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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

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the “Board”) of Chow Sang Sang Holdings International Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2019. The interim results have been reviewed by the Audit Committee of the Board.

#### FINANCIAL HIGHLIGHTS

	Unaudited		Change
	Six months ended 30 June		
	2019	2018	
	HK\$'000	HK\$'000	
Turnover			
Jewellery retail	8,772,575	8,646,150	+1%
Other businesses	767,899	911,802	-16%
	<u>9,540,474</u>	<u>9,557,952</u>	-0.2%
Profit attributable to equity holders of the Company	614,982	605,508	+2%
Earnings per share			
- Basic	90.8 cents	89.4 cents	+2%
- Diluted	90.8 cents	89.4 cents	+2%
Interim dividend per share	14.0 cents	15.0 cents	
Dividend payout ratio	15%	17%	
Equity attributable to equity holders of the Company	10,877,026	10,418,937 <sup>^</sup>	+4%
Equity per share	\$16.1	\$15.4 <sup>^</sup>	+5%

<sup>^</sup> Audited as at 31 December 2018

\* For identification purpose only

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Unaudited	
		Six months ended 30 June	
	Note	2019	2018
		HK\$'000	HK\$'000
<b>TURNOVER</b>	3		
Jewellery retail		8,772,575	8,646,150
Other businesses		767,899	911,802
		<u>9,540,474</u>	<u>9,557,952</u>
Cost of sales		<u>(6,966,214)</u>	<u>(7,198,162)</u>
Gross profit		2,574,260	2,359,790
Other income, net		72,750	66,171
Selling and distribution costs		(1,398,903)	(1,374,077)
Administrative expenses		(339,345)	(299,348)
Other gains/(losses), net		(71,191)	44,129
Gain on disposal of an associate		-	26,614
Finance costs		(39,358)	(18,550)
Share of profit of an associate		-	245
		<u>798,213</u>	<u>804,974</u>
<b>PROFIT BEFORE TAX</b>	5	798,213	804,974
Income tax	6	<u>(183,231)</u>	<u>(199,466)</u>
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<u>614,982</u>	<u>605,508</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	8		
Basic		<u>90.8 cents</u>	<u>89.4 cents</u>
Diluted		<u>90.8 cents</u>	<u>89.4 cents</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<u>614,982</u>	<u>605,508</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translation	<u>(10,545)</u>	<u>(92,560)</u>
<b>Item that will not be reclassified subsequently to profit or loss:</b>		
Changes in fair value of financial assets designated at fair value through other comprehensive income	<u>173,680</u>	<u>(13,535)</u>
<b>Other comprehensive income/(loss) for the period</b>	<u>163,135</u>	<u>(106,095)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<u>778,117</u>	<u>499,413</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 June 2019

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2019</b>	2018
	Note	<b>HK\$'000</b>	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		881,202	853,823
Investment properties		331,317	331,317
Right-of-use assets		1,102,430	-
Prepaid land lease payments		-	11,040
Intangible assets		271	271
Other assets		224,800	207,821
Financial assets designated at fair value through other comprehensive income		1,018,071	844,391
Deferred tax assets		37,647	27,064
Total non-current assets		<u>3,595,738</u>	<u>2,275,727</u>
<b>CURRENT ASSETS</b>			
Inventories		8,206,580	7,451,326
Accounts receivable	9	782,879	1,001,041
Receivables arising from securities and futures broking	10	1,077,673	1,018,341
Prepayments, other receivables and other assets		445,038	327,377
Financial assets at fair value through profit or loss		14,174	13,595
Derivative financial instruments		66	5,555
Tax recoverable		6,605	28
Cash held on behalf of clients		496,635	442,519
Cash and cash equivalents		1,147,161	1,302,527
Total current assets		<u>12,176,811</u>	<u>11,562,309</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	11	156,224	146,017
Payables arising from securities and futures broking	11	516,581	457,010
Other payables and accruals		446,544	491,875
Derivative financial instruments		39,603	12,405
Interest-bearing bank borrowings		609,264	507,988
Interest-bearing bank borrowings arising from securities and futures broking		280,000	200,000
Bullion loans		1,082,301	970,140
Lease liabilities		503,282	-
Tax payable		103,688	125,812
Total current liabilities		<u>3,737,487</u>	<u>2,911,247</u>
<b>NET CURRENT ASSETS</b>		<u>8,439,324</u>	<u>8,651,062</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>12,035,062</u>	<u>10,926,789</u>

