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CHOW SANG SANG HOLDINGS INTERNATIONAL LIMITED

周生生集團國際有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 116

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the “Board”) of Chow Sang Sang Holdings International Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

	2018 HK\$'000	2017 HK\$'000	Change
Turnover			
Jewellery retail	17,130,414	14,516,326	+18%
Other businesses	1,675,928	2,117,055	-21%
	<u>18,806,342</u>	<u>16,633,381</u>	+13%
Profit attributable to equity holders of the Company	1,012,257	876,418 [#]	+15%
Earnings per share			
- Basic	149.4 cents	129.5 cents	+15%
- Diluted	149.4 cents	129.3 cents	+16%
Dividend per share			
- Interim	15.0 cents	9.0 cents	
- Final	44.0 cents	42.0 cents	
Total dividend per share for the year	<u>59.0 cents</u>	<u>51.0 cents</u>	
Dividend payout ratio	39%	39%	
Equity attributable to equity holders of the Company	10,418,937	10,125,075	+3%
Equity per share	\$15.4	\$15.0	+3%

[#] Profit attributable to equity holders of the Company for the year ended 31 December 2017 included a gain of HK\$114 million on the disposal of shares in Hong Kong Exchanges and Clearing Limited.

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
TURNOVER	3		
Jewellery retail		17,130,414	14,516,326
Other businesses		<u>1,675,928</u>	<u>2,117,055</u>
		18,806,342	16,633,381
Cost of sales		<u>(14,175,208)</u>	<u>(12,642,506)</u>
Gross profit		4,631,134	3,990,875
Other income, net		110,459	174,038
Selling and distribution costs		(2,775,215)	(2,569,970)
Administrative expenses		(613,503)	(544,357)
Other losses, net		(20,092)	(541)
Gain on disposal of an associate		26,614	-
Gain on disposal of available-for-sale investments		-	113,948
Finance costs		(36,991)	(31,044)
Share of profit of an associate		<u>245</u>	<u>4,550</u>
PROFIT BEFORE TAX	5	1,322,651	1,137,499
Income tax	6	<u>(310,394)</u>	<u>(261,081)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>1,012,257</u>	<u>876,418</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic		<u>149.4 cents</u>	<u>129.5 cents</u>
Diluted		<u>149.4 cents</u>	<u>129.3 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
PROFIT FOR THE YEAR	<u>1,012,257</u>	<u>876,418</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
Changes in fair value	-	224,830
Reclassification adjustment for gain on disposal included in the consolidated statement of profit or loss	<u>-</u>	<u>(113,948)</u>
	<u>-</u>	<u>110,882</u>
Exchange differences:		
Exchange differences on translation	<u>(314,059)</u>	<u>385,025</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>(314,059)</u>	<u>495,907</u>
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets designated at fair value through other comprehensive income	<u>(48,263)</u>	-
Revaluation upon transfer of a leasehold land and building to an investment property	<u>845</u>	<u>3,652</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>(47,418)</u>	<u>3,652</u>
Other comprehensive income/(loss) for the year	<u>(361,477)</u>	<u>499,559</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u><u>650,780</u></u>	<u><u>1,375,977</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		853,823	762,321
Investment properties		331,317	322,013
Prepaid land lease payments		11,040	11,932
Intangible assets		271	271
Other assets		207,821	210,435
Investment in an associate		-	32,453
Financial assets designated at fair value through other comprehensive income		844,391	-
Available-for-sale investments		-	874,000
Deferred tax assets		27,064	22,213
Total non-current assets		<u>2,275,727</u>	<u>2,235,638</u>
CURRENT ASSETS			
Inventories		7,451,326	7,489,574
Accounts receivable	9	1,001,041	920,088
Receivables arising from securities and futures broking	10	1,018,341	984,906
Prepayments, other receivables and other assets		327,377	307,221
Financial assets at fair value through profit or loss		13,595	17,073
Derivative financial instruments		5,555	-
Tax recoverable		28	41
Cash held on behalf of clients		442,519	515,659
Cash and cash equivalents		1,302,527	1,199,915
Total current assets		<u>11,562,309</u>	<u>11,434,477</u>
CURRENT LIABILITIES			
Accounts payable	11	146,017	122,071
Payables arising from securities and futures broking	11	457,010	574,048
Other payables and accruals		491,875	464,034
Derivative financial instruments		12,405	4,394
Interest-bearing bank borrowings		507,988	488,547
Interest-bearing bank borrowings arising from securities and futures broking		200,000	60,000
Bullion loans		970,140	1,069,873
Tax payable		125,812	93,905
Total current liabilities		<u>2,911,247</u>	<u>2,876,872</u>
NET CURRENT ASSETS		<u>8,651,062</u>	<u>8,557,605</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,926,789</u>	<u>10,793,243</u>

