TSE SUI LUEN JEWELLERY (INTERNATIONAL) LIMITED
謝瑞麟珠寶(國際)有限公司 *

(*Incorporated in Bermuda with limited liability*)

(Stock Code: 417)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

FINANCIAL HIGHLIGHTS

	Six months ended		
	30 September 2019 HK$'000 (unaudited)	30 September 2018 HK$'000 (unaudited)	Change
Turnover	**1,652,154**	1,910,035	-14%
Profit from operations	**44,566**	60,640	-27%
Profit attributable to owners of the Company	**1,568**	24,269	-94%
Basic earnings per share	**0.6 HK cent**	9.8 HK cents	-94%
Total equity attributable to owners of the Company	**1,012,113**	1,085,749†	-7%
Equity attributable to owners of the Company per ordinary share	**HK$4.07**	HK$4.37†	-7%

†*figure as at 31 March 2019(audited)*

BUSINESS HIGHLIGHTS

- The consolidated turnover for the six months ended 30 September 2019 decreased by 14% period-on-period to HK$1,652 million.
- The profit attributable to owners of the Company for the six months ended 30 September 2019 decreased by 94% as comparing with the same period in last year.

* *For identification purpose only*

RESULTS

The board of directors (the "Board") of Tse Sui Luen Jewellery (International) Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2019 (the "Period"). The interim results for the Period have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Notes	Six months ended 30 September **2019** **HK$'000** **(unaudited)**	 2018 HK$'000 (unaudited)
Turnover	4	**1,652,154**	1,910,035
Cost of sales		**(970,182)**	(1,166,864)
Gross profit		**681,972**	743,171
Other income and gains/(losses), net		**16,109**	(2,649)
Selling and distribution expenses		**(576,274)**	(589,366)
Administrative expenses		**(77,241)**	(90,516)
PROFIT FROM OPERATIONS		**44,566**	60,640
Finance costs		**(29,967)**	(20,913)
PROFIT BEFORE TAX	5	**14,599**	39,727
Income tax expense	6	**(13,069)**	(15,542)
PROFIT FOR THE PERIOD		**1,530**	24,185
ATTRIBUTABLE TO :			
Owners of the Company		**1,568**	24,269
Non-controlling interests		**(38)**	(84)
		1,530	24,185
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	8	**0.6 HK cent**	9.8 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD	**1,530**	24,185
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(58,817)**	(127,300)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(58,817)**	(127,300)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(57,287)**	(103,115)
ATTRIBUTABLE TO :		
Owners of the Company	**(57,253)**	(102,995)
Non-controlling interests	**(34)**	(120)
	(57,287)	(103,115)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2019

	Notes	**At 30 September 2019 HK$'000 (unaudited)**	At 31 March 2019 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**193,449**	181,843
Right-of-use assets		**329,162**	-
Intangible assets		**99**	99
Other asset		**500**	500
Prepayments and deposits		**53,256**	53,165
Deferred tax assets		**52,290**	49,275
		628,756	284,882
CURRENT ASSETS			
Inventories		**1,520,223**	1,436,259
Trade receivables	9	**112,508**	148,116
Prepayments, other receivables and other assets		**160,720**	159,575
Tax receivable		**12,646**	17,771
Time deposits		**179,026**	159,302
Cash and cash equivalents		**285,544**	251,242
		2,270,667	2,172,265
CURRENT LIABILITIES			
Trade payables	10	**(263,926)**	(224,503)
Other payables and accruals		**(330,533)**	(316,578)
Interest-bearing bank and other borrowings		**(269,027)**	(786,984)
Dividend payable		**(13,919)**	-
Finance lease payables		**(344)**	(680)
Lease liabilities		**(178,610)**	-
Tax payable		**(15,747)**	(16,550)
		(1,072,106)	(1,345,295)
NET CURRENT ASSETS		**1,198,561**	826,970
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,827,317**	1,111,852