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	<b>Unaudited 30 June 2019 HK\$'000</b>	Audited 31 December 2018 HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	279,832	257,734
Lease liabilities	611,838	-
Deferred tax liabilities	266,366	250,118
Total non-current liabilities	<u>1,158,036</u>	<u>507,852</u>
<b>Net assets</b>	<u>10,877,026</u>	<u>10,418,937</u>
<b>EQUITY</b>		
Issued capital	169,359	169,359
Reserves	10,707,667	10,249,578
<b>Total equity</b>	<u>10,877,026</u>	<u>10,418,937</u>

## NOTES:

### 1. Basis of preparation

This unaudited condensed consolidated interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

This interim financial report should be read in conjunction with the Annual Report 2018.

The accounting policies and basis of computation used in the preparation of this interim financial report are the same as those used in the Group’s audited financial statements for the year ended 31 December 2018, except for the adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) which have become effective for accounting periods beginning on or after 1 January 2019 as disclosed in note 2 below.

### 2. Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current period’s consolidated interim financial report:

Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the impacts of the adoption of HKFRS 16 as further explained below, the adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

## 2. Changes in accounting policies and disclosures (continued)

### New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

### As a lessee – Leases previously classified as operating leases

#### *Nature of the effect of adoption of HKFRS 16*

The Group has certain lease contracts for its office properties, retail shops and factories. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognize and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognize right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

#### *Impacts on transition*

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately in the consolidated statement of financial position as at 30 June 2019.

The right-of-use assets for leases were recognized based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review

## 2. Changes in accounting policies and disclosures (continued)

### As a lessee – Leases previously classified as operating leases (continued)

#### *Impacts on transition (continued)*

The impact on the consolidated statement of financial position as at 1 January 2019 as a result of the adoption of HKFRS 16 is as follows:

	Increase/(decrease) HK\$'000
<b>Assets</b>	
Right-of-use assets	1,049,125
Property, plant and equipment	(1,596)
Prepaid land lease payments	(11,040)
Prepayments, other receivables and other assets	(18,112)
Deferred tax assets	7,821
<b>Total assets</b>	<u>1,026,198</u>
<b>Liabilities</b>	
Lease liabilities	1,058,109
Other payables and accruals	(9,954)
<b>Total liabilities</b>	<u>1,048,155</u>
<b>Equity</b>	
Retained profits	(22,585)
Exchange fluctuation reserve	628
<b>Total equity</b>	<u>(21,957)</u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK\$'000
<b>Operating lease commitments as at 31 December 2018</b>	<b>1,240,545</b>
Weighted average incremental borrowing rate as at 1 January 2019	<u>3.7%</u>
Discounted operating lease commitments as at 1 January 2019	1,154,197
Less:	
Commitments relating to short-term leases and those with a remaining lease term ending on or before 31 December 2019	(9,377)
Commitments relating to leases not yet commence on 1 January 2019	(86,711)
<b>Lease liabilities as at 1 January 2019</b>	<u><b>1,058,109</b></u>

Disclosure of the changes in accounting policies is provided in the Group's interim report.

### 3. Turnover

Revenue from the following activities has been included in turnover:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of goods	9,522,175	9,530,809
Commission on securities and futures broking	12,257	21,345
<i>Revenue from other sources</i>		
Gross rental income	6,042	5,798
	<u>9,540,474</u>	<u>9,557,952</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 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
<b>Six months ended 30 June 2019</b>					
<b>Segment revenue</b>					
Sales to external customers	8,772,575	746,428	12,257	9,214	9,540,474
Intersegment sales	161	433,069	-	1,470	434,700
	<u>8,772,736</u>	<u>1,179,497</u>	<u>12,257</u>	<u>10,684</u>	<u>9,975,174</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(434,700)</u>
					<u>9,540,474</u>
<b>Segment results</b>	<b>760,556</b>	<b>3,096</b>	<b>20,195</b>	<b>3,128</b>	<b>786,975</b>
<i>Reconciliation:</i>					
Dividend income					<u>11,238</u>
Profit before tax					<u>798,213</u>
	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
<b>Six months ended 30 June 2018</b>					
<b>Segment revenue</b>					
Sales to external customers	8,646,150	870,441	21,345	20,016	9,557,952
Intersegment sales	-	383,790	-	1,560	385,350
	<u>8,646,150</u>	<u>1,254,231</u>	<u>21,345</u>	<u>21,576</u>	<u>9,943,302</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(385,350)</u>
					<u>9,557,952</u>
<b>Segment results</b>	<b>733,102</b>	<b>8,963</b>	<b>23,861</b>	<b>1,630</b>	<b>767,556</b>
<i>Reconciliation:</i>					
Dividend income					10,559
Gain on disposal of an associate					26,614
Share of profit of an associate					245
Profit before tax					<u>804,974</u>

