

CHOW TAI FOOK JEWELLERY GROUP LIMITED

周大福珠寶集團有限公司

Stock Code: 1929 • A Hong Kong Main Board Listed Company

2019/2020 Interim Results Live Audio Webcast

Thursday, 28 November 2019

Introduction to Management

Moderator

Good evening ladies and gentlemen, welcome to Chow Tai Fook FY2020 Interim Results Live Audio Webcast. Let me introduce the management. They are Mr. Adrian Cheng, Executive Director, Mr. Kent Wong, Managing Director, Mr. Hamilton Cheng, Executive Director, Hamilton is responsible for the financial management and corporate operations, Mr. Peter Suen, Executive Director, Peter is responsible for the Hong Kong, Macau, and overseas business, Mr. Bobby Liu, Executive Director, Bobby is responsible for the sustainability and innovation projects.

Mr. Adrian Cheng will first present the interim results and operational highlights. Mr. Hamilton Cheng will then present the financial review. Mr. Kent Wong will present the Group's business development and updates. Mr. Bobby Liu will present customer experience, customer relationship management and e-commerce. Then Mr. Adrian Cheng will conclude the presentation with the Group's business outlook and strategies. Lastly there will be a Q&A session. Now, may I invite Mr. Adrian Cheng, Executive Director to present, Adrian please.

FY2020 Interim Results Highlights

Slide 1 - (1H2020 Results Highlights)

Mr. Adrian Cheng – Executive Director

Good afternoon. I am pleased to announce our 1HFY2020 interim results. 1HFY2020 was a challenging period due to macro uncertainty and weakened consumer sentiment. However, the Group's revenue remained stable at HK\$29,533 million during the period, thanks to our expansion strategy in Mainland China.

Same store sales ("SSS") in Mainland China delivered a steady growth of 1.8% while that of Hong Kong and Macau declined by 27.5%. Core operating profit which reflects the operational performance of our business grew strongly by 18.0% YoY.

Profit attributable to shareholders was down by 20.8% to HK\$1.5 billion, with an unrealised loss on gold loans of HK\$917 million recorded as international gold price surged during the period. Basic earnings per share totalled HK15 cents. The Board has declared an interim dividend of HK12 cents per share; Payout ratio approximated 78.3%.

Slide 2 - (1H2020 Operational Highlights)

Mr. Adrian Cheng – Executive Director

During 1HFY2020, we opened a net of 356 Points of Sale ("POS"), bringing the total number of POS to 3,490 at the end of September 2019. Net openings in Mainland China reached 350 while Hong Kong and Macau and other markets had net additions of 4 and 2 POS, respectively.

Momentum of our CTF • HUÁ Collection continued to be robust and its contribution to gold products RSV in Mainland China further expanded to 30.6% during 1HFY2020, versus 11.6% the same period last year. We also extended it to gem-set jewellery and launched Imperial Jade • HUÁ Collection during the period.

For T MARK, as of September this year, there were a total of 782 counter-in-shop (“CIS”) and 5 specialty stores. It accounted for 19.2% and 28.1% of diamond products RSV in Mainland China and Hong Kong and Macau, respectively.

RSV of our e-commerce business in Mainland China was up by 9.7%, accounting for 4.9% in terms of RSV and 14.1% in volume of our Mainland China operations. Now, I will turn over to our Executive Director Hamilton to go through our financial performance.

Financial Review

Slide 4 – (Summary – Income Statement)

Mr. Hamilton Cheng – Executive Director

Regarding the financial review, here is the Summary of Income Statement and I will go through some key ratio data.

First, our gross profit margin has showed a slight decline. As mentioned by Adrian before, during 1HFY2020, a larger unrealised loss on gold loans was recorded as international gold price surged during the period, which we have explained during our October announcement.

Adjusted gross profit margin, excluding the impact of unrealised loss (gain) on gold loans, was up by 260 bps to 30.7% during the period, benefitting from the like-for-like margin improvement across all of our product categories.

In particular, 40-50% of our gold products were not hedged, thus the like-for-like gross profit margin benefitted from gold price surge.

SG&A expenses grew around 4% YoY to HK\$5.8 billion; SG&A ratio increased by 90 bps YoY to 19.5% due to our flattish top line which led to a slight operating deleverage.

Core operating profit margin, which excluded the impact of unrealised loss on gold loans and foreign exchange loss, rose 18.0% and its corresponding margin was lifted to 11.9%.

