# 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 2017

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 2017.

### FINANCIAL HIGHLIGHTS

| | **2017 HK$'000** | 2016 HK$'000 | Change |
|---|---|---|---|
| Turnover | | | |
| Jewellery retail | **14,516,326** | 14,045,322 | +3% |
| Other businesses | **2,117,055** | 2,047,215 | +3% |
| | **16,633,381** | 16,092,537 | +3% |
| Profit attributable to equity holders of the Company# | **876,418** | 742,176 | +18% |
| Earnings per share | | | |
| - Basic | **129.5 cents** | 109.6 cents | +18% |
| - Diluted | **129.3 cents** | 109.6 cents | +18% |
| Dividend per share | | | |
| - Interim | **9.0 cents** | 8.0 cents | |
| - Final | **42.0 cents** | 35.0 cents | |
| Total dividend per share for the year | **51.0 cents** | 43.0 cents | |
| Dividend payout ratio | **39%** | 39% | |
| Equity attributable to equity holders of the Company | **10,125,075** | 9,037,898 | +12% |
| Equity per share | **$15.0** | $13.4 | +12% |

# 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 2017

| | Note | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|---|
| **TURNOVER** | 3 | | |
| Jewellery retail | | **14,516,326** | 14,045,322 |
| Other businesses | | **2,117,055** | 2,047,215 |
| | | **16,633,381** | 16,092,537 |
| Cost of sales | | **( 12,642,506)** | (12,042,321) |
| Gross profit | | **3,990,875** | 4,050,216 |
| Other income, net | | **174,038** | 78,009 |
| Selling and distribution costs | | **( 2,569,970)** | ( 2,594,159) |
| Administrative expenses | | **( 544,357)** | ( 517,629) |
| Other losses, net | | **( 541)** | ( 1,342) |
| Gain on disposal of available-for-sale investments | | **113,948** | - |
| Finance costs | | **( 31,044)** | ( 19,040) |
| Share of profit of an associate | | **4,550** | 4,207 |
| **PROFIT BEFORE TAX** | 5 | **1,137,499** | 1,000,262 |
| Income tax | 6 | **( 261,081)** | ( 258,086) |
| **PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **876,418** | 742,176 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | 8 | | |
| Basic | | **129.5 cents** | 109.6 cents |
| Diluted | | **129.3 cents** | 109.6 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **876,418** | 742,176 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Available-for-sale investments: | | |
| Changes in fair value | **224,830** | ( 61,779) |
| Reclassification adjustment for gain on disposal included in the consolidated statement of profit or loss | **( 113,948)** | - |
| | **110,882** | ( 61,779) |
| Exchange differences: | | |
| Exchange differences on translation | **385,025** | ( 331,198) |
| Reclassification adjustment upon deregistration of a subsidiary | **-** | ( 1,172) |
| | **385,025** | ( 332,370) |
| **Item that will not be reclassified subsequently to profit or loss:** | | |
| Revaluation upon transfer of a leasehold land and building to an investment property | **3,652** | - |
| **Other comprehensive income/(loss) for the year** | **499,559** | ( 394,149) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | **1,375,977** | 348,027 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **762,321** | 704,191 |
| Investment properties | | **322,013** | 295,573 |
| Prepaid land lease payments | | **11,932** | 11,356 |
| Intangible assets | | **271** | 271 |
| Other assets | | **210,435** | 240,423 |
| Investment in an associate | | **32,453** | 28,388 |
| Available-for-sale investments | | **874,000** | 763,180 |
| Deferred tax assets | | **22,213** | 13,381 |
| Total non-current assets | | **2,235,638** | 2,056,763 |
| **CURRENT ASSETS** | | | |
| Inventories | | **7,489,574** | 6,557,877 |
| Accounts receivable | 9 | **920,088** | 791,681 |
| Receivables arising from securities and futures broking | 10 | **984,906** | 826,332 |
| Prepayments, deposits and other receivables | | **307,221** | 224,250 |
| Investments at fair value through profit or loss | | **17,073** | 33,078 |
| Derivative financial instruments | | **-** | 18 |
| Tax recoverable | | **41** | 2,590 |
| Cash held on behalf of clients | | **515,659** | 426,002 |
| Cash and cash equivalents | | **1,199,915** | 1,282,809 |
| Total current assets | | **11,434,477** | 10,144,637 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | 11 | **122,071** | 263,387 |
| Payables arising from securities and futures broking | 11 | **574,048** | 419,717 |
| Other payables and accruals | | **464,034** | 343,237 |
| Derivative financial instruments | | **4,394** | 558 |
| Interest-bearing bank borrowings | | **488,547** | 496,268 |
| Interest-bearing bank borrowings arising from securities and futures broking | | **60,000** | 230,000 |
| Bullion loans | | **1,069,873** | 756,390 |
| Tax payable | | **93,905** | 96,325 |
| Total current liabilities | | **2,876,872** | 2,605,882 |
| **NET CURRENT ASSETS** | | **8,557,605** | 7,538,755 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,793,243** | 9,595,518 |

