TSE SUI LUEN JEWELLERY (INTERNATIONAL) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 417)

Advised by

ANNOUNCEMENT

Connected transaction

Acquisition of a substantial interest
in Infinite Assets Corp.

Summary:

On 1 November, 2006, Liberty Mark, a wholly owned subsidiary of TSL, and CRF entered into a sale and purchase agreement pursuant to which Liberty Mark has conditionally agreed to acquire from CRF its 24.0% shareholding interest in IAC for a consideration of US$900,000 (or approximately HK$7 million).

The share acquisition is a connected transaction under the Listing Rules. As the relevant percentage ratio represented by the share acquisition is more than 2.5% but less than 25% and the consideration is less than HK$10,000,000, such connected transaction falls within 14A.32(2) of the Listing Rules and is therefore only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

At the request of TSL, the shares of TSL were suspended from trading from 9:30 a.m. on Thursday, 19 January, 2006. Trading in the shares of 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 1 November, 2006, Liberty Mark, a wholly owned subsidiary of TSL, and CRF entered into a sale and purchase agreement pursuant to which Liberty Mark has conditionally agreed to acquire from CRF its 66,521 B shares representing a 24.0% shareholding interest in IAC for a consideration of US$900,000 (or approximately HK$7 million).
Details of the share acquisition are set out below:

**Parties:**
- Liberty Mark, as acquirer
- CRF, as vendor

CRF is a substantial shareholder of IAC which is a subsidiary of TSL. CRF and TSL are parties to a shareholders’ agreement dated 31 August, 2002 (the “IAC Shareholders Agreement”) under which the parties agree to conduct their relationships as shareholders of IAC. Save as disclosed, CRF does not have any other relationship with TSL and/or its subsidiaries.

TSL, as guarantor

TSLJ, Best Accurate International Limited, Mr. Qi Jian Hong and TSL China, to approve and consent to the transaction between Liberty Mark and CRF.

**Interest to be acquired:**
66,521 B shares in IAC, representing 24% of the issued shares of IAC.

**Consideration:**
US$900,000 (or approximately HK$7 million), of which US$37,500 will be payable in cash upon completion of the share acquisition and the remaining US$862,500 by 23 monthly installments of US$37,500 each (the “deferred consideration”).

**Guarantee:**
Subject to the sale and purchase agreement becoming unconditional, TSL irrevocably guarantees to CRF the due discharge by Liberty Mark of its obligations to pay the deferred consideration under the sale and purchase agreement.

Following completion of the share acquisition, TSL will increase its effective shareholding interest in IAC from 56.46% to 80.46%. IAC has been a subsidiary of TSL prior to the share acquisition and has been consolidated into the financial statements of the Group. The share acquisition will be financed from the internal resources of TSL.

The share acquisition will be completed on the fifth business day following the fulfillment or waiver of the conditions to the sale and purchase agreement. Completion is expected to occur on or before 15 November, 2006.

**Information on TSL and IAC**

TSL and its subsidiaries are principally engaged in the manufacturing, design, export and retailing of jewellery products. IAC, a limited company incorporated in British Virgin Islands, acts as a financing vehicle that has a loan from TSLJ and, in turn, has granted loans to TSL China.
The following table summaries certain audited financial information of IAC extracted from the audited financial statements of IAC prepared in accordance with accounting principles generally accepted in Hong Kong:

<table>
<thead>
<tr>
<th>100.0% shareholding in IAC</th>
<th>For the year ended 28 February, 2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Net deficits attributable to equity holders</td>
<td>(69,169)</td>
<td>Note 1</td>
</tr>
<tr>
<td>(Loss)/Profit before taxation and extraordinary items</td>
<td>(5,760)</td>
<td>10,367</td>
</tr>
<tr>
<td>(Loss)/Profit after taxation and extraordinary items</td>
<td>(39,090)</td>
<td>(1,565)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>24.0% shareholding in IAC</th>
<th>For the year ended 28 February, 2006</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Net assets attributable to equity holders</td>
<td>(16,601)</td>
<td>Note 1</td>
</tr>
<tr>
<td>(Loss)/Profits before taxation and extraordinary items</td>
<td>(1,382)</td>
<td>2,488</td>
</tr>
<tr>
<td>(Loss)/Profits after taxation and extraordinary items</td>
<td>(9,382)</td>
<td>(376)</td>
</tr>
</tbody>
</table>

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

IAC has an issued share capital of HK$277,254 divided into 54,183 A shares and 223,071 B shares. Prior to completion of the share acquisition, TSLJ and Liberty Mark, hold in aggregate 156,550 B shares, representing 56.46% of the issued shares in IAC. CRF is a financial investor holding 66,521 B shares, representing 24% of the issued shares in IAC. The other shareholder of IAC is Best Accurate International Limited which owns 54,183 A shares, representing 19.54% of the issued shares in IAC. Best Accurate International Limited is a private company wholly owned by Mr. Qi Jian Hong who is a director of IAC. 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 or its subsidiaries.