## 5. Profit before tax

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Write-down of inventories to net realizable value <sup>^</sup>	<b>888</b>	-
Depreciation of property, plant and equipment	<b>113,668</b>	105,527
Depreciation of right-of-use assets	<b>349,111</b>	-
Operating lease payments in respect of leasehold land and buildings:		
Minimum lease payments	-	387,933
Contingent rents	-	11,613
	<u>-</u>	<u>399,546</u>
Rental expenses from short-term leases	<b>12,437</b>	-
Variable lease payments not based on index rate	<b>13,997</b>	-
Impairment/(reversal of impairment) of accounts receivable <sup>#</sup>	<b>(640)</b>	10,129
Net fair value loss/(gain) on bullion loans designated as at fair value through profit or loss <sup>#</sup>	<b>46,194</b>	(29,289)
Net fair value loss/(gain) on derivative financial instruments - transactions not qualifying as hedges <sup>#</sup>	<b>33,124</b>	(5,084)
Net fair value loss/(gain) on financial assets at fair value through profit or loss <sup>#</sup>	<b>(580)</b>	2,144
Net loss on bullion loans designated as at fair value through profit or loss <sup>Δ</sup>	<b>61,328</b>	8,805
Net loss/(gain) on disposal of derivative financial instruments <sup>Δ</sup>	<b>33,928</b>	(6,641)
Net loss on disposal of items of property, plant and equipment	<b>805</b>	1,405
Interest income	<b>(44,871)</b>	(49,158)
Dividend income	<b>(11,621)</b>	(10,903)

<sup>^</sup> This balance is included in "Cost of sales" on the face of the consolidated statement of profit or loss.

<sup>#</sup> These balances are included in "Other gains/(losses), net" on the face of the consolidated statement of profit or loss.

<sup>Δ</sup> 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% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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% (2018: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Current - Hong Kong		
Charge for the period	36,200	33,806
Overprovision in prior periods	-	(20)
Current - Mainland China and elsewhere		
Charge for the period	133,601	134,699
Underprovision in prior periods	-	204
Deferred	13,430	30,777
Total tax charge for the period	<u>183,231</u>	<u>199,466</u>

## 7. Dividends

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
<b>Dividends recognized as distribution during the period:</b>		
Final dividend for 2018: HK44.0 cents (2017: HK42.0 cents) per ordinary share	<u>298,071</u>	<u>284,522</u>
<b>Dividends declared after the end of the reporting period:</b>		
Interim dividend declared for 2019: HK14.0 cents (2018: HK15.0 cents) per ordinary share	<u>94,841</u>	<u>101,615</u>

The interim dividend is not recognized as a liability as at 30 June 2019 because it has been declared after the end of the reporting period.

## 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 period attributable to equity holders of the Company and the weighted average number of ordinary shares of 677,434,000 (2018: 677,371,127) in issue during the period.

The calculation of the diluted earnings per share amounts for the periods ended 30 June 2019 and 30 June 2018 is based on the profit for the period 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 period, 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.

## 8. Earnings per share attributable to equity holders of the Company (continued)

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Earnings</b>		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>614,982</u>	<u>605,508</u>
<b>Shares</b>		
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>677,434,000</u>	677,371,127
Weighted average number of ordinary shares for effect of share options dilution	<u>-</u>	<u>293,935</u>
	<u>677,434,000</u>	<u>677,665,062</u>

## 9. Accounts receivable

	<b>30 June</b>	<b>31 December</b>
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade and credit card receivables	<u>790,360</u>	1,009,157
Impairment	<u>(7,481)</u>	<u>(8,116)</u>
Accounts receivable	<u>782,879</u>	<u>1,001,041</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.