continued/…

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
As at 31 December 2017

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank borrowings | **453,656** | 360,154 |
| Deferred tax liabilities | **214,512** | 197,466 |
| Total non-current liabilities | **668,168** | 557,620 |
| **Net assets** | **10,125,075** | 9,037,898 |
| **EQUITY** | | |
| Issued capital | **169,230** | 169,230 |
| Reserves | **9,955,845** | 8,868,668 |
| **Total equity** | **10,125,075** | 9,037,898 |

## 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 revised HKFRSs for the first time for the current year's financial statements:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses |
| Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle | Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12 |

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in annual report upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

### 3. Turnover

Turnover, which is also the Group's revenue, represents the net invoiced value of goods sold, after allowances for returns, trade discounts and value-added tax; commission on securities and futures broking and gross rental income earned during the year.

Revenue from the following activities has been included in turnover:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Sale of goods | **16,587,627** | 16,054,769 |
| Commission on securities and futures broking | **34,353** | 26,231 |
| Gross rental income | **11,401** | 11,537 |
| | **16,633,381** | 16,092,537 |

## 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 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 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** |
| | **14,516,326** | **2,738,359** | **34,353** | **52,968** | **17,342,006** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | **( 708,625)** |
| | | | | | **16,633,381** |
| **Segment results** | **901,990** | **14,732** | **48,013** | **34,364** | **999,099** |
| *Reconciliation:* | | | | | |
| Dividend income | | | | | **19,902** |
| Gain on disposal of available-for-sale investments | | | | | **113,948** |
| Share of profit of an associate | | | | | **4,550** |
| Profit before tax | | | | | **1,137,499** |

## 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 investments 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 investments 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)

| | 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 2016** | | | | | |
| **Segment revenue** | | | | | |
| Sales to external customers | 14,045,322 | 1,907,604 | 26,231 | 113,380 | 16,092,537 |
| Intersegment sales | - | 869,670 | - | 3,084 | 872,754 |
| | 14,045,322 | 2,777,274 | 26,231 | 116,464 | 16,965,291 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | ( 872,754) |
| | | | | | 16,092,537 |
| **Segment results** | 946,526 | 13,668 | 6,325 | 7,434 | 973,953 |
| *Reconciliation:* | | | | | |
| Dividend income | | | | | 22,102 |
| Share of profit of an associate | | | | | 4,207 |
| Profit before tax | | | | | 1,000,262 |

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 2016** | | | | | |
| **Other segment information** | | | | | |
| Interest income | ( 11,436) | ( 1) | ( 28,265) | ( 12) | ( 39,714) |
| Dividend income | - | - | ( 996) | - | ( 996) |
| Net fair value gain on investment properties | - | - | - | ( 900) | ( 900) |
| Net fair value gain on bullion loans designated as at fair value through profit or loss | ( 9,083) | - | - | - | ( 9,083) |
| Net fair value loss on derivative financial instruments - transactions not qualifying as hedges | 6,201 | 38 | - | - | 6,239 |
| Net fair value loss on investments at fair value through profit or loss | - | - | 3,608 | - | 3,608 |
| Net loss on bullion loans designated as at fair value through profit or loss | 144,090 | - | - | - | 144,090 |
| Net loss on disposal of derivative financial instruments | 85,293 | 4,399 | - | - | 89,692 |
| Net loss/(gain) on disposal of items of property, plant and equipment | 2,176 | - | ( 2) | - | 2,174 |
| Depreciation | 180,237 | - | 1,588 | 162 | 181,987 |
| Amortization of prepaid land lease payments | 276 | - | - | - | 276 |
| Reversal of impairment of accounts receivable | ( 1,010) | - | - | - | ( 1,010) |
| Reversal of impairment of receivables arising from securities and futures broking, net | - | - | ( 706) | - | ( 706) |
| Write-down of inventories to net realizable value | 5,006 | - | - | - | 5,006 |
| Finance costs | 17,037 | - | 2,003 | - | 19,040 |
| Capital expenditure | 194,203 | - | 2,402 | - | 196,605 |