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	2018 HK\$'000	2017 HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	257,734	453,656
Deferred tax liabilities	<u>250,118</u>	<u>214,512</u>
Total non-current liabilities	<u>507,852</u>	<u>668,168</u>
Net assets	<u><u>10,418,937</u></u>	<u><u>10,125,075</u></u>
EQUITY		
Issued capital	169,359	169,230
Reserves	<u>10,249,578</u>	<u>9,955,845</u>
Total equity	<u><u>10,418,937</u></u>	<u><u>10,125,075</u></u>

NOTES:

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment, customer gold deposits, bullion loans, derivative financial instruments and certain equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollar (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s consolidated financial statements:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a) HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognized the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2. Changes in accounting policies and disclosures (continued)

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 <u>measurement</u> Category	Re-		HKFRS 9 <u>measurement</u> Category		
		Amount HK\$'000	classification HK\$'000	Re- measurement HK\$'000	Amount HK\$'000	
Financial assets						
Financial assets included in other assets	L&R ¹	204,419	-	-	204,419	AC ²
Financial assets designated at fair value through other comprehensive income	N/A	-	874,000	18,654	892,654	FVOCI ³ (equity)
From: Available-for-sale investments	Note		874,000	-	-	
Available-for-sale investments	AFS ⁴	874,000	(874,000)	-	-	N/A
To: Financial assets designated at fair value through other comprehensive income	Note		(874,000)	-	-	
Accounts receivable	L&R	920,088	-	-	920,088	AC
Receivables arising from securities and futures broking	L&R	984,906	-	-	984,906	AC
Financial assets included in prepayments, other receivables and other assets	L&R	68,427	-	-	68,427	AC
Financial assets at fair value through profit or loss	FVPL ⁵	17,073	-	-	17,073	FVPL
Cash held on behalf of clients	L&R	515,659	-	-	515,659	AC
Cash and cash equivalents	L&R	<u>1,199,915</u>	-	-	<u>1,199,915</u>	AC
Total financial assets		<u>4,784,487</u>	-	<u>18,654</u>	<u>4,803,141</u>	
Financial liabilities						
Accounts payable	AC	122,071	-	-	122,071	AC
Payables arising from securities and futures broking	AC	574,048	-	-	574,048	AC
Financial liabilities included in other payables and accruals	AC	264,895	-	-	264,895	AC
Derivative financial instruments	FVPL	4,394	-	-	4,394	FVPL
Interest-bearing bank borrowings	AC	1,002,203	-	-	1,002,203	AC
Bullion loans	FVPL	<u>1,069,873</u>	-	-	<u>1,069,873</u>	FVPL
Total financial liabilities		<u>3,037,484</u>	-	-	<u>3,037,484</u>	

¹ L&R: Loans and receivables

² AC: Financial assets or financial liabilities at amortized cost

³ FVOCI: Financial assets designated at fair value through other comprehensive income

⁴ AFS: Available-for-sale investments

⁵ FVPL: Financial assets or financial liabilities at fair value through profit or loss

Note:

The Group has elected the option to irrevocably designate its previous available-for-sale equity investments as financial assets designated at fair value through other comprehensive income.

2. Changes in accounting policies and disclosures (continued)

(a) *Impairment*

The Group has determined that there is no significant financial impact on the opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

Hedge accounting

The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements.

Impact on reserves

The impact of transition to HKFRS 9 on reserves is as follows:

	Reserves HK\$'000
<u>Fair value reserve under HKFRS 9</u> <u>(Investment revaluation reserve under HKAS 39)</u>	
Balance as at 31 December 2017 under HKAS 39	872,035
Remeasurement of financial assets designated at fair value through other comprehensive income previously measured at cost under HKAS 39	18,654
Balance as at 1 January 2018 under HKFRS 9	<u>890,689</u>

- (b) HKFRS 15 and its amendments replaces HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to all contracts that are not completed as at 1 January 2018.

