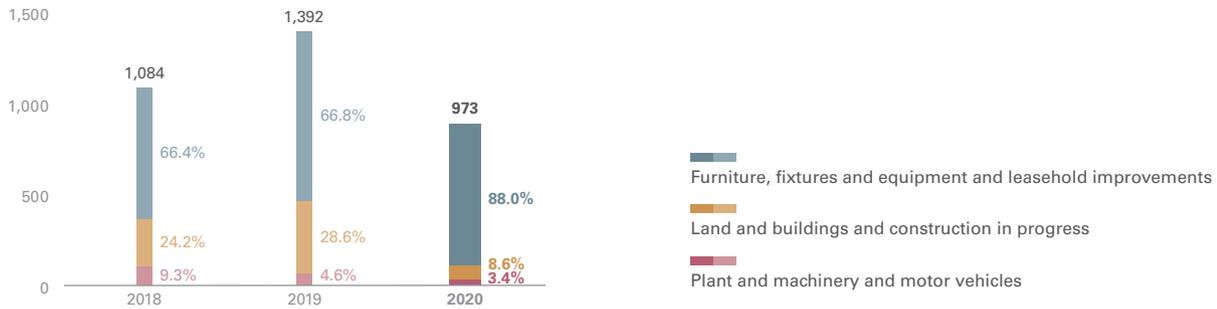
(2) Net cash used in inventories included net change in inventories, gold loans raised and repayment of gold loans

Capital expenditure

- The Group's capital expenditure incurred during FY2020 amounted to HK\$973 million (FY2019: HK\$1,392 million).

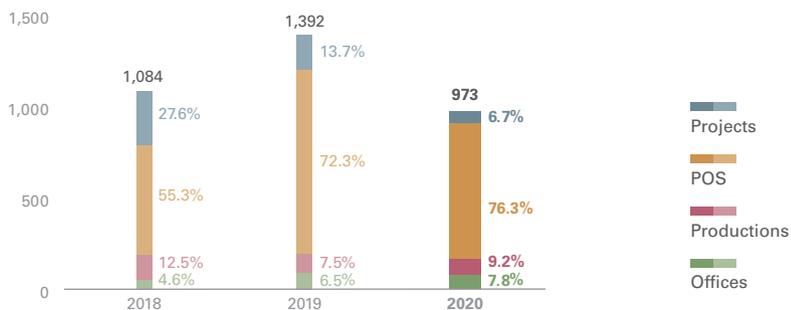
Capital expenditure by nature

For the year ended 31 March
(HK\$ million)



Capital expenditure by function

For the year ended 31 March
(HK\$ million)



CORPORATE STRATEGIES

The erratic global economy and headwinds in FY2020 posed considerable risks and challenges. In view of these macro uncertainties, we stay vigilant and ensure prudent business planning and risk management. We embrace change to turn challenges into opportunities, which enable us to further strengthen our leading market position and support our vision of becoming the most trusted jewellery group in the world.

Thanks to our “Smart+ 2020” strategic framework launched since FY2018, this three-year strategic plan enabled us to focus on enhancing our customer experience. In reviewing our businesses and geographies today, we are delighted to see our achievements over the past three years. With this solid foundation, we are well positioned for a next chapter of growth and continue to deliver exceptional customer experience that creates long-term differentiation and loyalty.

BUSINESS DEVELOPMENT

Mainland China

Chinese consumers demonstrated resilience with their spending power despite the macro-economic headwinds in Mainland China.

Current economic trends and demographic data indicate that lower tier cities, such as county level cities, have a stronger rate of consumption growth as compared to those in Tier I cities and the household income gap between the lower tier cities and Tier I cities has been narrowing. With relatively lower living costs and improving infrastructural connectivity, Mainland China’s lower tier cities are expected to be the new driver of consumption growth.

While we are observing a consumption upgrade in lower tier cities, we also see that consumers have greater preference for value and utility as they become more educated about the products they buy and consumers are also increasingly focused on personalised products and exclusive experiences. Therefore, to succeed in this changing market, a customer-centric approach is necessary to better serve each unique consumer segment, which drives us to refine our strategy in the Mainland China market.