Slide 5 – (Revenue Breakdown)

Mr. Hamilton Cheng – Executive Director

Revenue by reportable segment: Revenue in Mainland China rose 12% in 1HFY2020, supported by POS openings. Its contribution to the Group’s revenue climbed further to 68.5% during the period.

In Hong Kong and Macau and other markets, revenue dropped by around 20%.

Revenue by product: Revenue of gem-set jewellery was flat, similar to last year. Revenue of gold products declined slightly by 2.6% due to a high base of comparison and weakened gold demand resulted from the surge in international gold price. Its revenue contribution was reduced by 160 bps YoY to 58.9%.

Revenue of platinum/karat gold products and watches both showed good performance, increased by 9% and 14%, respectively.

Slide 6 – (Same Store Sales Growth (“SSSG”) – Major Markets)

Mr. Hamilton Cheng – Executive Director

Same Store Sales Growth by Major Market: During the 1HFY2020, due to various external factors, includes US-China trade talks, surge in gold price, current situation in Hong Kong and high base of comparison caused by decline in gold price at the same period last year.

To a certain extent, these factors have affected our business performance in 1HFY2020, especially during the 2Q, between July and September.

Sales volume of gold products was further dampened as gold price was denominated in Renminbi there. As renminbi depreciated during the period, the effect of the gold price increase was further amplified.

Yet in Mainland China, ASP continued to show increase; SSSG in Mainland China stood at 1.8% during 1HFY2020. While SSS in Hong Kong and Macau declined by 27.5%.

On this slide, we also updated the performance for 1 October to 21 November, SSS in Mainland China returned to a positive growth compared to 2QFY2020, due to slight decline in gold price and the stabilising of Renminbi. While that of Hong Kong and Macau still declined by around 40%, on a similar trend as 2QFY2020.

Slide 7 – (SSSG – Major Products)

Mr. Hamilton Cheng – Executive Director

Same Store Sales Growth by Major Product: As mentioned, gold price rose about 15% in 1HFY2020, and about 23% if the same were calculated in Renminbi. Same as before, rise in gold price directly affected the sales volume.

As mentioned by Adrian, our CTF • HUÁ Collection continued to gain popularity, hence, ASP enjoyed an uplift of 25% in Mainland China, a very encouraging increase. In addition, ASP of gold products was at HK\$4,900 in Mainland China, leading to an overall steady performance for gold product sales.

As of 3QTD FY2020, due to slight decline in gold price, and the stabilising of Renminbi, the sales of gold products in Mainland already returned to a steady level.

Gem-set jewellery SSS in Mainland China rose 4.1% in 1HFY2020, fuelled by a healthy volume growth. ASP trend remained steady.

While in Hong Kong and Macau, gem-set jewellery SSS declined by 25% during the period with a negative volume growth. As of 3QTD FY2020, there's no sign of improvement on gem-set jewellery which continues to be challenging.

Slide 8 – (Core Operating Profit and Profitability Analysis)

Mr. Hamilton Cheng – Executive Director

In Mainland China, core operating profit (“COP”) delivered a strong growth of 37.8%; Hong Kong and Macau and other markets was down by around 26%. In 1HFY2020, Mainland China's contribution to the Group's COP jumped to over 80% during the period.

Adjusted gross profit margin in Mainland China was expanded by 220 bps to 31.9% as like-for-like margin improved. Coupled with slight operating leverage, COP margin increased by 270 bps to 14.1%.

In Hong Kong, Macau and other markets, adjusted gross profit margin also improved by 260 bps to 28.1% driven by the like-for-

like margin improvement. However, due to sluggish sales performance, SG&A ratio was up due to operating leverage, Therefore, COP margin in Hong Kong, Macau and other markets recorded only a slight decline and maintained a similar level same period last year at 7.4%.

Slide 9 – (SG&A Analysis (HK\$m))

Mr. Hamilton Cheng – Executive Director

SG&A Analysis: For major SG&A components, including staff costs and lease-related expenses, I shall walk through separately in the next two slides. Here we will focus on depreciation, advertising and promotion expenses, packaging materials and other SG&A.

As we adopted IFRS 16 for the first time, this led to a significant increase in depreciation and amortisation and a decrease in rental expenses. If such impact was excluded, depreciation and amortisation would increase by 7.1% YoY, which is in line with our capex (POS).

Advertising and promotion (“A&P”) expenses dropped by around 13% and its ratio was lowered to 0.9%. As we continue opening new stores and continue to implement our multi-brand strategy in Mainland China, we expect to increase our expenses in next half year, we expect the ratio to be at 1.1% for full year for A&P, similar to last year.