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AT 30 SEPTEMBER 2019

	Note	**At 30 September 2019 HK$'000 (unaudited)**	At 31 March 2019 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		**(4,038)**	(5,770)
Interest-bearing bank and other borrowings		**(636,962)**	-
Lease liabilities		**(156,124)**	-
Employee benefit obligations		**(2,109)**	(2,655)
Deferred tax liabilities		**(16,044)**	(17,717)
		(815,277)	(26,142)
NET ASSETS		**1,012,040**	1,085,710
EQUITY			
Equity attributable to owners of the Company			
Issued capital	11	**(62,138)**	(62,138)
Reserves		**(949,975)**	(1,023,611)
		(1,012,113)	(1,085,749)
Non-controlling interests		**73**	39
TOTAL EQUITY		**(1,012,040)**	(1,085,710)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange" and the "Listing Rules", respectively) and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the Group's financial statements for the year ended 31 March 2019. These interim consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, HKASs and Interpretations).

These interim consolidated financial statements have been prepared under historical cost convention.

These interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group's financial statements for the year ended 31 March 2019, except for the adoption of the following new and revised HKFRSs which become effective for accounting periods beginning on or after 1 April 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 interim consolidated financial statements:

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 April 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 April 2019, and the comparative information as at 31 March 2019 and for the six months ended 30 September 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 April 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 offices, retail shops, warehouses and factory. 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 April 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019 and presented separately in the consolidated statement of financial position as at 30 September 2019.

2. Changes in accounting policies and disclosures (continued)

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

Impacts on transition (continued)

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 April 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 April 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 April 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 April 2019 as a result of the adoption of HKFRS 16 is as follows:

	Increase/(decrease)
	HK$'000
Assets	
Right-of-use assets	**345,629**
Property, plant and equipment	**(334)**
Prepayments, other receivables and other assets	**(4,380)**
Total assets	**340,915**
Liabilities	
Lease liabilities	**348,442**
Other payables and accruals	**(5,063)**
Total liabilities	**343,379**
Equity	
Retained profits	**(2,464)**
Total equity	**(2,464)**

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 is as follows:

	HK$'000
Operating lease commitments as at 31 March 2019	**355,603**
Weighted average incremental borrowing rate as at 1 April 2019	**4.70%**
Discounted operating lease commitments as at 1 April 2019	**350,730**
Less: Commitments relating to short-term leases and those with a remaining lease term ending on or before 31 March 2020	**(2,288)**
Lease liabilities as at 1 April 2019	**348,442**

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

3a. Operating segment information

For management purposes, the Group is organised into business units based on business nature and has three reportable operating segments as follows:

(a) Retail Business (including Hong Kong, Macau, Mainland China and Malaysia);

(b) Wholesale Business; and

(c) Other Businesses.

Retail Business includes direct retail sales of jewellery products to end consumers through the physical outlets carrying the trademark of TSL|謝瑞麟. It also includes the service fee income received from provision of retail management services to other retailers.

Wholesale Business includes wholesale sales of jewellery products to customers.

Other Businesses includes businesses other than the above.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that finance costs and income tax expense 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.

3a. Operating segment information (continued)

Six months ended 30 September 2019	**Retail Business HK$'000 (unaudited)**	**Wholesale Business HK$'000 (unaudited)**	**Other Businesses HK$'000 (unaudited)**	**Total HK$'000 (unaudited)**
Segment revenue:				
Sales to external customers	**1,218,880**	**326,990**	**81,219**	**1,627,089**
Other revenue	**25,065**	**-**	**-**	**25,065**
	1,243,945	**326,990**	**81,219**	**1,652,154**
Segment results:	**669**	**60,217**	**20,666**	**81,552**
Reconciliation:				
Unallocated expenses				**(36,986)**
Finance costs				**(29,967)**
Income tax expense				**(13,069)**
Profit for the Period				**1,530**

