TSE SUI LUEN JEWELLERY (INTERNATIONAL) LIMITED
(Incorporated in Bermuda with limited liability)

Stock Code: 0417

Advised by

ANGLO CHINESE CORPORATE FINANCE, LIMITED

ANNOUNCEMENT

Major and connected transaction
 Acquisition of a substantial interest in Tse Sui Luen Investment (China) Limited

Summary:
The directors of TSL announce that, through its two wholly owned subsidiaries, TSL has exercised its pre-emption rights to acquire from The China Retail Fund, LDC a 24.0% shareholding interest in TSL China (or such lesser number of shares in TSL China as is allocated to it if other shareholders of TSL China also accept the offer being made to them and make all necessary payments under the terms of the TSL China Shareholders’ Agreement). As at the date of this announcement, TSL, through its two wholly owned subsidiaries, have been allotted 17.8% of the shareholding interest in TSL China.

The proposed share acquisition is a major and connected transaction under the Listing Rules. TSL has applied to The Stock Exchange of Hong Kong Limited for a waiver, under rule 14A.43 of the Listing Rules, from the requirement to hold a shareholders’ meeting to consider the share acquisition. TSL had on 29 June, 2006 obtained the written approval for the share acquisition from Partner Logistics Limited, which owns about 73.87% of the issued shares in TSL. TSL will send to its shareholders a circular containing details of the share acquisition as soon as practicable.

At the request of TSL, the shares in TSL were suspended from trading from 9:30 a.m. on Thursday, 19 January, 2006. Trading in the shares in TSL will remain suspended pending the release of a further announcement in respect of the investigation by the Independent Commission Against Corruption into the affairs of TSL (as announced by TSL on 15 July, 2005, 1 February, 2006 and 20 April, 2006).

The share acquisition
On 17 May 2006, The China Retail Fund, LDC served a notice on TSL China advising that it would like to sell its shares in TSL China to a third party. On 26 May, 2006, Liberty Mark and TSLJ in their respective capacities as shareholders of TSL China received an offer from TSL China, on behalf of The China Retail Fund, LDC, offering for sale to the shareholders of TSL China 1,647 B shares that The China Retail Fund, LDC currently holds in TSL China. These B shares represent 24.0% of the issued shares in TSL China. The
offer is made in accordance with the TSL China Shareholders’ Agreement which requires that a shareholder of TSL China wishing to dispose of its shares in TSL China must first offer such shares to the existing shareholders of TSL China.

On 17 July, 2006, Liberty Mark and TSLJ accepted the offer from TSL China, on behalf of The China Retail Fund, LDC, to acquire 1,647 B shares in TSL China owned by The China Retail Fund, LDC. Under the TSL China Shareholders’ Agreement, the acquirer of the shares in TSL China is required to complete the share acquisition within 7 days from the date on which TSL China notifies the selling shareholder of the acquirers of the shares. The directors of TSL China expect that completion of the share acquisition will take place on or before 24 July, 2006.

Details of the share acquisition are set out below:

**Parties:**
- Liberty Mark and TSLJ, as acquirers
- The China Retail Fund, LDC, as vendor

The China Retail Fund, LDC is a limited duration company incorporated in the Cayman Islands and a direct investment fund. The duration of The China Retail Fund, LDC is limited to a period of fifteen years from the date of its incorporation on 13 May, 1996. It is a substantial shareholder of TSL China and Infinite Assets Corp., which are both subsidiaries of TSL. The China Retail Fund, LDC and TSL are parties to two shareholders’ agreements both dated 31 August, 2002 under which the parties agree to conduct their relationships as respective shareholders of TSL China and Infinite Assets Corp., in accordance with such agreements. Save as disclosed, The China Retail Fund, LDC does not have any other relationship with TSL and, or its subsidiaries.

**Interest to be acquired:**
From a minimum of 1,223 B shares up to a maximum of 1,647 B shares in TSL China, representing a minimum and maximum of 17.8% and 24.0% of the issued shares in TSL China, respectively.

**Consideration:**
From US$1.56 million for a total of 1,223 B shares in TSL China up to a total of US$2.1 million for a total of 1,647 B shares in TSL China, based on a price of US$1,275 per B share. The consideration is based on the price specified in the offer for sale, being the price at which The China Retail Fund, LDC has found a third party purchaser to acquire the B shares held by it, subject to the pre-emption rights of the existing shareholders of TSL China under the TSL China Shareholders’ Agreement.

**Terms of payment:**
The consideration will be payable in cash upon completion of the share acquisition following completion of the share acquisition, assuming TSL acquires at least 1,223 B shares and up to a maximum of 1,647 B shares in TSL China, TSL will increase its shareholding interest in TSL China from 56.46% to between 74.29% and 80.46%.