As we continue to implement our multi-brand strategy, packaging materials was listed as a separate item this time, since it has become more essential to lifting our gross profit margin. Its ratio to topline was lifted from 0.5% last year (1HFY2019) to 1.0% this year (1HFY2020).

Other SG&A, including royalties on licensed products, diamond certificate expenses, dropped 6% YoY.

Slide 10 – (SG&A - Staff Costs and Related Expenses (HK\$m))

Mr. Hamilton Cheng – Executive Director

Staff Costs and Related Expense: Our staff costs policy in Mainland China showed a consistent trend in 1HFY2020. Headcount in Mainland China slightly increased by 3%. Fixed staff costs increase was in-line with inflation due to the slight decline.

Incremental expenses in Mainland China was generally in line with the business growth and it maintained at a steady ratio of 7.3%.

In Hong Kong and Macau, due to market challenges, variable staff costs was flat YoY as some short-term sales incentives were given to staff, particular the frontline staff, to support and maintain their morale.

Slide 11 – (SG & A – Concessionaire Fees and Lease-Related Expenses (HK\$m))

Mr. Hamilton Cheng – Executive Director

Concessionaire Fees and Lease-Related Expenses: In Mainland China, 70% of our stores continued to be concessionaires, therefore it was not affected by the IFRS 16. Concessionaire ratio in Mainland China edged higher to 8.7%, due to shift in sales mix towards non-gold products during 1HFY2020.

In Hong Kong and Macau, we have combined lease-related expenses including rental expenses, depreciation and finance costs on leases which fell slightly by 2.5% YoY. Rental ratio expanded to 6.2%. There will be around 20 stores subject to lease renewals in Hong Kong and Macau in FY2020

Lease renewal in FY2020 will be around 20 stores in Hong Kong and Macau; we believe that we will be able to achieve a 20-50% reduction in rental renewal in 2HFY2020, leading to a mid-teens decline for full year relating to the renewals. Overall rental costs in Hong Kong and Macau shall see a mid-single digit reduction YoY in FY2020.

Slide 12 – (Inventory Analysis)

Mr. Hamilton Cheng – Executive Director

Inventory Analysis: inventory balances amounted to around HK\$42 billion as of September 2019, up 7.6% compared to March level. The increase was in fact quite mild comparing to the same period last year, as inventory balances increased as of 30 September while the Group prepared for the holiday season in the second half of the year. Inventory turnover period increased by 63 days compared to FY2019, reaching 362 days.

As of September 2019, approximately 13-14% of the inventory balances were consigned inventories that were held for franchised POS which amounted to HK\$5.7 billion, around 1.5 months inventory turnover period. If excluding the consigned inventories, there was only a slight increase in our inventory turnover period. However, we will continue with a stringent inventory management and after the season demand in second half, we anticipate that inventory balances shall return to HK\$39 billion by March 2020, similar to last year's level. The full-year inventory turnover period is expected to be shortened to 300-310 days.

Slide 13 – (Capital Expenditure (HK\$m))

Mr. Hamilton Cheng – Executive Director

Capital Expenditure: Capex totalled HK\$444 million during the period. Capex in both projects and offices were relatively low. Major Capex were spent on our POS, covering new openings and renovation of our existing stores. FY2020 capex is estimated to be around HK\$1.5 billion.

Slide 14 – (Capital Expenditure (HK\$m))

Mr. Hamilton Cheng – Executive Director

Changes in Capital Structure: Every year around the interim period, the major change in capital structure is mainly related to the increase in inventories for the holiday season in the second half of the year, as well as the final and special dividends distribution for the previous financial year in August. As a result, cash level will reduce while bank borrowings and gold loans will increase.

Due to such changes, the net gearing ratio increased to 60%. However, excluding gold loans which does not affect our cash flows, net gearing ratio would be around 22%.

With an improvement of cash flows expected in 2HFY2020, we expect the net gearing ratio shall improve by March 2020 and drop back to around 40%.

Slide 15 – (Capital Expenditure (HK\$m))

Mr. Hamilton Cheng – Executive Director

Movements in Cash Flows: Operating cash flows amounted to HK\$4.9 billion. After leases paid, cash used for inventories and capex, pro forma free cash flows was HK\$1.8 billion during the period.

As of September 2019, after final and special dividends of around HK\$5.0 billion paid in August, bank balances and cash was still at a healthy level of over HK\$5.0 billion. I will now turn over to Kent for the business development.