The cumulative effect of initially application of HKFRS 15 was recognized as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

2. Changes in accounting policies and disclosures (continued)

- (b) Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Note	Increase/(decrease) HK\$'000
Assets		
Prepayments, other receivables and other assets	(i)	<u>326</u>
Liabilities		
Other payables and accruals	(i)	<u>501</u>
Equity		
Retained profits	(i)	<u>(175)</u>

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or the Group's operating, investing and financing cash flows. The first column shows what the amounts recorded under HKFRS 15 and the second column shows the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	Amounts prepared under		Increase/ (decrease) HK\$'000
		HKFRS 15 HK\$'000	Previous HKFRS HK\$'000	
Turnover	(i)	18,806,342	18,806,770	(428)
Cost of sales	(i)	<u>(14,175,208)</u>	<u>(14,175,503)</u>	<u>(295)</u>
Gross profit		<u>4,631,134</u>	<u>4,631,267</u>	<u>(133)</u>
Profit before tax		1,322,651	1,322,784	(133)
Income tax	(iii)	<u>(310,394)</u>	<u>(310,427)</u>	<u>(33)</u>
Profit for the year attributable to equity holders of the Company		<u>1,012,257</u>	<u>1,012,357</u>	<u>(100)</u>
Earnings per share attributable to equity holders of the Company				
Basic		<u>149.4 cents</u>	<u>149.4 cents</u>	<u>-</u>
Diluted		<u>149.4 cents</u>	<u>149.4 cents</u>	<u>-</u>

2. Changes in accounting policies and disclosures (continued)

(b) Consolidated statement of financial position as at 31 December 2018:

	Note	<u>Amounts prepared under</u>		Increase/ (decrease) HK\$'000
		HKFRS 15 HK\$'000	Previous HKFRS HK\$'000	
Prepayments, other receivables and other assets	(i)	327,377	327,014	363
Total assets		13,838,036	13,837,673	363
Other payables and accruals	(i),(ii)	491,875	491,379	496
Tax payables	(iii)	125,812	125,845	(33)
Total liabilities		3,419,099	3,418,636	463
Net assets		10,418,937	10,419,037	(100)
Retained profits	(i)	7,785,812	7,785,912	(100)
Total equity		10,418,937	10,419,037	(100)

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Sale of jewellery with variable consideration

Some contracts for the sale of jewellery through e-shops provide customers with a right of return. Before adopting of HKFRS 15, the Group recognized revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and trade discounts. If revenue could not be reliably measured, the Group deferred revenue recognition until the uncertainty was resolved. Under HKFRS 15, rights of return gives rise to variable consideration which is determined using the expected value method or the most likely amount method.

Rights of return

Upon adoption of HKFRS 15, the Group recognized a right-of-return asset which is included in prepayments, other receivables and other assets and is measured at the former carrying amount of the goods to be returned less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. In addition, a refund liability was recognized based on the amount that the Group expects to return to the customers using the expected value method. Accordingly, the remeasurement of refund liabilities resulted in additional refund liabilities of HK\$501,000 and right-of-return assets of HK\$326,000 as at 1 January 2018, which resulted in a decrease in retained profits of HK\$175,000.

As at 31 December 2018, the adoption of HKFRS 15 resulted in an increase in prepayments, other receivables and other assets by HK\$363,000. Besides, other payables and accruals were increased by HK\$496,000, and there was a decrease in retained profits of HK\$100,000. Turnover and cost of sales were decreased by HK\$428,000 and HK\$295,000, respectively, for the year ended 31 December 2018.

2. Changes in accounting policies and disclosures (continued)

(b) (i) Sale of jewellery with variable consideration (continued)

Customer loyalty program

The Group's retail of jewellery segment operates a customer loyalty program, which allows customers to accumulate award credits when they purchase products in the Group's retail stores. The award credits can be redeemed for discounts on products in a limited period. Prior to adoption of HKFRS 15, the customer loyalty program offered by the Group resulted in the allocation of a portion of the transaction price to the customer loyalty program using the fair value of award credits granted for which they could be redeemed and recognition of deferred revenue in relation to award credits granted but not yet redeemed or expired. The Group concluded that under HKFRS 15, the customer loyalty program gives rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty credits awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty program compared with that before adoption of HKFRS 15 was not significant and thus, no adjustment was made to the opening balance of retained profits as at 1 January 2018.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognized consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK\$48,633,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK\$38,175,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of jewellery.

(iii) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax was adjusted as necessary. Retained profits were adjusted accordingly.

3. Turnover

Revenue from the following activities has been included in turnover:

	2018 HK\$'000	2017 HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of goods	18,760,039	16,587,627
Commission on securities and futures broking	34,513	34,353
<i>Revenue from other sources</i>		
Gross rental income	<u>11,790</u>	<u>11,401</u>
	<u>18,806,342</u>	<u>16,633,381</u>

4. Operating segment information

For management purposes, the Group is organized into business units based on their products and services and has four reportable operating segments as follows:

- (a) the manufacture and retail of jewellery segment produces jewellery products for the Group's retail business and operates retail stores mainly in Hong Kong, Macau, Mainland China and Taiwan;
- (b) the wholesale of precious metals segment trades precious metals to wholesale customers;
- (c) the securities and futures broking segment provides brokering and dealing services for securities and futures; and
- (d) the other businesses segment comprises, principally, the investment in properties for their rental income and capital appreciation potential, and other jewellery related businesses.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that certain dividend income, gain on disposal of available-for-sale investments, gain on disposal of an associate and share of profit of an associate are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Operating segment information (continued)

	Manufacture and retail of jewellery HK\$'000	Wholesale of precious metals HK\$'000	Securities and futures broking HK\$'000	Other businesses HK\$'000	Total HK\$'000
Year ended 31 December 2018					
Segment revenue					
Sales to external customers	17,130,414	1,602,531	34,513	38,884	18,806,342
Intersegment sales	-	1,177,438	-	3,105	1,180,543
	<u>17,130,414</u>	<u>2,779,969</u>	<u>34,513</u>	<u>41,989</u>	<u>19,986,885</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					(1,180,543)
					<u>18,806,342</u>
Segment results	1,205,170	14,088	42,815	9,502	1,271,575
<i>Reconciliation:</i>					
Dividend income					24,217
Gain on disposal of an associate					26,614
Share of profit of an associate					<u>245</u>
Profit before tax					<u>1,322,651</u>

4. Operating segment information (continued)

	Manufacture and retail of jewellery HK\$'000	Wholesale of precious metals HK\$'000	Securities and futures broking HK\$'000	Other businesses HK\$'000	Total HK\$'000
Year ended 31 December 2018					
Other segment information					
Interest income	(26,525)	(12)	(68,119)	(6)	(94,662)
Dividend income	-	-	(481)	-	(481)
Net fair value gain on investment properties	-	-	-	(10,647)	(10,647)
Net fair value loss on bullion loans designated as at fair value through profit or loss	29,353	-	-	-	29,353
Net fair value loss/(gain) on derivative financial instruments - transactions not qualifying as hedges	3,522	(512)	-	-	3,010
Net fair value loss on financial assets at fair value through profit or loss	-	-	3,478	-	3,478
Net gain on bullion loans designated as at fair value through profit or loss	(11,811)	-	-	-	(11,811)
Net loss on disposal of derivative financial instruments	5,309	448	-	-	5,757
Net loss on disposal of items of property, plant and equipment	2,302	-	88	-	2,390
Depreciation	209,745	-	2,395	384	212,524
Amortization of prepaid land lease payments	281	-	-	-	281
Impairment of accounts receivable	8,459	-	-	-	8,459
Write-down of inventories to net realizable value	706	-	-	-	706
Finance costs	31,201	-	5,790	-	36,991
Capital expenditure	<u>336,931</u>	<u>-</u>	<u>1,261</u>	<u>-</u>	<u>338,192</u>

4. Operating segment information (continued)

	Manufacture and retail of jewellery HK\$'000	Wholesale of precious metals HK\$'000	Securities and futures broking HK\$'000	Other businesses HK\$'000	Total HK\$'000
Year ended 31 December 2017					
Segment revenue					
Sales to external customers	14,516,326	2,032,818	34,353	49,884	16,633,381
Intersegment sales	-	705,541	-	3,084	708,625
	<u>14,516,326</u>	<u>2,738,359</u>	<u>34,353</u>	<u>52,968</u>	<u>17,342,006</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					(708,625)
					<u>16,633,381</u>
Segment results	901,990	14,732	48,013	34,364	999,099
<i>Reconciliation:</i>					
Dividend income					19,902
Gain on disposal of available-for-sale investments					113,948
Share of profit of an associate					<u>4,550</u>
Profit before tax					<u>1,137,499</u>

4. Operating segment information (continued)

	Manufacture and retail of jewellery HK\$'000	Wholesale of precious metals HK\$'000	Securities and futures broking HK\$'000	Other businesses HK\$'000	Total HK\$'000
Year ended 31 December 2017					
Other segment information					
Interest income	(15,782)	(1)	(59,552)	(6)	(75,341)
Dividend income	-	-	(921)	-	(921)
Net fair value gain on investment properties	-	-	-	(20,910)	(20,910)
Net fair value loss on bullion loans designated as at fair value through profit or loss	30,412	-	-	-	30,412
Net fair value loss on derivative financial instruments - transactions not qualifying as hedges	3,181	542	-	-	3,723
Net fair value gain on financial assets at fair value through profit or loss	-	-	(3,175)	-	(3,175)
Net loss on bullion loans designated as at fair value through profit or loss	44,485	-	-	-	44,485
Net loss/(gain) on disposal of derivative financial instruments	(2,930)	647	-	-	(2,283)
Net gain on disposal of financial assets at fair value through profit or loss	-	-	(3,814)	-	(3,814)
Net loss/(gain) on disposal of items of property, plant and equipment	2,746	-	(48)	-	2,698
Depreciation	189,781	-	1,849	379	192,009
Amortization of prepaid land lease payments	273	-	-	-	273
Write-down of inventories to net realizable value	3,653	-	-	-	3,653
Finance costs	24,837	-	6,207	-	31,044
Capital expenditure	212,500	-	3,253	-	215,753