The share acquisition will be financed from external borrowings of TSL.
Information on TSL and TSL China

TSL and its subsidiaries are principally engaged in the manufacturing, design, export and retailing of jewellery products. TSL China is the main operating subsidiary of TSL through which TSL conducts its business in China. TSL China is engaged in the sale of platinum and gemstone jewellery via retail outlets in China under the license of TSL and, or its subsidiaries. In addition, TSL China and its subsidiaries also process platinum and gemstone jewellery for sale in China.

The following table summaries certain audited financial information of TSL China:

<table>
<thead>
<tr>
<th>For the year ended</th>
<th>28 February</th>
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<tr>
<td></td>
<td>2006</td>
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<td></td>
<td>HK$’000</td>
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<tr>
<td>100.0% shareholding in TSL China</td>
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<tr>
<td>Net assets attributable to equity holders</td>
<td>83,372</td>
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<tr>
<td>Profits before taxation and extraordinary items</td>
<td>64,939</td>
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<tr>
<td>Profits after taxation and extraordinary items</td>
<td>45,656</td>
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<tr>
<td>24.0% shareholding in TSL China</td>
<td></td>
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<tr>
<td>Net assets attributable to equity holders</td>
<td>20,009</td>
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<tr>
<td>Profits before taxation and extraordinary items</td>
<td>15,585</td>
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<tr>
<td>Profits after taxation and extraordinary items</td>
<td>10,957</td>
</tr>
<tr>
<td>17.8% shareholding in TSL China</td>
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<tr>
<td>Net assets attributable to equity holders</td>
<td>14,840</td>
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<tr>
<td>Profits before taxation and extraordinary items</td>
<td>11,559</td>
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<tr>
<td>Profits after taxation and extraordinary items</td>
<td>8,127</td>
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</tbody>
</table>

Note 1: Not required to be disclosed under the Listing Rules

TSL China has an issued share capital of US$6,863 divided into 1,341 A shares and 5,522 B shares. Prior to completion of the share acquisition, TSL through Liberty Mark and TSLJ, its two wholly owned subsidiaries, holds in aggregate 3,875 B shares, representing 56.46% of the issued shares in TSL China. The China Retail Fund, LDC is a financial investor holding 1,647 B shares, representing 24% of the issued shares in TSL China. The other shareholder of TSL China is Best Accurate International Limited which owns 1,341 A shares, representing 19.54% of the issued shares in TSL China. Best Accurate International Limited is a private company wholly owned by Mr. Qi Jian Hong who is a director of TSL China and Infinite Assets Corp., a subsidiary of TSL. Best Accurate International Limited is also a substantial shareholder of Infinite Assets Corp. Mr. Qi is a business partner of TSL where certain subsidiaries of TSL sold and consigned finished goods to Mr. Qi and companies controlled by him, (the details of which are set out in the circular dated 6 November, 2003 issued by TSL.) Save as disclosed, Best Accurate International Limited does not have any other relationships with TSL and, or its subsidiaries.

In 2002, the China Retail Fund, LDC purchased 24% equity interest in each of TSL China and Infinite Assets Corp., (a 77.5%-owned subsidiary of TSL before such purchase) for a total consideration of HK$276 million which represented the aggregate of the face value of the 22,220 6.5% convertible non-voting redeemable preference shares in TSL held by the China Retail Fund, LDC and related accrued liabilities. (Please refer to the circular issued by TSL on 8 August, 2002 for further details.)
Reasons for, and benefits, of the share acquisition

The directors of TSL believe that the jewellery retail market in China offers good growth potential. As part of its plan to expand into China, TSL believes that it is in its interest to increase its shareholding interest in TSL China by way of the share acquisition. TSL currently has 112 retail outlets in China, and 17 in Hong Kong. The directors of TSL believe that the share acquisition will complement TSL’s plan to expand its retail business in China. For the year ended 28 February, 2006, TSL China posted an audited profit after taxation attributable to equity holders of some HK$41.8 million. Net assets attributable to equity holders as at that date amount to some HK$83.4 million. The consideration of US$2.1 million for a 24% stake in TSL China represents a price to earnings multiple of 1.6 times, or a price to book ratio of 0.8 times. Given the discount to book value implied under the consideration of the share acquisition, the share acquisition will result in an overall increase in the net asset value of TSL. Further, TSL’s gearing ratio (which is the ratio of net borrowings to total equity) will increase from 23% to 31% due to increased borrowings to finance the share acquisition. The external borrowings together with related interest expenses will have no material, impact on TSL’s working capital position.