Six months ended 30 September 2018	Retail Business HK$'000 (unaudited)	Wholesale Business HK$'000 (unaudited)	Other Businesses HK$'000 (unaudited)	Total HK$'000 (unaudited)
Segment revenue:				
Sales to external customers	1,443,427	372,485	70,955	1,886,867
Other revenue	23,168	-	-	23,168
	1,466,595	372,485	70,955	1,910,035
Segment results:	38,658	66,962	13,503	119,123
Reconciliation:				
Unallocated expenses				(58,483)
Finance costs				(20,913)
Income tax expense				(15,542)
Profit for the period				24,185

3b. Geographical information

Revenue from external customers

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Hong Kong and Macau	**537,129**	712,198
Mainland China	**1,080,230**	1,167,716
Other countries	**34,795**	30,121
	1,652,154	1,910,035

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

4. Turnover

The principal activities of the Group are the manufacturing, sales and marketing of jewellery products and the provision of service. Turnover represents the sales value of jewellery products sold to customers, net of value added tax and discount, and service income. An analysis of turnover is as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Sales of jewellery products	**1,627,089**	1,886,867
Service income	**25,065**	23,168
	1,652,154	1,910,035

5. Profit before tax

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

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of goods sold*	**982,603**	1,170,214
Reversal of provision for impairment of inventories	**(12,421)**	(3,350)
Depreciation of property, plant and equipment	**32,465**	26,881
Depreciation of right-of-use assets	**94,339**	-
Minimum lease payments in respect of operating leases**	**-**	107,304
Rental expenses from short-term leases	**18,143**	-
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**312,716**	317,133
Pension scheme contributions***	**4,398**	3,858
	317,114	320,991
Fair value gain on gold loans designated at fair value through profit or loss****	**-**	(524)
Loss on disposal of items of property, plant and equipment	**230**	1,172
Foreign exchange differences, net	**4,075**	5,919

* Comprising cost of sales in the interim consolidated statement of profit or loss and includes HK$54,556,000 (2018: HK$50,078,000) relating to employee benefit expense, depreciation and operating lease payments, which are also included in the respective type of expenses disclosed separately above.

** Not including commission payments in relation to sales counters in department stores and shopping malls.

*** At 30 September 2019, there were no forfeited contributions available to the Group to reduce its contributions to pension scheme in future years (30 September 2018: Nil).

**** This amount was included in "Other income and gains/(losses), net" in the interim consolidated statement of profit or loss. The purpose of the above gold loans entered into by the Group was to manage the Group's gold price exposure. Such loans did not meet the criteria for hedge accounting.

6. Income tax expense

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. Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current – Hong Kong	**3,728**	1,405
Current – Other than Hong Kong	**14,488**	12,718
Deferred	**(5,147)**	1,419
	13,069	15,542

7. Dividend

	Six months ended 30 September	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
2018/19 approved final dividend of HK$0.056 per ordinary share	**13,919**	-
2018/19 interim dividend of HK$0.048 per ordinary share declared and paid	**-**	11,902
2017/18 second interim dividend of HK$0.073 per ordinary share declared and paid	**-**	18,019
	13,919	29,921

The Board resolved not to declare the payment of any interim dividend for the six months ended 30 September 2019 (2018: HK$0.048 per ordinary share).

8. Earnings per share attributable to owners of the Company

The calculation of basic earnings per share amount is based on the profit for the Period attributable to owners of the Company of HK$1,568,000 (2018: HK$24,269,000), and the weighted average number of ordinary shares of 248,551,651 (30 September 2018: 247,516,271) in issue during the Period.

No diluted earnings per share amounts have been presented for the periods ended 30 September 2019 and 2018 as the impact of the share options outstanding had no diluting effect on the basic earnings per share amounts presented.

9. Trade receivables

	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Trade receivables	**126,669**	160,920
Impairment	**(14,161)**	(12,804)
	112,508	148,116

The Group's retail sales are normally made on cash basis. Credit card receivables from financial institutions in respect of retail sales are aged within one month. Apart from retail customers, the Group allows an average credit period from 30 to 90 days for other customers. Trade receivables are non-interest-bearing in general.