Retail network

Retail Network in Mainland China

As at 31 March 2020

CHOW TAI FOOK brands

CHOW TAI FOOK JEWELLERY

3,364 POS

ARTRIUM

3 POS

JEWELRIA

59 POS

CTF WATCH

116 POS

Other brands

HEARTS ON FIRE

1 POS 184 SIS/CIS

T MARK

3 POS 865 CIS

ENZO

59 POS

SOINLOVE

43 POS

MONOLOGUE

51 POS

Total POS in Mainland China

3,699 POS

- We adopted a two-pronged strategy for Mainland China's retail network development.
- Firstly, we improved the customer experience through upgrading our stores and introducing ARTRIUM and JEWELRIA to our CHOW TAI FOOK JEWELLERY retail network, primarily located in Tier I and II cities, targeting customers who seek for unique experience.
- Secondly, in recent years, we have expanded our presence in lower tier and county level cities through the franchise model to capture the growth potential emanating from their consumption upgrade. We leveraged the local knowledge and access from our franchise partners to achieve this goal.
- As at 31 March 2020, our number of CHOW TAI FOOK JEWELLERY POS in Tier III and lower tier cities already accounted for 45.7% of our total POS in Mainland China from 33.3% as at 31 March 2017.
- Our multi-brand strategy continues to succeed in Mainland China, allowing us to diversify our product portfolio and tap into different market segments, which helps expand our market share.
- In the past three years, we continued our rollout of HEARTS ON FIRE, a premium diamond brand with delicate cutting and polishing skills, and T MARK, our proprietary diamond brand with a unique traceability feature. We also introduced the two other brands, SOINLOVE and MONOLOGUE, primarily targeting younger customers in FY2018.
- We continue to pursue new business opportunities such as brand acquisitions to further expand our footprint. In FY2020, we acquired ENZO, enabling us to further venture into the coloured gemstone market.

Omni-channel retailing

- Apart from physical store expansion, we understand customers now value seamless shopping experience that centre around the integration of online and offline channels.
- We have therefore placed much emphasis on channel integration in order to acquire and cultivate brand awareness amongst new younger customers and enhance the overall shopping experience.

Hong Kong, Macau and Other Markets

Hong Kong and Macau are relatively mature markets. As shown in the industry data, both retail sales performance of jewellery industry⁽¹⁾ and Mainland Chinese visitations⁽²⁾ in Hong Kong recorded an approximately 40% decline year-on-year in FY2020. We believe that the markets will remain challenging in the foreseeable future.

In the Asian market, particularly ASEAN countries, we expect to see good growth potentials when the market recovers as the impact of COVID-19 fades away. Key economic indicators also show that ASEAN countries are on a growth trajectory. With the rising middle income class and a growing spending capacity in these countries, we believe that there will be a higher demand for quality products and services. Apart from local economic growth, Chinese outbound tourism is growing fast. According to the data from China Tourism Academy, Chinese tourists made 149 million overseas trips, increased by 14.7% year-on-year in 2018 and some ASEAN countries are one of their favourite destinations. These growth opportunities could be captured through expansion into these markets.

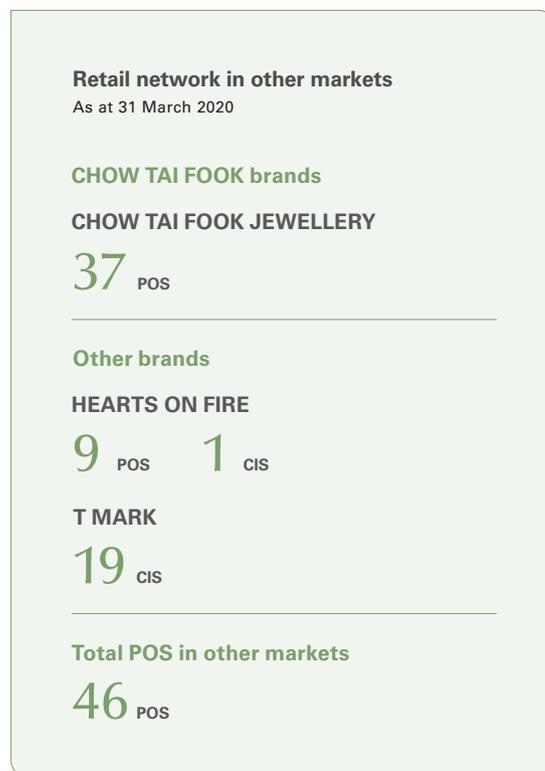
As for the US market, demand for diamond jewellery continued to capture around 50% of the total global diamond demand and the US demand increased by 5% to US\$36 billion in 2018⁽³⁾. Yet the pandemic caused additional challenges to the market.