Business Development

Slide 17 – (Business Development)

Mr. Kent Wong - Managing Director

Thank you Hamilton, In Mainland China, we opened a net of 350 POS during 1HFY2020, among which 333 were CHOW TAI FOOK JEWELLERY POS. As of September 2019, we had 3,338 POS in Mainland China.

Slide 18 – (Mainland China – CHOW TAI FOOK JEWELLERY POS)

Mr. Kent Wong - Managing Director

This slide now shows the retail sales value (“RSV”) and distribution of CHOW TAI FOOK JEWELLERY POS, which contributed around 90% of our RSV in Mainland China.

By tier of cities: as we have been leveraging franchisees to deepen our market penetration in lower tier and county level cities, around 55.0% of the net openings during the period were located in Tier III, IV and other cities. Tier III, IV and other cities achieved a robust high-teens RSV growth, mainly driven by the openings and a relatively stronger Same Store performance there.

By operation model: In 1HFY2020, 97.6% of the net openings were in franchised format. As a result, franchised POS mix reached 51.8% and the rest of 48.2% was self-operated POS as of September 2019.

By self-operated model: Self-operated POS at shopping mall outperformed the other formats with a RSV growth of 20.1%.

Slide 19 – (Mainland China – CHOW TAI FOOK JEWELLERY POS)

Mr. Kent Wong - Managing Director

Our strategy on market penetration to lower tier and county level cities in Mainland China, through our franchise model, fuels our growth momentum. As mentioned, 333 CHOW TAI FOOK JEWELLERY POS were opened in Mainland China during 1HFY2020. The net opening target is expected to be around 600 in FY2020.

Meanwhile, we will continue to roll out our segmentation strategy, with ARTRIUM and JEWELRIA to be opened in Tier I and II cities for customers with sophisticated demand.

Slide 20 & 21 – (Retail Network – Hong Kong, Macau and Other Markets)

Mr. Kent Wong - Managing Director

The next slide will show the retail network distribution in Hong Kong and Macau.

RSV and POS by geography in Hong Kong and Macau: In Hong Kong and Macau, customer traffic softened and fell by 18.3% year-on-year in 1HFY2020. Macau outperformed Hong Kong and registered a positive RSV growth of 5.9% in 1HFY2020.

Share of RSV settled in China UnionPay, Alipay, WeChat Pay or RMB, a proxy for sales contribution from Mainland tourists, was lowered from 45% in 1HFY2019 to 39.7% in 1HFY2020.

In Hong Kong and Macau, a net of 4 POS were opened during the period, including a new experience shop and a MONOLOGUE POS. Going forward, we shall seek for more aggressive cut in rental and continue to review and optimize our retail network.

We shall continue to explore expansion opportunities in Asian countries, which offer high future growth potential. I would turn over to Bobby. He will walk through our development on customer experience, CRM and e-commerce.

Customer experience, customer relationship management and e-commerce

Slide 23 – (Multi-brand Strategy)

Mr. Bobby Liu - Executive Director

Thank you, Kent. The implementation of our multi-brand strategy has successfully extended the spectrum of product offerings to meet the needs of our customers.

Slide 24 – (JEWELRIA)

Mr. Bobby Liu - Executive Director

JEWELRIA is a Chow Tai Fook's diversified retail experience which offers international jewellery product offerings. Two international brands recently joined the JEWELRIA family in 1HFY2020. These two brands are now available in the stores in Mainland China to bring our customers delightful newness.

Annoushka, a jewellery house based in London, is the creation of renowned designer Annoushka Ducas, whose works have been loved by members of the British royal family.

Kagayoi, a heritage jewellery brand from Japan, has been making authentic jewellery for over 150 years in Kyoto since 1861, brings forth the "Japanese sense of beauty" embodied in women.

As of September 2019, there were 45 JEWELRIA POS in Mainland China. As mentioned by Kent, we will continue to roll out JEWELRIA in 2HFY2020.

Slide 25 – (T MARK and HEARTS ON FIRE)

Mr. Bobby Liu - Executive Director

In regards to T MARK, as of September 2019, there were 721 counter-in-shop in Mainland China and 61 counter-in-shop in Hong Kong and Macau distributing T MARK diamond products.

In 1HFY2020, RSV of T MARK raised by 10.2% in Mainland China and dropped 15.0% in Hong Kong and Macau. T MARK products accounted for 19.2% and 28.1% of our diamond products RSV in Mainland China and Hong Kong and Macau, respectively.

A personalised T MARK embossment service was launched in October to enable selected customers to customise their own codes for their T MARK diamonds.