An ageing analysis of the trade receivables as at the end of the Period, based on the invoice date and net of loss allowance, is as follows:

	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Within 1 month	**106,535**	139,414
1 to 2 months	**2,598**	2,827
2 to 3 months	**883**	1,298
Over 3 months	**2,492**	4,577
Total trade receivables	**112,508**	148,116

10. Trade payables

An ageing analysis of the trade payables as at the end of the Period, based on the invoice date, is as follows:

	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Within 1 month	**27,577**	40,551
1 to 2 months	**39,244**	51,239
2 to 3 months	**73,776**	36,443
Over 3 months	**123,329**	96,270
Total trade payables	**263,926**	224,503

The trade payables are non-interest-bearing.

11. Share capital

	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Authorised:		
1,500,000,000 ordinary shares of HK$0.25 each	**375,000**	375,000
Issued and fully paid:		
248,551,651 (31 March 2019: 248,551,651) ordinary shares of HK$0.25 each	**62,138**	62,138

A summary of the movement in the Company's share capital is as follows:

	Number of shares in issue	**Share capital HK$'000**
At 1 March 2018	246,836,860	61,709
Scrip issue (note)	1,714,791	429
At 31 March 2019, 1 April 2019 and 30 September 2019	**248,551,651**	**62,138**

Note: The scrip issue included the scrip dividends for 2017/18 second interim dividend and 2018/19 interim dividend, resulting in the issue of 1,714,791 shares for a total consideration of HK$3,625,000, representing an increase of share capital and share premium of HK$429,000 and HK$3,196,000, respectively.

12. Pledge of assets

(a) The Group entered into banking facility arrangements with a bank pursuant to which the Group's land and buildings in Hong Kong with an aggregate carrying value as at 30 September 2019 of HK$76,407,000 (31 March 2019: HK$77,789,000) were mortgaged by way of a first legal charge, as security for, *inter alia*, all obligations and liabilities, actual or contingent, from time to time owing by the Group to that bank (the "Previous Facilities").

On 29 March 2019, the Group entered into a facilities agreement (the "Existing Facilities") with Hang Seng Bank Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, Fubon Bank (Hong Kong) Limited, United Overseas Bank Limited, Chong Hing Bank Limited and Bangkok Bank Public Company Limited, Hong Kong Branch acting as mandated lead arrangers and original lenders, pursuant to which certain loan facilities, comprising a term loan and a revolving loan, in the aggregate amount of HK$820,000,000 has been granted. The Existing Facilities was used to repay the Previous Facilities and the Notes (as mentioned in note 12(b) below) on 26 April 2019. The legal charge of the land and buildings under the Previous Facilities was released and mortgaged again under the Existing Facilities by way of a first legal charge, as security for, *inter alia*, all obligations and liabilities, actual or contingent, from time to time owing by the Group to those banks.

(b) The Group entered into a subscription agreement with two institutional investors for senior secured notes (the "Notes") issued by a subsidiary of the Group in Hong Kong, pursuant to which certain inventories (i.e. up to an aggregate book value of HK$200,000,000 of raw materials, work-in-progress and finished goods) of such subsidiary were pledged by way of a first floating charge (the "Floating Charge"), as security for, *inter alia*, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the two institutional investors. The Notes were fully redeemed on 26 April 2019 and the Floating Charge was consequently released.

(c) As at 30 September 2019, time deposits of the Group denominated in Renminbi equivalent to approximately HK$179,026,000 (31 March 2019: HK$159,302,000) have been pledged to secure standby letters of credit relating to a cross border treasury arrangement.