4. Operating segment information (continued)

(a) Geographical information

Revenue from external customers

	2018 HK\$'000	2017 HK\$'000
Hong Kong and Macau	9,363,640	8,508,410
Mainland China	9,328,580	8,031,837
Taiwan	114,122	93,134
	<u>18,806,342</u>	<u>16,633,381</u>

The revenue information above is based on the locations of the customers.

Non-current assets

	2018 HK\$'000	2017 HK\$'000
Hong Kong and Macau	692,549	727,071
Mainland China	684,081	586,209
Taiwan	27,642	26,145
	<u>1,404,272</u>	<u>1,339,425</u>

The non-current asset information above is based on the locations of the assets and excludes financial assets designated at fair value through other comprehensive income, available-for-sale investments and deferred tax assets.

(b) Information about major customers

The turnover from the Group's largest customer amounted to less than 10% of the Group's total turnover for the current and prior years.

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	2018 HK\$'000	2017 HK\$'000
Cost of inventories sold	14,180,556	12,596,651
Write-down of inventories to net realizable value*	706	3,653
Depreciation	212,524	192,009
Amortization of prepaid land lease payments	281	273
Operating lease payments in respect of leasehold land and buildings:		
Minimum lease payments	768,105	814,844
Contingent rents	18,697	15,911
	<u>786,802</u>	<u>830,755</u>
Impairment of accounts receivable [#]	8,459	-
Net fair value gain on investment properties [#]	(10,647)	(20,910)
Net fair value loss on bullion loans designated as at fair value through profit or loss [#]	29,353	30,412
Net fair value loss on derivative financial instruments - transactions not qualifying as hedges [#]	3,010	3,723
Net fair value loss/(gain) on financial assets at fair value through profit or loss [#]	3,478	(3,175)
Net loss/(gain) on bullion loans designated as at fair value through profit or loss [^]	(11,811)	44,485
Net loss/(gain) on disposal of derivative financial instruments [^]	5,757	(2,283)
Net gain on disposal of financial assets at fair value through profit or loss [#]	-	(3,814)
Net loss on disposal of items of property, plant and equipment	2,390	2,698
Interest income	(94,662)	(75,341)
Dividend income from listed investments	(23,597)	(19,565)
Dividend income from unlisted investments	(1,101)	(1,258)

* This balance is included in "Cost of sales" on the face of the consolidated statement of profit or loss.

[#] These balances are included in "Other losses, net" on the face of the consolidated statement of profit or loss.

[^] These balances are included in "Cost of sales" on the face of the consolidated statement of profit or loss. The purpose of the above bullion transactions entered into by the Group is to manage the Group's bullion price risk. Such loans and contracts did not meet the criteria for hedge accounting.

6. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Under the Law of the People's Republic of China on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of the Mainland China subsidiaries is 25% (2017: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018 HK\$'000	2017 HK\$'000
Current - Hong Kong		
Charge for the year	61,412	37,401
Overprovision in prior years	(11)	(699)
Current - Mainland China and elsewhere		
Charge for the year	218,864	215,847
Underprovision/(overprovision) in prior years	220	(340)
Deferred	<u>29,909</u>	<u>8,872</u>
Total tax charge for the year	<u>310,394</u>	<u>261,081</u>

7. Dividends

	2018 HK\$'000	2017 HK\$'000
Dividends recognized as distribution during the year:		
Final dividend for 2017: HK42.0 cents (2016: HK35.0 cents) per ordinary share	284,522	236,922
Interim dividend for 2018: HK15.0 cents (2017: HK9.0 cents) per ordinary share	<u>101,615</u>	<u>60,923</u>
	<u>386,137</u>	<u>297,845</u>
Dividends proposed after the end of the reporting period:		
Final dividend for 2018: HK44.0 cents (2017: HK42.0 cents) per ordinary share	<u>298,071</u>	<u>284,522</u>

The proposed final dividend for 2018 was recommended after the end of the reporting period and has not been recognized as a liability at the end of the reporting period, and it is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. Earnings per share attributable to equity holders of the Company

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares of 677,402,822 (2017: 676,920,000) in issue during the year.