## 4. Operating segment information (continued)

### (a) Geographical information

*Revenue from external customers*

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong and Macau | **8,508,410** | 8,653,601 |
| Mainland China | **8,031,837** | 7,339,783 |
| Taiwan | **93,134** | 99,153 |
| | **16,633,381** | 16,092,537 |

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

*Non-current assets*

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong and Macau | **727,071** | 751,249 |
| Mainland China | **586,209** | 503,455 |
| Taiwan | **26,145** | 25,498 |
| | **1,339,425** | 1,280,202 |

The non-current asset information above is based on the locations of the assets and excludes 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):

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **12,596,651** | 11,803,533 |
| Write-down of inventories to net realizable value* | **3,653** | 5,006 |
| Depreciation | **192,009** | 181,987 |
| Amortization of prepaid land lease payments | **273** | 276 |
| Operating lease payments in respect of leasehold land and buildings: | | |
| Minimum lease payments | **814,844** | 930,155 |
| Contingent rents | **15,911** | 17,091 |
| | **830,755** | 947,246 |
| Reversal of impairment of accounts receivable | **-** | (1,010) |
| Reversal of impairment of receivables arising from securities and futures broking, net | **-** | (706) |
| Net fair value gain on investment properties# | **(20,910)** | (900) |
| Net fair value loss/(gain) on bullion loans designated as at fair value through profit or loss# | **30,412** | (9,083) |
| Net fair value loss on derivative financial instruments - transactions not qualifying as hedges# | **3,723** | 6,239 |
| Net fair value loss/(gain) on investments at fair value through profit or loss# | **(3,175)** | 3,608 |
| Net loss on bullion loans designated as at fair value through profit or loss^ | **44,485** | 144,090 |
| Net loss/(gain) on disposal of derivative financial instruments^ | **(2,283)** | 89,692 |
| Net gain on disposal of investments at fair value through profit or loss# | **(3,814)** | - |
| Net loss on disposal of items of property, plant and equipment | **2,698** | 2,174 |
| Interest income | **(75,341)** | (39,714) |
| Dividend income from listed investments | **(19,565)** | (21,630) |
| Dividend income from unlisted investments | **(1,258)** | (1,468) |

* 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% (2016: 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% (2016: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current - Hong Kong | | |
| Charge for the year | **37,401** | 18,773 |
| Overprovision in prior years | **( 699)** | ( 2,408) |
| Current - Mainland China and elsewhere | | |
| Charge for the year | **215,847** | 217,526 |
| Overprovision in prior years | **( 340)** | ( 829) |
| Deferred | **8,872** | 25,024 |
| Total tax charge for the year | **261,081** | 258,086 |

## 7. Dividends

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Dividends recognized as distribution during the year:** | | |
| Final dividend for 2016: HK35.0 cents (2015: HK36.0 cents) per ordinary share | **236,922** | 243,691 |
| Special final dividend for 2016: Nil (2015: HK14.0 cents) per ordinary share | **-** | 94,769 |
| Interim dividend for 2017: HK9.0 cents (2016: HK8.0 cents) per ordinary share | **60,923** | 54,154 |
| | **297,845** | 392,614 |
| **Dividends proposed after the end of the reporting period:** | | |
| Final dividend for 2017: HK42.0 cents (2016: HK35.0 cents) per ordinary share | **284,505** | 236,922 |

The proposed final dividend for 2017 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 676,920,000 (2016: 676,920,000) in issue during the year.

The calculation of the diluted earnings per share amounts for the year ended 31 December 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.

No adjustment had been made to the basic earnings per share amounts presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding had no dilutive effect on the basic earnings per share amount presented.

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

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation | **876,418** | 742,176 |

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **676,920,000** | 676,920,000 |
| Weighted average number of ordinary shares for effect of share options dilution | **1,019,857** | - |
| | **677,939,857** | 676,920,000 |

## 9. Accounts receivable

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade and credit card receivables | **920,088** | 792,781 |
| Impairment | **-** | ( 1,100) |
| Accounts receivable | **920,088** | 791,681 |

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 provisions, is as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Within 1 month | **776,534** | 682,677 |
| 1 to 2 months | **113,824** | 87,509 |
| 2 to 3 months | **18,680** | 14,237 |
| Over 3 months | **11,050** | 7,258 |
| | **920,088** | 791,681 |

## 10. Receivables arising from securities and futures broking

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Receivables arising from securities and futures broking conducted in the ordinary course of business: | | |
| Cash clients | **76,890** | 71,439 |
| Clearing houses, brokers and dealers | **47,934** | 10,059 |
| Clients for subscription of initial public offering ("IPO") shares | **10,221** | - |
| Loans to margin clients | **849,861** | 744,834 |
| Receivables arising from securities and futures broking | **984,906** | 826,332 |

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.