INTERIM DIVIDEND

The Board resolved not to pay an interim dividend in respect of the six months ended 30 September 2019 (for the six-month period ended 30 September 2018: 4.8 HK cents per ordinary share).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall Financial Results

During the Period, the Group's turnover decreased by 13.5% from HK$1,910 million (for the six-month period ended 30 September 2018) to HK$1,652 million. The profit attributable to owners of the Company decreased by 93.5% from HK$24.3 million (for the six-month period ended 30 September 2018) to HK$1.6 million. Earnings per share attributable to owners of the Company were 0.6 HK cent (for the six-month period ended 30 September 2018: 9.8 HK cents).

2019 has been a challenging year for all businesses but more particularly for Hong Kong retailers beset by negative factors both global and local. The global economy has been unfavorably impacted by the prolonged trade dispute between China and the United States, adversely affecting the general consumption sentiment. The depreciation of Renminbi has brought down the spending of Mainland visitors and thus the Group's sales performance in Hong Kong, and has also shrank our earnings from Mainland China businesses in Hong Kong dollar terms. While the United States and China have resumed trade talks, the economic outlook remains gloomy and shrouded in uncertainties as a trade consensus continues to appear beyond reach.

Domestically, Hong Kong has been gripped by large-scale social unrest since late June. The weak local consumer sentiment as a result of citywide protests has made it challenging for retailers to operate. The situation was exacerbated by the significant drop in visitor arrivals, particularly tourists from Mainland China. The hardship the local retail industry is facing is likely to persist or even worsen in the remainder of this financial year. Amid the difficult business environment, the Group will manage the risks with effective cost saving measures in a prudent manner, and stay alert and respond to any future market changes as and when they occur.

Review and Outlook

Retailing Business
Hong Kong and Macau

The outbreak of citywide protests and social unrest in Hong Kong in June has, when combined with the downward economic pressure being felt from the protracted US-China trade tensions and Renminbi depreciation, all conspired to devastate our retail business in Hong Kong. Tourist numbers dropped immediately and local consumers became more cautious with their retail spending, particularly for luxury goods, resulting in the plunge of our sales performance in Hong Kong. Albeit the macroeconomic environment is unfavourable, the performance of our retail business in Macau remained stable during the Period. A decrease in turnover of 23.9% and a same store sales growth of minus 26.4% were recorded for these regions.

The Group has always been striving to improve its rental cost effectiveness. To overcome the current difficulties in Hong Kong, we will continue to optimize our store network while keeping watch on the market conditions, and to implement more cost saving initiatives including requesting landlords to provide rental reduction or relief for our retail stores and reducing operating expenses, all of which we expect to further enhance the cost effectiveness of the Group both now and into the future.

Based on our business strategies defined and store opening committed at the beginning of the financial year, we opened 3 new stores in Hong Kong during the Period, which are located at Mirador Mansion in Tsim Sha Tsui, Citygate Outlets in Tung Chung and V Walk in Nam Cheong. Under the current complicated and volatile circumstances in Hong Kong, we will take a prudent approach on our retail business development in the region for the rest of the financial year. Nevertheless, we have grasped an opportunity to open 1 new store at a prime location in Macau, which we believe will strengthen our sales network and market penetration there.

Despite the sluggish domestic economy and business downturn, we will keep adhering to the Group's brand positioning of Trendsetting Craftsmanship with high quality products and customer service. New designs of young and stylish jewellery items of the KUHASHI collection from Japan were launched this summer, which appealed to the younger generations with uniqueness. We will continue to adjust our product portfolio and business strategies in order to improve our sales performance.

Mainland China

Our retail business in Mainland China via self-operated stores accounted for 39.5% of the Group's turnover during the Period and continues to be one of the key drivers of the Group's future development. The decrease of 8.5% in turnover and the same store sales growth of minus 7.5% for this sector recorded during the Period were mainly attributed to the protracted US-China trade war with tit-for-tat tariffs, which has led to the depreciation pressure on Renminbi and the slowdown of Chinese economy. We will continue to dedicate efforts to improving the performance of our retail business in Mainland China.

During the Period, 7 new self-operated stores and 41 new franchised stores were opened, resulting in a net increase of our total number of stores in Mainland China to 448. Going forward, we will take a cautious approach and optimize our retail network in Mainland China with the volatile market conditions being taken into consideration.