The calculation of the diluted earnings per share amounts for the years ended 31 December 2018 and 2017 is based on the profit for the year attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2018 HK\$'000	2017 HK\$'000
Earnings		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>1,012,257</u>	<u>876,418</u>
	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>677,402,822</u>	676,920,000
Weighted average number of ordinary shares for effect of share options dilution	<u>5,563</u>	<u>1,019,857</u>
	<u>677,408,385</u>	<u>677,939,857</u>

9. Accounts receivable

	2018 HK\$'000	2017 HK\$'000
Trade and credit card receivables	1,009,157	920,088
Impairment	<u>(8,116)</u>	<u>-</u>
Accounts receivable	<u>1,001,041</u>	<u>920,088</u>

The Group's trading terms with its retail customers are mainly on cash and credit card settlement while trading terms with corporate clients and wholesale customers are on credit with credit period generally up to 60 days. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

9. Accounts receivable (continued)

An ageing analysis of the accounts receivable at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 1 month	798,652	776,534
1 to 2 months	73,704	113,824
2 to 3 months	70,764	18,680
Over 3 months	<u>57,921</u>	<u>11,050</u>
	<u>1,001,041</u>	<u>920,088</u>

10. Receivables arising from securities and futures broking

	2018 HK\$'000	2017 HK\$'000
Receivables arising from securities and futures broking conducted in the ordinary course of business:		
Cash clients	41,665	76,890
Clearing houses, brokers and dealers	20,806	47,934
Clients for subscription of initial public offering (“IPO”) shares	-	10,221
Loans to margin clients	<u>955,870</u>	<u>849,861</u>
Receivables arising from securities and futures broking	<u>1,018,341</u>	<u>984,906</u>

The receivables are settled two days after the trade date or at specific terms agreed with clearing houses, brokers and dealers. Futures deals are normally settled on a cash basis. Receivables from margin and cash clients arising from the business of dealing in securities and futures broking are repayable on demand subsequent to settlement date.

10. Receivables arising from securities and futures broking (continued)

An ageing analysis of the receivables arising from securities and futures broking at the end of the reporting period, based on the due date and net of loss allowance, is as follows:

	2018 HK\$'000	2017 HK\$'000
Not yet due	27,220	72,260
Within 1 month past due	23,767	42,787
1 to 2 months past due	457	1,710
2 to 3 months past due	2,079	1,625
Over 3 months past due	<u>8,948</u>	<u>6,442</u>
	62,471	124,824
Loans to margin clients [#]	955,870	849,861
Clients for subscription of IPO shares [*]	<u>-</u>	<u>10,221</u>
	<u><u>1,018,341</u></u>	<u><u>984,906</u></u>

[#] The loans to margin clients were secured by the underlying pledged securities, repayable on demand and bore interest at commercial rates. No ageing analysis was disclosed as, in the opinion of the Directors, an ageing analysis was not relevant in view of the nature of the business of securities margin financing. As at 31 December 2018, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK\$1,359,514,000 (2017: HK\$1,417,070,000).

^{*} As at 31 December 2017, receivables from clients for subscription of IPO shares of HK\$10,221,000 were due when the corresponding allotment results of the related IPO shares had been publicly announced and bore interest at commercial rates.

11. Accounts payable/Payables arising from securities and futures broking

An ageing analysis of the accounts payable and payables arising from securities and futures broking at the end of the reporting period, based on the invoice date, is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 1 month	146,002	121,520
1 to 2 months	14	551
Over 2 months	<u>1</u>	<u>-</u>
Accounts payable	146,017	122,071
Payables arising from securities and futures broking [*]	<u>457,010</u>	<u>574,048</u>
	<u><u>603,027</u></u>	<u><u>696,119</u></u>

^{*} No ageing analysis is disclosed as, in the opinion of the Directors, an ageing analysis is not meaningful in view of the nature of such business.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Worries over the Sino-US trade war buffeted the global business outlook as well as consumer sentiments. As tension rose, equity markets turned volatile and so did exchange rates. Renminbi dropped significantly against the US dollar in the second and third quarters of 2018, when both countries were seemingly dropping negotiations.

Gold price experienced a moderate spike in the third quarter, but gold jewellery sales for the quarter registered double digit same store sales growth (“SSSG”). However, the momentum soon frizzled, consumers became more cautious and SSSG in the fourth quarter saw low to negative growth in the festive season.

The Group’s turnover for 2018 increased 13% to HK\$18,806 million. Overall profit attributable to equity holders increased by 15% to HK\$1,012 million. In 2017, there was an extraordinary gain of HK\$114 million resulting from the disposal of part of the long-term holding of shares of Hong Kong Exchanges and Clearing Limited. In 2018, there was a gain of HK\$27 million generated from the sale of investment holding in an associate. Excluding these gains from both years, the adjusted profit attributable to equity holders in 2018 would be HK\$985 million, a 29% improvement year-on-year.