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:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Not yet due | **72,260** | 17,411 |
| Within 1 month past due | **42,787** | 36,637 |
| 1 to 2 months past due | **1,710** | 22,430 |
| 2 to 3 months past due | **1,625** | 366 |
| Over 3 months past due | **6,442** | 4,654 |
| | **124,824** | 81,498 |
| Loans to margin clients# | **849,861** | 744,834 |
| Clients for subscription of IPO shares* | **10,221** | - |
| | **984,906** | 826,332 |

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

# The loans to margin clients are secured by the underlying pledged securities, repayable on demand and bear 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 31 December 2017, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK$1,417,070,000 (2016: HK$1,492,212,000).

* As at 31 December 2017, receivables from clients for subscription of IPO shares of HK$10,221,000 (2016: 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:

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 1 month | **121,520** | 248,762 |
| 1 to 2 months | **551** | 14,625 |
| Accounts payable | **122,071** | 263,387 |
| Payables arising from securities and futures broking* | **574,048** | 419,717 |
| | **696,119** | 683,104 |

* 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 2017, the new Chief Executive of the HKSAR assumed office in the first half in an election that was peaceful and orderly. In the second half of the year, both the property market and stock market picked up momentum, bringing forth positive consumer sentiment. The Renminbi reversed its weak trend against the Hong Kong dollar, making the SAR attractive to Chinese visitors once again. Year on year, mainland visitor arrivals increased 3%.

China registered stronger economic growth than expected, reaching a 6.9% GDP growth for the year. With liquidity concerns easing, RMB exchange rates had stabilized.

The Group's turnover for 2017 increased 3% to HK$16,633 million. The disposal of a part of the long-term holding of shares in Hong Kong Exchanges and Clearing Limited resulted in a gain of HK$114 million. Including this amount, the Group's overall profit attributable to equity holders increased by 18% to HK$876 million.

## Jewellery Retail

After dropping for three consecutive years, turnover returned to positive growth with an increase of 3%. Jewellery retail accounted for 87% of the Group's turnover. Comparing to 2016, operating profit decreased by 5% to HK$902 million, because in 2016 there was an extra gain of HK$176 million that had resulted from the movement in the price of gold.

*Hong Kong and Macau*
Sales registered a slip of 3%, inclusive of the effect of shop closures. Same store sales growth ("SSSG") for the year was -2% mainly due to soft turnover of gold in the fourth quarter.

Sales of gem-set jewellery improved in the second half and in the last quarter reversed its downward trend since 2016.

During the year, four Chow Sang Sang shops and one watch branch in tourist district were closed. Three new Chow Sang Sang shops and one new watch branch established in non-tourist district.

Macau's tourist traffic also improved. Shops located in the shopping arcades performed worse than main street shop.

Total shop rental expenditure was HK$132 million less than last year. For lease renewals, rental adjustment ranged from +6% to -65%. There are three large shops in tourist areas which are due for renewal in 2018.

Capital expenditure amounted to HK$37 million, most of which was for new shops and refitting of shops.

*Mainland China*
Total turnover rose 9% year-on-year to HK$8,031 million. In RMB terms, total turnover rose by 11% and SSSG was +5%.

Gold sales was stronger in term of year-on-year performance, given a low base in 2016 (2016 SSSG for gold was -13%). Jewellery had good momentum for 1H. However, due to a high base in 2H (2016 SSSG in 2H for jewellery was +16%), jewellery SSSG registered only a flat result on a full year base.

Online sales continued to grow and accounted for about 14% of our China sales. Gold products dominated the sales mix.

At the end of the year, there was a total of 422 shops located in 119 cities. New shops numbered 63, and there were 15 closings. 28 of the new shops were set up in shopping malls.

With new openings and the refitting of 49 stores, capital expenditure came to RMB148 million.

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

**Wholesale of Precious Metals**

Turnover increased by 7% to HK$2,033 million. Operating profit improved by 8% to HK$15 million.

**Securities and Futures Broking**

Market momentum gained strength further in the second half of 2017. Hong Kong market turnover for the year increased by 32% with daily turnover averaged at HK$88 billion (2016: HK$67 billion). Our turnover increased by 34% with commission income increasing by over 31%, reflecting increased participation of retail investors.