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

(2) *Source: Commerce and Economic Development Bureau of the HKSAR Government*

(3) *Source: The Diamond Insight Report 2019 by De Beers Group*

Retail network



Hong Kong and Macau

- We remain selective in POS openings while POS consolidation continues, especially in the touristic areas. Improving store productivity is our priority.
- Yet, we believe that building unique customer experience plays an important role in meeting different customer expectations. Hence we introduced ARTRIUM, targeting high-end customers, and SOINLOVE and MONOLOGUE to attract younger customers.
- We have also refurbished and upgraded our store design and introduced experience shops to create a better and more comfortable shopping experience.

Asia

- To capture the growth opportunities in the Asian market, we have placed much effort in expanding our presence through partnering with local retailers through franchise model, leveraging on their local knowledge and expertise to co-create greater value.
- As at 31 March 2020, we had 44 POS in total, with a net addition of 14 POS in the Asian market compared to that of three years ago, which included Cambodia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, Vietnam, etc.
- We will further explore opportunities in Southeast Asia, specifically countries with high growth potentials that benefit from Chinese outbound tourism and rising local middle-class. We will bring regionally exclusive products with locality features that create unique product differentiation.

North America

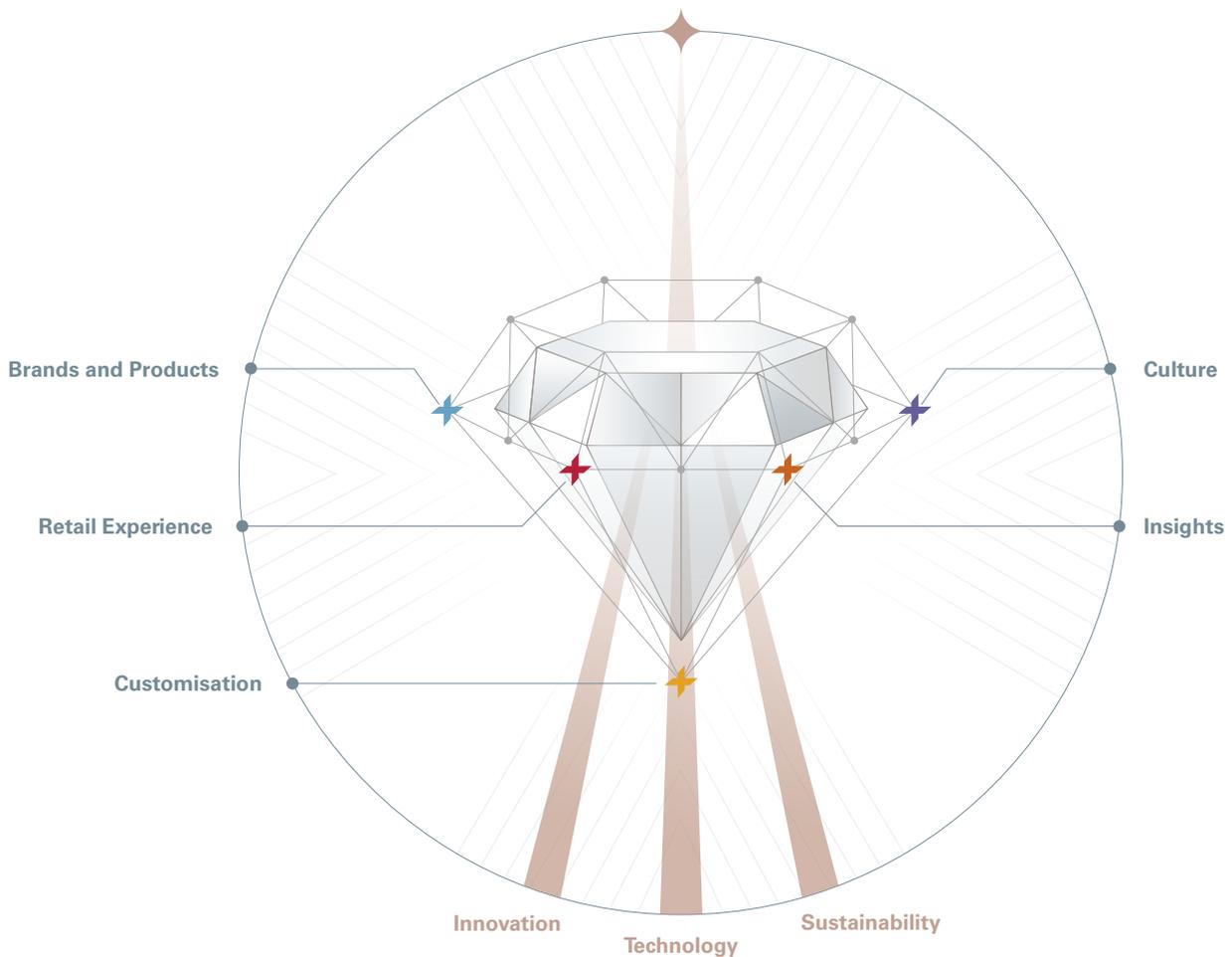
- We established Chow Tai Fook North America (“CTFNA”) business hub in Boston, the United States, which is positioned to become a leading, single source wholesaler in the market. We aim to achieve this by delivering products, services and know-how, with a focus on technological innovations that help drive profitability and strengthen jewellery retail businesses in the North American market.
- CTFNA offers customised, specialty collections in the diamond and fine jewellery segments, as well as private label offerings, to address the evolving needs of jewellery consumers.
- The Group’s know-how and scale, combined with the deep local knowledge and experience of our North American team allow us to deliver greater value to the retail jewellers in North America.