Jewellery Retail

Jewellery retail accounted for 91% of the Group’s turnover. Compared to 2017, turnover grew 18% and operating profit increased by 34% to HK\$1,205 million.

Hong Kong and Macau

Sales registered a growth of 20%. SSSG for the year was 18% which was 4 percentage points lower than 1H mainly due to the softening in the fourth quarter.

With a stronger base in 2H 2017, SSSG for gem-set jewellery was lower in 2H 2018 than in 1H. Thus the SSSG for gem-set jewellery, for the whole year, was at 21%.

During the year, one Chow Sang Sang shop and five watch shop-in-shop branches were closed. The one remaining watch shop-in-shop ceased operation in February 2019 as well. Such consolidation will strengthen the inventory and supply to the 11 watch boutiques. One new Chow Sang Sang shop was set up in Yuen Long.

In Macau, a new shop was set up in L’Arc Hotel.

Total shop rental expenditure was HK\$87 million less than last year. For lease renewals, rental adjustment ranged from +12% to -40%.

Capital expenditure amounted to HK\$54 million, most of which was for new shops and refitting of shops.

Mainland China

Total turnover rose 16% year-on-year to HK\$9,327 million. In Renminbi terms, total turnover rose by 13% and SSSG was +3%.

Gold sales was stronger, with SSSG at +8%. Jewellery SSSG was -7% in value. In term of volume, that is, the number of pieces sold, the SSSG was +7%.

Online sales continued to grow and accounted for about 15% of our China sales. Gold products dominated the sales mix.

At the end of the year, there were a total of 506 shops located in 125 cities. New shops numbered 105, and there were 21 closings. Fifty-five of the new shops were set up in shopping malls. Number of shops by brand was as below:

<u>Brand</u>	<u>Number</u>
Chow Sang Sang	482
MINTYGREEN	23
EMPHASIS	1

With new openings and the refitting of 67 stores, together with the on-going construction of the new automated warehouse in Shunde, capital expenditure came to RMB232 million.

Taiwan

The retail sector remained weak. There was no significant change in the results from the prior year.

Wholesale of Precious Metals

Turnover decreased 21% to HK\$1,603 million. Operating profit dropped by 4% to HK\$14 million.

Securities and Futures Broking

Riding on the momentum from 2H 2017, market sentiment was strong for 1H in 2018. However, local investors grew wary entering into 2H. Overall, our turnover decreased by 3% from 2017 and income from commission stayed flat.

Investments

Properties

The Group holds various properties that are being used for offices, shops and factories. Rental income from investment properties amounted to HK\$12 million, which is less than 1% of the Group's turnover.

Shares in Hong Kong Exchanges and Clearing Limited ("HKEC")

As at 1 January 2018, the Group had 3,561,800 shares of HKEC, received as distribution from the reorganization of the then exchanges in year 2000. The amount remained unchanged throughout the year under review.

Finance

Financial Position and Liquidity

The Group generates strong recurring cashflow from its jewellery business and continues to enjoy a solid cash position. As at 31 December 2018, the Group had cash and cash equivalents of HK\$1,303 million (2017: HK\$1,200 million). Cash is mostly held in Renminbi or Hong Kong dollar and deposited in leading banks with maturity dates falling within one year.

The Group was well supported by over HK\$6,090 million in banking facilities including bank borrowings and bullion loans, out of which HK\$733 million are committed facilities. As at 31 December 2018, the total unutilized banking facilities amounted to HK\$4,080 million (2017: HK\$4,128 million).

As at 31 December 2018, total bank borrowings and bullion loans amounted to HK\$966 million and HK\$970 million respectively, most of which were unsecured in accordance with the Group's policy. All the loans are repayable within three years. The gearing ratio was 18.6%, based on total bank borrowings and bullion loans of HK\$1,936 million as a percentage of total equity of HK\$10,419 million. The current ratio of the Group was 4.

The Group manages risk of credit cost and availability by several means: cultivating relationship with a large number of lending banks; diversifying the funding sources by engaging a number of local and overseas banks; putting some loans on a term basis; and fixing interest costs on loans as appropriate. The Group had 21% of its bank loans at fixed rates as at 31 December 2018, decreased from 24% as at 31 December 2017.

As at 31 December 2018, outstanding derivatives on the books were mainly bullion contracts for hedging the bullion price exposure. Management monitors the hedging policy closely and the hedging level of the Group is approximately 40% of the total gold inventories.