To further explore the opportunities in China, we entered into a joint venture agreement with Harvest Fund Management Co., Ltd to form a securities company in the PRC under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) framework in 2016. The joint venture is in the process of applying for approval and licensing.

**Investments**

*Properties*
The Group holds various properties that are being used for offices, shops and factories. Rental income from investment properties amounted to HK$11 million, less than 1% of the Group's turnover.

*Shares in Hong Kong Exchanges and Clearing Limited ("HKEC")*
As at 1 January 2017, the Group had 4,061,800 shares of HKEC, received as distribution from the reorganization of the then exchanges in year 2000. During the year, 500,000 shares were sold at a gain of HK$114 million. As at 31 December 2017, the Group held 3,561,800 shares of HKEC and the unrealized gain on the holding amounted to HK$854 million (2016: 4,061,800 shares with unrealized gain of HK$744 million).

## 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 2017, the Group had cash and cash equivalents of HK$1,200 million (2016: HK$1,283 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$6,285 million in banking facilities including bank borrowings and bullion loans, out of which HK$909 million are committed facilities. As at 31 December 2017, the total unutilized banking facilities amounted to HK$4,128 million (2016: HK$4,318 million).

As at 31 December 2017, total bank borrowings and bullion loans amounted to HK$1,002 million and HK$1,070 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 20.5%, based on total bank borrowings and bullion loans of HK$2,072 million as a percentage of total equity of HK$10,125 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 24% of its bank loans at fixed rates as at 31 December 2017, decreased from 29% as at 31 December 2016.

As at 31 December 2017, 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 minimize the foreign exchange exposure. As at 31 December 2017, the borrowings denominated in New Taiwan dollar amounted to NT$126 million.

*Charge on Assets and Contingent Liabilities*

During the year, the Group successfully negotiated the release of all properties from bank charge (2016: $217 million). As at 31 December 2017, listed equity investments of HK$719 million (2016: HK$660 million) were pledged to secure banking facilities granted to certain subsidiaries of the Company.

As at 31 December 2017, 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 2017, the total number of employees of the Group was 9,120. There were 1,359 staff in Hong Kong and 7,521 staff in the mainland.

**Outlook**

We did see improvements in consumer sentiments in 2H of 2017. However, a strong recovery is yet to be seen, especially in Hong Kong. As we step into 2018, global markets are already anticipating interest rate rise and hence deleveraging. International trade disputes seem to be looming as well. We will need to continue our tight control over cost and inventory.

In Hong Kong, though we will have a lower base to work with, we will continue with the realignment of our network to match the change in consumer pattern and preferences. Overall, we expect to reduce the amount of floor space with no significant changes in number of shops.

In China, increasing sophistication in consumer behaviour provides opportunity for growth via product and brand differentiation. As our online competition heats up, we are putting more effort into offering a seamless customer experience. We will continue the pace to open around 50 new stores in the year, with emphasis on deepening of penetration of urban markets.

## DIVIDENDS

The Board has recommended the payment of a final dividend of HK42.0 cents (2016: HK35.0 cents) per ordinary share for the year ended 31 December 2017. Together with the interim dividend of HK9.0 cents (2016: HK8.0 cents) per ordinary share paid by the Company, the total dividend per ordinary share for the year will be HK51.0 cents (2016: HK43.0 cents). Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company (the “2018 Annual General Meeting”), the final dividend will be payable on or about Tuesday, 26 June 2018 to shareholders whose names appear on the register of members of the Company on Tuesday, 19 June 2018.

## CLOSURE OF REGISTER OF MEMBERS

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

(i) from Tuesday, 5 June 2018 to Friday, 8 June 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2018 Annual General Meeting. In order to be entitled to attend and vote at the 2018 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, 4 June 2018; and

(ii) from Thursday, 14 June 2018 to Tuesday, 19 June 2018, 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, 13 June 2018.

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 2017 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 derivation from a 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 THE 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 2017 as set out in the 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 the preliminary announcement.

## REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2017 in conjunction with Ernst & Young.

## ANNUAL GENERAL MEETING

The 2018 Annual General Meeting will be held at 4/F, Chow Sang Sang Building, 229 Nathan Road, Kowloon, Hong Kong on Friday, 8 June 2018 at 10:30 a.m. The notice of the 2018 Annual General Meeting will be published and issued in due course.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The results announcement is published on the websites of the Group at www.chowsangsang.com and HKEC at www.hkexnews.hk. The 2017 annual report of the Company will be available on both websites and despatched to shareholders on or about Thursday, 26 April 2018.

## 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, 27 March 2018