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:

	<b>30 June</b>	<b>31 December</b>
	<b>2019</b>	<b>2018</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within 1 month	<u>502,150</u>	798,652
1 to 2 months	<u>135,955</u>	73,704
2 to 3 months	<u>36,334</u>	70,764
Over 3 months	<u>108,440</u>	<u>57,921</u>
	<u>782,879</u>	<u>1,001,041</u>

## 10. Receivables arising from securities and futures broking

	<b>30 June 2019 HK\$'000</b>	31 December 2018 HK\$'000
Receivables arising from securities and futures broking conducted in the ordinary course of business:		
Cash clients	<b>34,598</b>	41,665
Clearing houses, brokers and dealers	<b>18,793</b>	20,806
Clients for subscription of initial public offering (“IPO”) shares	<b>7,532</b>	-
Loans to margin clients	<b>1,016,750</b>	955,870
Receivables arising from securities and futures broking	<b>1,077,673</b>	1,018,341

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 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.

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 provisions, is as follows:

	<b>30 June 2019 HK\$'000</b>	31 December 2018 HK\$'000
Not yet due	<b>29,780</b>	27,220
Within 1 month past due	<b>16,199</b>	23,767
1 to 2 months past due	<b>3,989</b>	457
2 to 3 months past due	<b>205</b>	2,079
Over 3 months past due	<b>3,218</b>	8,948
	<b>53,391</b>	62,471
Loans to margin clients <sup>#</sup>	<b>1,016,750</b>	955,870
Clients for subscription of IPO shares <sup>*</sup>	<b>7,532</b>	-
	<b>1,077,673</b>	1,018,341

<sup>#</sup> The loans to margin clients were secured by the underlying pledged securities, repayable on demand and bore interest at commercial rates. No ageing analysis is disclosed as, in the opinion of the Directors, an ageing analysis is not relevant in view of the nature of the business of securities margin financing. As at 30 June 2019, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK\$1,204,139,000 (31 December 2018: HK\$1,359,514,000).

<sup>\*</sup> As at 30 June 2019, receivables from clients for subscription of IPO shares of HK\$7,532,000 (31 December 2018: Nil), 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:

	<b>30 June 2019 HK\$'000</b>	31 December 2018 HK\$'000
Within 1 month	<b>155,690</b>	146,002
1 to 2 months	<b>527</b>	14
Over 2 months	<b>7</b>	1
Accounts payable	<b>156,224</b>	146,017
Payables arising from securities and futures broking*	<b>516,581</b>	457,010
	<b>672,805</b>	603,027

\* 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

In the first quarter of 2019, business was solid with positive growth during the Lunar New Year in both Hong Kong and the mainland, as there was still hope that the Sino-US talks would bring forth some rapprochement. But by May, when it was clear that there was not going to be a resolution any time soon, anxieties rebounded; the Renminbi slid and gold climbed to a 5-year high in June.

China's economy still achieved more than 6% growth in the period despite the trade tension.

In Hong Kong, mainland visitors increased by 17% compared to the first five months of 2018. However, sales recorded a double digit drop in same store sales growth ("SSSG") for the month of June as massive demonstrations against the Extradition Bill clogged the streets and dampened consumer sentiments.

The Group's turnover for the first half of 2019 was flat at HK\$9,540 million. Overall profit attributable to equity holders was HK\$615 million.

### Jewellery Retail

Jewellery retail accounted for 92% of the Group's turnover.

#### *Hong Kong and Macau*

On a relatively high base in 1H 2018 (+22% SSSG), sales registered -2% growth. SSSG for the first half was flat.

Both gold and gem-set jewellery recorded low single-digit negative SSSG for the period. Watch was strong and continued its double-digit growth in SSSG.

During the period, three Chow Sang Sang shops and one EMPHASIS shop were closed. One new Chow Sang Sang shop was set up in Whampoa, Hunghom.

On lease renewals, rental adjustment ranged from +8% to -45%. Reporting on a basis prior to the adoption of HKFRS 16, total shop rental expenditure was HK\$20 million less than the same period in 2018.

Capital expenditure amounted to HK\$11 million, most of which was for new openings and refitting of shops.

### *Mainland China*

Total turnover rose 4% period-on-period to HK\$5,157 million. In Renminbi terms, total turnover rose by 11% and SSSG was +1%.

Gold sales was stronger, with SSSG at +8%. Jewellery SSSG was -12% in value. In term of the number of pieces sold, the SSSG was +1%.