Based on the net asset value of TSL China as at 28 February, 2006, the consideration under the share acquisition represents a price to book ratio of 0.8 times which is in line with the average prevailing price to book ratios of all jewellery companies, including TSL, listed on The Stock Exchange of Hong Kong Limited based on the respective closing share price on 17 July, 2006 and the latest published annual report of these comparable companies. Taking into account this factor and the benefits of the share acquisition described above, the directors of TSL believe the terms of the share acquisition to be fair and reasonable and are in the interests of TSL and its shareholders as a whole.

Independent board committee

The board of directors of TSL has established an independent board committee comprising all the independent non executive directors of TSL to consider and if appropriate make a recommendation to the shareholders of TSL in relation to the share acquisition. An independent financial adviser has been appointed to advise the independent board committee on the merits of the share acquisition.

Implications under the Listing Rules

The share acquisition constitutes a major and connected transaction within the meaning of the Listing Rules. The China Retail Fund, LDC is a connected person within the meaning of the Listing Rules as it is a substantial shareholder of a subsidiary of TSL. The share acquisition is subject to the announcement, reporting and shareholders’ approval requirements under Chapters 14 and 14A of the Listing Rules.

TSL has applied to The Stock Exchange of Hong Kong Limited for a waiver, under rules 14A.43 of the Listing Rules, from the requirement to hold a shareholders’ meeting to consider the share acquisition. The waiver request is made on the grounds that (i) as the share acquisition is made pursuant to an exercise of a pre-emption right under the TSL China Shareholders’ Agreement entered into amongst shareholders of TSL China, none of the shareholders of TSL has an interest that is different from other shareholders and no shareholder is required to abstain from voting in respect of the share acquisition; and (ii) TSL had on 29 June, 2006 obtained the written approval for the share acquisition from Partner Logistics Limited, which owns 152,960,914 shares in TSL representing 73.87% of the issued shares in TSL. Partner Logistics Limited is a company controlled by Mr. Tse Tat Fung, Tommy, the Chairman of the board of directors of TSL.

TSL will send to its shareholders a circular containing further details of the share acquisition as soon as practicable.
General

At the request of TSL, the shares in TSL were suspended from trading from 9:30 a.m. on Thursday, 19 January, 2006. Trading in the shares in the TSL will remain suspended pending the release of a further announcement in respect of the investigation by the Independent Commission Against Corruption into the affairs of TSL as announced by TSL on 15 July, 2005, 1 February, 2006 and 20 April, 2006.

Definition

In this announcement the following words have the following meanings unless the context requires otherwise:

"Liberty Mark" Liberty Mark Limited, a wholly-owned subsidiary of TSL and which owns 5.46% equity interests in TSL China prior to completion of the share acquisition;

"Listing Rules" the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

"share acquisition" the proposed acquisition by Liberty Mark and TSLJ of up to 1,647 B shares in TSL China owned by The China Retail Fund, LDC by way of an exercise of pre-emption rights under the TSL China Shareholders’ Agreement;

"TSL" Tse Sui Luen Jewellery (International) Limited, a company whose securities are listed on The Stock Exchange of Hong Kong Limited;

"TSL China" Tse Sui Luen Investment (China) Limited, a subsidiary of TSL and which is owned as to 24% by The China Retail Fund, LDC, 56.46% indirectly by TSL (via Liberty Mark and TSLJ) and 19.54% by Best Accurate International Limited prior to completion of the share acquisition;

"TSL China Shareholders’ Agreement" the shareholders’ agreement dated 31 August, 2002 entered into between TSL, TSLJ, TSL China, Liberty Mark, Best Accurate International Limited, Mr. Qi Jian Hong and The China Retail Fund, LDC by which TSLJ, Liberty Mark, Best Accurate International Limited and The China Retail Fund, LDC agree to conduct their relationship as shareholders of TSL China in accordance with such agreement; and

"TSLJ" Tse Sui Luen Jewellery Company Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of TSL. It owns 51% equity interests in TSL China prior to completion of the share acquisition.
As at the date of this announcement, the board of directors of TSL comprises:

**Executive Directors:**
- Mr. Tse Tat Fung, Tommy
- Mr. Peter Gerardus Van Weerdenburg
- Mr. Erwin Steve Huang
- Mr. Alex Chan
- Mr. Cheung Tse Kin, Michael
- Ms. Yau On Yee, Annie

**Independent Non-executive Directors:**
- Mr. Chui Chi Yun, Robert
- Mr. Gerald Clive Dobby

By order of the board of directors of
Tse Sui Luen Jewellery (International) Limited
AU Shiu Kee, Anthony
Company Secretary

Hong Kong, 17 July, 2006

*Please also refer to the published version of this announcement in The Standard.*