Capitalizing on the prevalence of e-commerce and the increasing spending power and demand for jewellery in the youth market, the performance of our existing official website for mobile users in Mainland China since its successful launch last year was in line with our expectation. We will continuously refine our online strategy in order to further boost the online-to-offline and offline-to-online business opportunities for the Group.

Malaysia

Following the grand opening of our new retail store at the Mid Valley Southkey Megamall in April 2019, our retail business in Malaysia has recorded an increase in sales of 16.5% during the Period.

The number of our retail stores in Malaysia has reached 6 in total by the end of the Period. Looking ahead, the Group will remain prudent while striving to maintain brand presence in regions beyond Greater China.

Wholesale Business

The turnover of our wholesale business has been steadily increasing since the adoption of our franchising model. During the Period, 41 new franchised stores were opened, bringing the total number of franchised stores to 246 as at the end of the Period. We will continue to carefully look for appropriate business partners who share our values and to facilitate the steady growth of our wholesale business.

Other Businesses

Online shopping has become embedded in daily life in the new era of retail. Riding on this global trend, our e-business has maintained healthy growth in recent years. The Group recorded a 27.7% period-on-period increase in the turnover of e-business. We believe that this sector will grow to be a significant source of revenue for the Group going forward. Encouraged by the great response received from the Group's official website for Mainland China, we are working on developing an official website for Hong Kong and establishing our online presence on e-business platforms in order to further facilitate the online-to-offline and offline-to-online retail practice.

Financial Structure

Capital expenditure, comprising mainly store renovation and expansion, furniture & fixtures and machinery, incurred during the Period amounted to approximately HK$47.4 million (for the six-month period ended 30 September 2018: HK$63 million), and was mainly financed by borrowings and funds generated from internal resources.

As at 30 September 2019, the Group's total interest-bearing liabilities increased from HK$784 million as at 30 September 2018 to approximately HK$906 million, which included current interest-bearing bank and other borrowings of HK$269 million and finance lease payables of HK$0.3 million and also non-current interest-bearing bank and other borrowings of HK$637 million. Net borrowings (total interest-bearing liabilities less cash and cash equivalents and time deposits) slightly decreased from HK$443 million (as at 30 September 2018) to HK$442 million.

Internally generated funding and borrowings have mainly been applied during the Period to finance the enhancement of the Group's inventory, the opening of new stores and capital expenditure incurred.

The net gearing ratio (the ratio of total interest-bearing liabilities (less cash and cash equivalents and time deposits) to total equity) maintained at a healthy level of 44% during the Period (for the six-month period ended 30 September 2018: 43%). All borrowings of the Group are denominated in Hong Kong dollars or Renminbi. Interest on bank borrowings is calculated on either the inter-bank interest rate or the prime rate or the benchmark interest rate.

As at 30 September 2019, the Group had time deposits, cash and bank balances, and undrawn borrowing facilities of approximately HK$465 million and HK$299 million respectively which, in the opinion of the directors of the Company, should be sufficient to meet the Group's present working capital requirements.

In 2016, certain subsidiaries of the Company as borrowers together with the Company as guarantor entered into a five-year syndicated loan facilities agreement with four leading international financial institutions, pursuant to which term loan facilities in the aggregate amount of HK$573 million (the "Facilities"), inclusive of an exercised greenshoe option upsize of HK$23 million, was granted to the borrowers for a term of 5 years from the date of the first utilisation of the Facilities. On 26 April 2019, all outstanding amount arising from the Facilities was fully prepaid.

In 2016, the Company as guarantor and its indirectly wholly-owned subsidiary as issuer entered into a subscription agreement with two institutional investors for the senior secured notes in an aggregate principal amount of up to HK$200 million maturing on the second anniversary of the issue date of the Notes. The Notes had been extended for a further term of one year in 2018. On 26 April 2019, all outstanding amount due from the Notes was repaid and the Notes was fully redeemed.