“SMART+ 2020” STRATEGIC FRAMEWORK

Our “Smart+ 2020” strategic 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. In reviewing our businesses and geographies today, we are delighted to see our achievements over the past three years.

SMART+ 2020

Customer Experience



Brands and Products

Multi-brand strategy

Rising middle income class and changing consumption structure continuously drive demand for more personalised products and services, which goes beyond the conventional shopping experience. To meet today's ever-changing customer expectations, we have adopted multi-brand strategy which we believe is necessary to better serve each unique consumer segment and enable us to create long-term differentiation and loyalty.

CHOW TAI FOOK JEWELLERY and endorsed brands

CHOW TAI FOOK JEWELLERY

- Founded in 1929, the Group's iconic brand "CHOW TAI FOOK" has been widely recognised for its trustworthiness and authenticity, and is renowned for its product design, quality and value.
- CHOW TAI FOOK JEWELLERY continues to invest and innovate in product offerings and features. One of the most remarkable achievements is our renowned jewellery collection, CTF • HUÁ Collection that emphasises on a natural balance between cultural, heritage and modern aesthetics and contributed 32.2% of our gold product retail sales value in FY2020 of our Mainland China market. Its another design, Imperial Jade • HUÁ Collection, crafted in pure gold with precious jade also demonstrates exquisite craftsmanship and deep affiliation with ancient Chinese culture.
- Our 17916 Collection in 22 Karat gold was also introduced as a response to the evolving demand from customers for seeking diversity in jewellery products.
- Experience shops introduced in Hong Kong since FY2018 have been gaining traction, with their rejuvenated shopping experiences and elegant shop ambience widely embraced by our customers. On the back of this success, a gradual rollout of experience shops in Mainland China is on track. As at 31 March 2020, we had 5 POS in Hong Kong and Macau and 6 POS in Mainland China, respectively among the total POS of CHOW TAI FOOK JEWELLERY.

ARTRIUM

- Building upon its 90 years of history, Chow Tai Fook offers exclusive high jewellery experience and the next level of luxury to its customers through ARTRIUM. Inspired by 5,000 years of Chinese art and culture, ARTRIUM brings a sense of wonder and appreciation to each piece, reimagining the craft of storytelling through high jewellery.

JEWELRIA

- JEWELRIA is a designers' hub of international jewellery product offerings catering for the demand of increasingly sophisticated customers. It offers an eclectic mix of oriental-designed, western-styled to international branded jewellery.
- Annoushka and Kagayoi are two international brands that have joined the JEWELRIA family last year. They provide a sense of delightful novelty to our sophisticated customers.
- Annoushka is a brand established by the renowned designer Annoushka Ducas MBE. It displays playfulness, wearability and daily glamour through the bold colour combinations.
- Kagayoi, a jewellery brand from Japan founded in 1861, that embodies Kyoto's unique aesthetic sense and deep heritage.