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 period, there were a total of 534 shops located in 130 cities. New shops numbered 37, and there were 9 closings. Of the new shops, 19 were set up in shopping malls. Number of shops by brand was as below:

<u>Store Brands</u>	<u>Number of Shops</u>
Chow Sang Sang	509
MINTYGREEN	23
EMPHASIS	2

With new openings and the refitting of 15 stores, together with the ongoing construction of the automated warehouse in Shunde, capital expenditure came to RMB115 million.

### *Taiwan*

There was no significant change in the results from the same period in 2018.

### **Wholesale of Precious Metals**

Turnover decreased 14% to HK\$746 million. Operating profit dropped by 65% to HK\$3 million.

### **Securities and Futures Broking**

The market momentum in the first half of 2019 was weak with average daily turnover falling below HK\$100 billion. Overall, our turnover also decreased significantly, resulting in a drop of commission income by 43%. To contain costs, two branch offices were closed.

### **Investments**

#### *Properties*

The Group holds various properties that are being used for offices, shops and factories. Rental income from investment properties amounted to HK\$6 million, which is less than 1% of the Group's turnover.

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

As at 1 January 2019, 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 period.

## 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 30 June 2019, the Group had cash and cash equivalents of HK\$1,147 million, compared to HK\$1,303 million at the end of 2018. 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 HK\$6,400 million in banking facilities including bank borrowings and bullion loans, out of which HK\$724 million are committed facilities. As at 30 June 2019, the total unutilized banking facilities amounted to HK\$4,084 million (31 December 2018: HK\$4,080 million).

As at 30 June 2019, total bank borrowings and bullion loans amounted to HK\$1,169 million and HK\$1,082 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 20.7%, based on total bank borrowings and bullion loans of HK\$2,251 million as a percentage of total equity of HK\$10,877 million. The current ratio of the Group was 3.3.

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 19% of its bank loans at fixed rates as at 30 June 2019, decreased from 21% as at 31 December 2018.

As at 30 June 2019, 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 30 June 2019, the borrowing denominated in New Taiwan dollar amounted to NT\$100 million.

### *Charge on Assets and Contingent Liabilities*

As at 30 June 2019, listed equity investments of HK\$772 million (31 December 2018: HK\$634 million) were pledged to secure banking facilities granted to certain subsidiaries of the Company.

As at 30 June 2019, 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 30 June 2019, the total number of employees of the Group was 9,943. There were 1,454 staff in Hong Kong and 8,241 staff in the mainland. For the six months ended 30 June 2019, total staff costs (excluding Directors' emoluments) amounted to HK\$774 million.

## **Outlook**

The tug-of-war between China and the USA over trade and other issues continues to impact the rhythm of business and consumer sentiments. Inevitably, equity, currency and commodity markets will be all the more volatile.

Well into the third quarter there is still no end in sight for the civil unrest in Hong Kong. Much has been reported on the dearth of tourists and how the retail sector has suffered. Although we are operating on somewhat lower costs thanks to rental cuts and shop closures, it will take hard work to match the high base achieved in the second half of 2018.

In China, the economic growth continues, though at a slower pace. Domestic consumption and stability are central to government strategy. Jewellery as a discretionary spending category will continue to benefit from economic expansion. There is room for growth by means of product, services, and brand differentiation. Our new store brand MINTYGREEN will focus on attracting new and younger customers. Our improved Personalised Jewellery Service offers more convenience, choices and customization to customers.

Our network expansion plan will continue in China: deepening the penetration of certain cities and having more stores in shopping malls, all via different store brands for consumer banding. We plan to open around 60 new stores within the year.

## **Important events after the reporting period**

There were no important events affecting the Company nor any of its subsidiaries after the six months ended 30 June 2019.

## **DIVIDEND**

The Board has declared an interim dividend of HK14.0 cents (2018: HK15.0 cents) per ordinary share for the six months ended 30 June 2019 payable to shareholders whose names appear on the register of members of the Company on Monday, 16 September 2019. The dividend will be paid on Tuesday, 24 September 2019.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 12 September 2019 to Monday, 16 September 2019, both days inclusive, during such period no transfer of shares will be registered. To establish the entitlement to the interim 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 11 September 2019.

## **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 period.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the period under review with the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviation from code provision A.2.1 of the Code 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.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This announcement is published on the websites of the Company at [www.chowsangsang.com](http://www.chowsangsang.com) and HKEC at [www.hkexnews.hk](http://www.hkexnews.hk). The 2019 interim report of the Company will be available on both websites and despatched to shareholders on or about Tuesday, 17 September 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 August 2019