On 29 March 2019, certain subsidiaries of the Company as borrowers together with the Company and its subsidiary as guarantors entered into a facilities agreement with seven leading international financial institutions, pursuant to which term loan and revolving loan facilities in the aggregate amount of HK$820 million (the "New Facilities") was granted to the borrowers for a term of 3.5 years from the date of the first utilisation of the New Facilities.

The Board is of the opinion that entering into the facilities and subscription agreements provides a stabilized basis of general working capital to the Group.

Exchange Rates

During the Period, the transactions of the Group were mainly denominated in Hong Kong dollars, Renminbi and United States dollars. Renminbi is not a freely convertible currency and any significant exchange rate fluctuation of Renminbi may have financial impacts on the Group. The Board believes that such foreign exchange exposure is manageable by using natural hedges that arise from holding assets and liabilities denominated in the same foreign currencies, and that the Group's exposure to foreign exchange fluctuation remains minimal. We will continue to closely monitor the Group's foreign exchange position.

Charge on Group Assets and Contingent Liabilities

Charge on the Group's assets during the Period is disclosed in note 12 to the interim condensed consolidated financial statements whereas the Group did not have any material contingent liabilities which have not been provided for in the financial statements as at 30 September 2019 (as at 30 September 2018: Nil).

Human Resources

As at 30 September 2019, the total number of employees of the Group was approximately 3,260 (as at 30 September 2018: 3,170). The change was mainly due to the Group's business strategy with due regard to the market conditions. There were no major changes in human resources policies.

The Company offers competitive remuneration packages including salary, allowances, and discretionary bonus. Employees are rewarded on a performance basis with reference to market rates. To provide incentive or rewards to the employees, the Company has adopted a share option scheme. Other employee benefits include medical cover and subsidies for job-related continuing education. Retail frontline staff are provided with formal on-the-job training by internal senior staff and external professional trainers. There are discussion forum and in-house seminars for experience sharing.

Notwithstanding the foregoing, human resources policies, capital structure, financial policies, exposure to foreign exchange rates, capital expenditure planning, contingent liabilities and charges on the Group's assets did not differ materially during the Period from the information presented in the last annual report.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code of the Listing Rules

The Company is committed to the establishment of good governance practices and procedures. During the Period, the Company has applied the principles and complied with all of the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviation of code provision A.2.1 of the CG Code as expressly below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and clearly established and set out in writing. During the Period, the roles of the chairman and the chief executive officer of the Company were performed by Ms. Yau On Yee, Annie. The Board considered that the current management structure had operated efficiently. According to the Company's practice, all major strategic decisions are taken by the Board, or relevant committee of the Board, as duly constituted.

Audit Committee

The Audit Committee has reviewed the Company's unaudited consolidated financial statements and interim report for the Period, including the accounting principles and practices adopted by the Group, and discussed with management regarding auditing, risk management and internal control, and financial reporting matters.

Messrs. Ernst & Young, the Company's external auditors, have been engaged by the Company to conduct certain procedures on the Group's interim consolidated financial statements for the Period in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the HKICPA. The Audit Committee has discussed with Messrs. Ernst & Young the findings of these procedures including consistency of accounting policies adopted by the Group in preparing this interim financial information and the relevant disclosures made in accordance with the requirements of HKAS 34 and Appendix 16 to the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the Period.

By order of the Board
Tse Sui Luen Jewellery (International) Limited
YAU On Yee, Annie
Chairman

Hong Kong, 19 November 2019

At the date of this announcement, the Board comprises:

Executive Directors:
Ms. YAU On Yee, Annie
Ms. NG Yi Kum, Estella

Non-executive Director:
Mr. HUANG Erwin Steve

Independent Non-executive Directors:
Mr. CHUI Chi Yun, Robert
Mr. CHAN Yue Kwong, Michael
Mr. CHOW Chee Wai, Christopher