T MARK

- Our T MARK diamond brand was launched in 2016 to revolutionise the century-old diamond authentication process with our pioneering "4Ts" concept — Traceable, Transparent, Truthful and Thoughtful.
- We collaborated with Gemological Institute of America, leveraging blockchain technology, to deliver secure and digital diamond grading reports to our customers and to offer additional assurance on the quality of a T MARK diamond.
- We also collaborated with key insurance providers to provide customers with a value-added protection on selective T MARK diamond products in FY2020. These initiatives further earn our customers' trust, as well as setting a new standard for the industry.
- In FY2020, T MARK products accounted for 19.3% and 27.8% of the RSV of our diamond products in Mainland China and Hong Kong and Macau, respectively.
- RSV dropped 9.2% and 41.0% year-on-year in Mainland China and Hong Kong and Macau, respectively.

HEARTS ON FIRE

- HEARTS ON FIRE is the world's first diamond brand revered for its diamond cutting perfection. HEARTS ON FIRE strictly selects the purest rough diamonds and entrusts them to the hands of master craftsmen.
- In FY2020, the brand was 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 FY2020, HEARTS ON FIRE accounted for 1.4% and 3.6% of the RSV of our diamond products in Mainland China and Hong Kong and Macau, respectively.
- RSV dropped 34.8% and 53.3% year-on-year in Mainland China and Hong Kong and Macau, respectively. The HEARTS ON FIRE retail network in Mainland China has undergone restructure during the year and will continue to target sophisticated customers and penetrate into the high-end market through SIS and CIS.

ENZO

- In FY2020, we were pleased to have ENZO joining our Chow Tai Fook family. Founded in 2004, ENZO is distinguished by exquisite craftsmanship and creativity and will maintain its niche position as a natural coloured gem specialist to complement the Group's multi-brand strategy, enabling us to further venture into the coloured gemstone market.
- As at 31 March 2020, ENZO had 59 POS in Mainland China, primarily located in Tier I and II cities.

SOINLOVE and MONOLOGUE

- We have been ambitious in exploring innovative promotional channels to connect SOINLOVE and MONOLOGUE with younger customers.
- Within just two years since the launch of these two new brands, they have already gained much attention from the younger customers and achieved growth in both brand recognition and revenue.
- We raised our brand awareness and influence through brands collaborations, such as Coca-Cola and Game of Thrones; innovative and playful in product development, such as the use of vintage gold and pink coloured gold; as well as promoting through pop-up stores and social media.

Retail Experience

Omni-channel retailing

- To cope with the changing environment, the integration of digital technologies is the key to removing consumer pain points and creating a seamless shopping experience.
- In view of this, we have focused on developing our omni-channel capabilities in the past three years. Our strategy has been proven right when the COVID-19 pandemic accelerated the pace of digitalisation globally at all levels which fundamentally altered customers' buying habits. During the epidemic outbreak in Mainland China, while practicing social distancing, we managed to keep our customers closer by leveraging "CloudSales 365" and livestreaming.
- "CloudSales 365" is a mini-programme built upon WeChat Work platform that connects to our eShop and equips our staff with easier customer management tools. It provides our customers and staff a one-stop experience anytime and anywhere on their mobile devices.
- Livestreaming is booming in Mainland China. We leverage this to drive real-time customer interactions, enabling them to share immediate feedback.
- We collaborated with Austin Li, a renowned key opinion leader ("KOL") in Mainland China, for a charity livestreaming event in March 2020 with overwhelming results. Around 5,000 pieces of jewellery products were immediately sold within 30 seconds.
- Cloud kiosk is another example of our relentless innovation. It is an O2O hub linking online orders at physical locations to our e-commerce platform where customers can experience a shorter transaction time and wider product selection anytime and anywhere. Thanks to this flexible setup, there were over 700 spots, primarily at our POS in Mainland China, as at 31 March 2020.
- To increase our brand visibility and awareness, themed pop-up stores that infused with technology were introduced in numerous cities across Mainland China, and they delivered novel and engaging customer experiences.