In 2002, CRF purchased a 24% equity interest in each of TSL China and IAC (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 CRF and related accrued liabilities. Please refer to the circular issued by TSL on 8 August, 2002 for further details. The Group completed the acquisition of a 24% equity interest in TSL China from CRF on 22 September, 2006. Please refer to the circular and announcement of TSL dated 7 August, 2006 and 22 September, 2006, respectively for further details.

**Reasons for, and benefits of, the share acquisition**

In May, 2006, CRF served a notice on IAC advising that it would like to sell the 66,521 B shares that it held in IAC (the “Shares”) to an independent third party for US$2.1 million. In accordance with the terms of the IAC Shareholders Agreement (which provides that a shareholder of IAC wishing to dispose of its shares in IAC must first offer such shares to the existing shareholders of IAC), TSLJ, Liberty Mark and other shareholders of IAC received an offer from IAC, on behalf of CRF, to acquire the Shares. Neither TSLJ nor Liberty Mark accepted the offer. The offer was accepted by Best Accurate International Limited, a shareholder of IAC.

As a result of a dispute which subsequently occurred between TSLJ, Liberty Mark, CRF and Best Accurate International Limited in respect to the interpretation and operation of the pre-emption rights contained in the IAC Shareholders Agreement (please refer to the announcement of TSL dated 27 July, 2006 for further details), Best Accurate International Limited did not complete the acquisition of the Shares. The pre-
emptions rights of the shareholders of IAC under the IAC Shareholders Agreement subsequently lapsed. The potential buyer intended to acquire both TSL China and IAC at US$2.1 million each. Since TSL exercised its pre-emption right to acquire TSL China, the potential buyer did not proceed with its plan to acquire the shares of IAC from CRF.

Subsequent to these events and, as a means of resolving the dispute between shareholders of IAC, CRF agreed to sell the Shares to TSL for US$900,000 payable over 24 months on an interest free basis. The consideration for the Shares was determined (i) after arm’s length negotiation and with reference to the operating performance of IAC, particularly IAC recorded a profit before tax of approximately HK$10.4 million in 2005 and a loss before tax of approximately HK$5.8 million in 2006, respectively; (ii) the purchase price of US$900,000 represented a discount of 58% when compared to the purchase price of US$2.1 million at which the Shares were previously offered to TSL by IAC, on behalf of CRF, in May, 2006 (being the price that CRF had previously been offered for Shares by an independent third party) and (iii) the future prospect of IAC. The acquisition of the Shares will enable TSL to further increase its control over IAC and its retail operations in Mainland China, which is a key growth market of TSL. TSL has confirmed that the acquisition of the Shares will not have any material adverse impact on the working capital and operation of the Group.

The Directors, including the independent non-executive Directors, believe that the share acquisition including its consideration and payment method are on normal commercial terms, which is fair and reasonable and in the interests of the TSL’s shareholders as a whole.

Implications under the Listing Rules

The share acquisition is a connected transaction under the Listing Rules. As the relevant percentage ratio represented by the share acquisition is more than 2.5% but less than 25% and the consideration is less than HK$10,000,000, such connected transaction fall within 14A.32(2) of the Listing Rules and is therefore only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

General

At the request of TSL, the shares of TSL were suspended from trading from 9:30 a.m. on Thursday, 19 January, 2006. Trading in the shares of 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 the Company 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:

“CRF” The China Retail Fund, LDC a limited duration company incorporated in the Cayman Islands and a direct investment fund which owns a 24% equity interest in IAC prior to completion of the share acquisition. The duration of CRF is limited to a period of fifteen years from the date of its incorporation on 13 May, 1996;

“Group” TSL and its subsidiaries;

“IAC” Infinite Assets Corp. a subsidiary of TSL which is owned as to 56.46% indirectly by TSL (via Liberty Mark and TSLJ), 24% by CRF and 19.54% by Best Accurate International Limited prior to completion of the share acquisition;
“Liberty Mark” Liberty Mark Limited, a wholly-owned subsidiary of TSL which owns a 5.46% equity interest in IAC prior to completion of the share acquisition;
“Listing Rules” the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“TSL” Tse Sui Luen Jewellery (International) Limited, a company whose securities are listed on The Stock Exchange of Hong Kong Limited;
“TSLJ” Tse Sui Luen Jewellery Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of TSL which owns a 51% equity interest in IAC; and
“TSL China” Tse Sui Luen Investment (China) Limited, a subsidiary of TSL and which is owned as to 80.46% indirectly by TSL (via Liberty Mark and TSLJ) and 19.54% by Best Accurate International Limited.

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
Tse Sui Luen Jewellery (International) Limited
Au Shiu Kee, Anthony
Company Secretary

Hong Kong, 6 November, 2006

* For identification purpose only

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