Foreign Exchange Risk Management

The Group's assets and liabilities, revenue and expenses are mostly denominated in Hong Kong dollar, Renminbi and US dollar. As such, the risk is easily manageable and slight. Simultaneously, the Group maintains an appropriate level of foreign currency borrowings for natural hedge and cross currency swaps, to mitigate foreign exchange exposure. As at 31 December 2018, the borrowing denominated in New Taiwan dollar amounted to NT\$126 million.

Charge on Assets and Contingent Liabilities

As at 31 December 2018, listed equity investments of HK\$634 million (2017: HK\$719 million) were pledged to secure banking facilities granted to certain subsidiaries of the Company.

As at 31 December 2018, the Group had no material contingent liabilities.

Human Resources

The Group maintains its long-established performance-based remuneration policies with a discretionary annual performance bonus. Training has been provided to new and existing staff at a pace commensurate with the expansion of the networks in all territories.

A share option scheme is in place to provide incentives or rewards to eligible participants for their contribution to the Group and enabling the Group to recruit and retain valuable employees.

As at 31 December 2018, the total number of employees of the Group was 9,605. There were 1,442 staff in Hong Kong and 7,912 staff in the mainland. During the year ended 31 December 2018, total staff costs (excluding Directors' emoluments) amounted to HK\$1,516 million.

Outlook

A so-so holiday season at the end of 2018 was overtaken by a more positive Lunar New Year both in Hong Kong and the mainland. Whether this upbeat carries through the rest of 2019 is uncertain, given the contest between China and the USA over trade and other issues.

In Hong Kong, a steady increase in the number of tourist visits renders support to the retail sector, but so far, spending has been leaning toward lower-priced items. On the other hand, with labour cost standing firm and rental expenses already adjusted down, further improvement in performance will have to come from innovative products and higher operating efficiency.

On the mainland, domestic consumption expansion is central to the government's strategy. With a larger base and challenges from within and without, the rate of growth may be slower but still positive. As the economy continues to expand, there are room for growth via product, services and brand differentiation. Our new store brand - MINTYGREEN will focus on enticing new and younger customers.

As our network of stores on the mainland can still be improved by deeper penetration of certain cities, by having more stores in shopping malls, by segmentation via the new brand MINTYGREEN, we plan to open 60 new stores in the year.

DIVIDENDS

The Board has recommended the payment of a final dividend of HK44.0 cents (2017: HK42.0 cents) per ordinary share for the year ended 31 December 2018. Together with the interim dividend of HK15.0 cents (2017: HK9.0 cents) per ordinary share paid by the Company, the total dividend per ordinary share for the year will be HK59.0 cents (2017: HK51.0 cents). Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company (the "2019 Annual General Meeting"), the final dividend will be paid on Tuesday, 18 June 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (i) from Tuesday, 28 May 2019 to Friday, 31 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2019 Annual General Meeting. In order to be entitled to attend and vote at the 2019 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 27 May 2019; and
- (ii) from Thursday, 6 June 2019 to Tuesday, 11 June 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Tricor Tengis Limited at the address as set out in sub-paragraph (i) above, not later than 4:30 p.m. on Wednesday, 5 June 2019.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company has complied throughout the year 2018 with the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the deviation from code provision A.2.1 of the Code and which is explained below.

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Vincent CHOW Wing Shing holds both positions of the Chairman and the Group General Manager of the Company. The Board is of the opinion that the present board structure provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

SCOPE OF WORK OF AUDITOR ON THIS PRELIMINARY ANNOUNCEMENT OF THE ANNUAL RESULTS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on this preliminary announcement.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018 in conjunction with Ernst & Young.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting will be held at 4/F, Chow Sang Sang Building, 229 Nathan Road, Kowloon, Hong Kong on Friday, 31 May 2019 at 10:30 a.m. The notice of the 2019 Annual General Meeting will be published and issued in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company at www.chowsangsang.com and HKEC at www.hkexnews.hk. The 2018 annual report of the Company will be available on both websites and despatched to shareholders on or about Thursday, 25 April 2019.

BOARD OF DIRECTORS

As at the date of this announcement, the Executive Directors of the Company are Mr. Vincent CHOW Wing Shing, Dr. Gerald CHOW King Sing and Mr. Winston CHOW Wun Sing; the Non-executive Directors are Mr. Stephen TING Leung Huel and Mr. CHUNG Pui Lam; and the Independent Non-executive Directors are Dr. CHAN Bing Fun, Mr. LEE Ka Lun, Dr. LO King Man and Mr. Stephen LAU Man Lung.

By order of the Board
Vincent CHOW Wing Shing
Chairman

Hong Kong, 28 March 2019