Customer relationship management

- We are dedicated to enhancing our membership programme in order to retain the loyalty of our customers. Since April 2018, members in Mainland China could earn points upon purchases. The digitalisation of our customer relationship programme allows for members' privileges to be consolidated and managed under one account with all brands under the Group.
- As more business partners have been joining this programme since its launch, more lifestyle rewards and privileges are made available for redemptions via WeChat mobile app. Such redemption increases the attractiveness of our customer relationship programme.



Customisation

We adopted a more customer-driven approach in our production and operations in order to drive excellence in the customer experience.

Production framework

- In order to deliver a personalised shopping experience for our customers, we developed our production framework in FY2018 which was characterised by four key principles: Standardisation, Automation, Digitalisation and Intelligence.
- Since standardising and streamlining procedures, we have been increasingly focused on automation to enhance our production efficiency and reliability. For instance, Phase II of our Logistics and Distribution Centre in Shunde began operations in August 2018, which doubled our daily inventory distribution capacity, providing sufficient support to our operations.

- Digitalisation and intelligence drive reliability and consistency along the key areas of our supply chain. Our RFID technology has already been deployed in our three major production hubs, including Wuhan, Shenzhen and Shunde, to monitor the production status and speed up the order tracking process. Intelligent equipment monitoring system was also installed in selected production lines to monitor the efficiency of machinery in real time.
- A more flexible manufacturing process allows us to engage our customers along the supply chain from product design, manufacturing and logistics to distribution.
- With these solid foundations, we are well equipped to complete our Customer to Manufactory (“C2M”) journey.

C2M

- As a pilot, we introduced a jewellery customisation online platform named D-ONE in Mainland China in 2017. It offers our customers a unique experience in creating their own jewellery by choosing the diamonds and settings according to their own preferences.
- To further enhance our customer experience, C2M experience centre in Shenzhen was established to provide our customers a more tailored services during the D-ONE experience.
- Backed by our strong production base, we are able to make a customised product available and ready for delivery, within 24 hours from customer order.

Insights

Customers

- We further enhanced the features of Smart Tray to optimise customer satisfaction. This included enabling members’ check-in through Smart Trays at certain selected POS in Mainland China, which helps us to identify loyal members and provide relevant products and services that help facilitate product design and assortment strategies.

Operations

- Ongoing efforts in the use of big data analytics enables 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

We believe that culture is the key enabler behind continued innovation and our ability to attract and retain talent to contribute to the sustainable development of the Group and the jewellery industry as a whole.

Internal incubators to support innovation

Setup of Sustainability and Innovation Centre (“SI Centre”)

- We are committed to uplifting our customer experience by harnessing innovation and technology across our core operations.
- To facilitate the more effective allocation of resources, and to support our conventional jewellery retail business, we set up a SI Centre in April 2018, comprising of three key focus areas — culture and art, craftsmanship and creativity.
- A designated management team is responsible for the investment in innovation, brand management, culture and art, craftsmanship, technology and data applications to underpin the sustainable growth of the Group.

Innovator development: putting intrapreneurship into practice

- Despite the COVID-19 outbreak resulting in the temporary POS closure, we onboarded our frontline and back office employees to refer customers to our mobile shopping platform in Mainland China, Hong Kong and Macau. We equipped all employees with this platform to keep connecting with customers and share our best offers via social media. Not only did we open up new revenue stream, what was the most valuable was the good vibe generated in everyone’s personalised message to friends and family using this platform.

Unbounded working environment

- The “Slash” co-working space in our offices promote agile and autonomous way to work. Less the limit of department and function, teams collaborated seamlessly in a diverse array of projects. The flow and exchange of ideas energised the young generation to develop into a T-shaped talent. We also adopted user-centric employee experience such as flexible work arrangement and experiential learning, resulting in better engagement and collaboration.
- Our group-wide annual summit this year was unprecedentedly conducted online, connecting our management and over 10,000 employees to learn about our latest strategies and roadmap.

Loupe Jewellery Academy

- As part of our relentless efforts to incubate potential talents, the Group was honoured to partner with the Haute École de Joaillerie in 2019, one of the world’s most prestigious jewellery institutions to set up the Loupe Jewellery Academy.

External innovative incubators

Loupe

- A design incubation space was established in December 2017 to foster creativity and to provide an engagement platform for local and international talent in the jewellery sector.
- We aim to nurture young jewellery talent in engaging ways such as offering co-working space where they can share design ideas, acquire craftsmanship techniques and participate in workshops led by industry professionals.