For HEARTS ON FIRE, a new jewellery collection designed by Hayley Paige was unveiled in October. Hayley is one of the most sought-after bridal dress designers from the United States. The new collection translated Paige's imaginative, whimsical wedding gowns into a unique and captivating bridal jewellery line.

As of September 2019, there were 12 POS and 199 shop-in-shop / counter-in-shop. Retail network in Mainland China has been under restructuring to target sophisticated customers in the high-end markets.

Slide 26 – (SOINLOVE and MONOLOGUE)

Mr. Bobby Liu - Executive Director

We have been adventurous in exploring innovative promotional channels to connect SOINLOVE and MONOLOGUE with our young customers.

MONOLOGUE, for example, pop-up stores were held in Tier I cities such as Beijing and Shanghai in 1HFY2020, showcasing the exclusive MONOLOGUE x Coca-Cola Jewellery Collection.

In terms of retail network, a net of 11 POS were opened during the period, including the first store in Hong Kong, resulting in a total of 49 POS as of September 2019.

For SOINLOVE, 9 POS were opened in 1HFY2020, bringing the total number of POS to 36 as of September 2019.

For expansion plan, franchised POS of these two brands were rolled out in 1HFY2020 and we expect to open around 10 POS for each brand in 2HFY2020.

Slide 27 – (Retail Experience)

Mr. Bobby Liu - Executive Director

Our innovative ideas have been converted into notable retail experiences and creating joyous moments along the customers' shopping journey, therefore we have introduced our pop-up stores, to increase our brand visibility and deliver engaging customer experiences, pop-up stores with different themes and layouts were introduced in cities across Mainland China in 1HFY2020.

Our other innovative idea is our cloud kiosk. Cloud kiosk is one of the latest examples of our relentless innovation. It is an online-to-offline hub linking online orders at physical locations to our e-commerce platform. There were over 200 spots as of September 2019, primarily at our POS in Mainland China, where customers can experience a shorter transaction time and wider product selection anytime and anywhere.

Slide 28 – (Customer Relationship Management)

Mr. Bobby Liu - Executive Director

Here is an update on our customer relationship management. As of September 2019, the number of members reached 2.4 million in our membership programme in Mainland China. Repeat purchase ratio increased to around 24% in 1HFY2020.

Digitalisation of customer relationship programme in Mainland China facilitates members' privileges to be consolidated and managed under one account with all brands under the Group. Members can enjoy additional privilege redemptions including leisure, hospitality and travelling enjoyments.

In Hong Kong and Macau, we had approximately 1.1 million members, with a repeat purchase ratio slightly lifted to around 33%, higher than the ratio recorded last year, which is 32.6%.

Slide 29 – (Customer Relationship Management)

Mr. Bobby Liu - Executive Director

I will also take this opportunity to provide an update on our e-commerce. Our e-commerce business recorded a RSV growth of 9.7% in 1HFY2020. It contributed to 4.9% of RSV and 14.1% of retail sales volume in Mainland China. Average selling price on our e-commerce lifted to HK\$1,400 in 1HFY2020, while average daily online traffic reached 487,000 unique visitors. The number of followers on our Sina/Tencent Weibo and WeChat accounts also increased to around 9.6 million.

I will turn over to Adrian for the business outlook & strategies. Thank you.

Business Outlook and Strategies

Slide 31 - (Business Outlook and Strategies)

Mr. Adrian Cheng – Executive Director

To conclude, 1HFY2020 was set against a tough comparison base and the market has been softening amidst macro headwinds. We expect the macro headwinds and situation in HK will continue to weigh on our business and outlook for Hong Kong and Macau remains challenging in the next 6-12 months.

Yet, Mainland China is expected to deliver stable growth to the Group, backed by the market penetration into lower tier and county level cities and on-going retail experience enhancements.

We have also examined our operations and financial position and laid out 3 immediate measures that can mitigate the short-term impact and improve our risk management:

Enhance our healthy financial position through inventory planning and procurement enhancement; prioritisation of capital investment plan and strengthening accounts receivables management.

Optimise the use of resources by strengthening our expenses control and POS efficiency, while strategically extending our business footprint in overseas markets.

Empower our people to be “intrapreneurs” to motivate group-wide innovation and purposefully increase employee productivity and competitiveness.

Regardless of the near-term challenges, the Group maintains focus on long-term goals and invests for the future with foresight, by leveraging technology to convert innovative ideas into notable retail experiences and enhance operating efficiency.

This concludes our presentation today. Thank you.

[End of translation]