C+ Creative Park

- Echoing the spirit of innovation and entrepreneurship advocated by the Chinese government, the C+ Creative Park at our Jewellery Park in Wuhan, Mainland China, aims to promote our entrepreneurial culture through supporting entrepreneurs and assists them to address common challenges and obstacles faced by many business start-ups.

BUSINESS OUTLOOK AND STRATEGIES

FY2020 was a challenging year for us, especially in 4QFY2020. In this unprecedented period, we upheld our values of People First and continue our focus on the talent development and unleash the potential capabilities of our employees. We also treat this time as an opportunity for us to be more creative and continue to explore ways to reimagine our business model and prepare for a stronger business rebound as markets recover. With a solid foundation built over the years, we are well positioned for our next chapter of growth.

Although our Mainland China operations severely suffered in 4QFY2020 due to the pandemic, we have seen signs of recovery as the business in Mainland China resumes. Government policies and measures have been released to support businesses and resumption of production. We are cautiously optimistic about the short-term business outlook. We shall continue our market expansion strategy through franchise model as the situation stabilises and the online-offline channel integrations to take advantage of the digital trends. Also, we shall continue our multi-brand strategy to better serve each unique customer segment. Despite the recent headwinds, we remain optimistic about the mid-to long-term prospects of the jewellery market in Mainland China.

In Hong Kong and Macau, the market will remain challenging in the foreseeable future. As the customer base has been reshaped, we shall continue to consolidate our retail network, rationalise cost structure and refine our business strategies. Apart from focusing on store efficiency, we also place an emphasis on transforming our current business model through innovation and technology in order to enhance retail experience, improve operational efficiency and strengthen our market leadership position.

Going forward, we shall continue to implement our customer-centric strategy with the vision of achieving our four long-term goals to: 1) be the market leader through further market penetration, 2) develop a comprehensive jewellery ecosystem, 3) be a tech-savvy jewellery company through harnessing innovation and technology, 4) improve operational efficiency through digital transformation. The tasks will center on improving business model agility and organisational structure through technology and employee empowerment, which will allow us to respond rapidly to market changes, strengthen supply-chain capabilities through streamlining the processes, automation and data analytics and enhance our competitive edge to achieve long-term sustainable growth.

THE UNAUDITED KEY OPERATIONAL DATA FROM 1 APRIL TO 31 MAY 2020

From 1 April to 31 May 2020, the year-on-year changes of RSV and SSS are as follows:

	(% change compared to the same period last year)	
Group RSV growth	▼ 22.6%	
	Mainland China	Hong Kong, Macau and other markets
RSV growth	▼ 3.2%	▼ 71.2%
Contribution to Group RSV	89.4%	10.6%
	Mainland China	Hong Kong and Macau
SSSG	▼ 15.4%	▼ 80.2%
SSS volume growth	▼ 25.5%	▼ 77.3%
SSSG by product		
— Gem-set jewellery	▼ 7.9%	▼ 78.4%
— Gold products	▼ 25.2%	▼ 86.0%

The unaudited key operational data from 1 April 2020 to 31 May 2020 was prepared based on the latest available management accounts and the information currently available to the Group. The position remains to be reviewed by the Company's auditor, its audit committee and the Board.

FINAL DIVIDEND AND ANNUAL GENERAL MEETING

The Board recommended the payment of a final dividend of HK\$0.12 per share for FY2020, amounting to approximately HK\$1,200 million (FY2019: a final dividend of HK\$0.20 per share and a special dividend of HK\$0.30 per share, amounting to approximately HK\$5,000 million). Such payment of dividend will be subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 30 July 2020 and is payable to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 6 August 2020. It is expected that the proposed final dividend will be paid on or about Friday, 21 August 2020. Notice of the annual general meeting will be published and despatched to shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in due course.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements of the Group for FY2020.

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2020 as set out in the preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2020, 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 (the “Model Code”) as set out in Appendix 10 to the Listing Rules. 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 FY2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Monday, 27 July 2020 to Thursday, 30 July 2020, both days inclusive, during which period no transfer of share of the Company will be registered. 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 Friday, 24 July 2020.

In order to establish entitlements to the proposed final dividend, the register of members of the Company will be closed on Thursday, 6 August 2020 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 Wednesday, 5 August 2020.

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

Hong Kong, 11 June 2020

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.