

T S L | 謝瑞麟

Interim Report | 2007 - 2008

Stock Code: 417

Tse Sui Luen Jewellery (International) Limited
(incorporated in Bermuda with limited liability)

Corporate Profile

Executive Directors

Tse Tat Fung, Tommy (Chairman)

Peter Gerardus Van Weerdenburg

(Joint Deputy Chairman)

Erwin Steve Huang (Joint Deputy Chairman)

Yau On Yee, Annie (Joint Deputy Chairman)

Cheung Tse Kin, Michael

Lai Tsz Mo, Lawrence

Independent Non-executive Directors

Chui Chi Yun, Robert

Peter George Brown

Siu Ming Wah

Company Secretary

Au Shiu Kee, Anthony

Qualified Accountant

Lai Tsz Mo, Lawrence

Authorised Representatives

Tse Tat Fung, Tommy

Peter Gerardus Van Weerdenburg

Audit Committee

Chui Chi Yun, Robert (Chairman)

Peter George Brown

Siu Ming Wah

Remuneration Committee

Siu Ming Wah (Chairman)

Chui Chi Yun, Robert

Peter George Brown

Tse Tat Fung, Tommy

Legal Advisers

As to Hong Kong law:

Herbert Smith

23/F., Gloucester Tower

15 Queen Road

Central, Hong Kong

Kirkpatrick & Lockhart Preston Gates Ellis

35/F., Two International Finance Centre

8 Finance Street

Central, Hong Kong

As to Bermuda law:

Conyers Dill & Pearman

Room 2901, One Exchange Square

8 Connaught Place

Central, Hong Kong

Auditors

Moore Stephens
Certified Public Accountants
905 Silvercord
Tower 2, 30 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Financial Adviser

Anglo Chinese Corporate Finance, Limited
40/F., Two Exchange Square
8 Connaught Place
Central, Hong Kong

Principal Banker

ABN AMRO Bank
38/F., Cheung Kong Center
2 Queen's Road Central
Hong Kong

Principal Share Registrar

Westbroke Limited
Richmond House
Par-la-Ville Road
Hamilton, Bermuda

Hong Kong Branch Share Registrar

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Office

Ground Floor, Block B
Summit Building
30 Man Yue Street
Hunghom, Kowloon
Hong Kong

Website

<http://www.tslj.com>
<http://tsl.etnet.com.hk>

Results

The board of directors (“the Board”) of Tse Sui Luen Jewellery (International) Limited (“the Company”) announces the unaudited consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 31 August 2007. The interim results for the six months ended 31 August 2007 have been reviewed by the Company’s audit committee.

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 AUGUST 2007 – UNAUDITED (Expressed in Hong Kong dollars)

		Six months ended 31 August	
		2007	2006
		\$'000	\$'000
Turnover	Note 2	812,902	727,718
Cost of sales		<u>(370,257)</u>	<u>(372,950)</u>
		442,645	354,768
Other revenue		4,940	2,622
Selling expenses		(329,405)	(264,882)
Administrative expenses		(63,232)	(55,474)
Other operating expenses		<u>(77)</u>	<u>(175)</u>
Profit from operations	4	54,871	36,859
Finance costs		(4,962)	(5,129)
Gain on disposal of subsidiaries		<u>–</u>	<u>1,430</u>
Profit before taxation		49,909	33,160
Income tax	5	<u>(16,825)</u>	<u>(9,129)</u>
Profit after taxation		<u>33,084</u>	<u>24,031</u>
Attributable to:			
Equity holders of the company		25,644	10,237
Minority interests		<u>7,440</u>	<u>13,794</u>
Profit after taxation		<u>33,084</u>	<u>24,031</u>
Earnings per share			
Basic	7	<u>12 cents</u>	<u>5 cents</u>

The notes on pages 10 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 AUGUST 2007 – UNAUDITED
(Expressed in Hong Kong dollars)

	Share Capital HK\$'000	Share premium HK\$'000	Capital reserves HK\$'000	Share-based compensation reserve HK\$'000	Exchange reserves HK\$'000	Profit/(loss) attributable to equity holder HK\$'000	Total HK\$'000	M.I. HK\$'000	Total Equity HK\$'000
Balance at 1 March 2006	51,766	116,634	97,992	2,332	(2,961)	(58,811)	206,952	39,958	246,910
Share option expenses	-	-	-	2,005	-	-	2,005	-	2,005
Adjustment arising from lapse of share options	-	-	-	(183)	-	183	-	-	-
Release of reserve on disposal of a subsidiary	-	-	-	-	(961)	-	(961)	-	(961)
Increase in interest in subsidiaries	-	-	-	-	(1,859)	-	(1,859)	(27,793)	(29,652)
Exchange difference on translation of financial statements of subsidiaries	-	-	-	-	13,930	-	13,930	1,097	15,027
Profit for the year	-	-	-	-	-	55,562	55,562	18,417	73,979
Balance at 28 February 2007	<u>51,766</u>	<u>116,634</u>	<u>97,992</u>	<u>4,154</u>	<u>8,149</u>	<u>(3,066)</u>	<u>275,629</u>	<u>31,679</u>	<u>307,308</u>
Share option expenses	-	-	-	171	-	-	171	-	171
Adjustment arising from lapse of share options	-	-	-	(118)	-	118	-	-	-
Exchange difference on translation of financial statements of subsidiaries	-	-	-	-	3,297	-	3,297	-	3,295
Profit for the period	-	-	-	-	-	25,644	25,644	7,440	33,084
Balance at 31 August 2007	<u>51,766</u>	<u>116,634</u>	<u>97,992</u>	<u>4,207</u>	<u>11,446</u>	<u>22,696</u>	<u>304,741</u>	<u>39,118</u>	<u>343,859</u>

The notes on pages 10 to 25 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
 AT 31 AUGUST 2007 – UNAUDITED
 (Expressed in Hong Kong dollars)

	Note	At 31 August 2007		At 28 February 2007	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Property, plant and equipment	3		125,931		130,663
Other financial asset			500		500
Club debenture			103		103
Deferred tax assets			24,450		25,096
			<u>150,984</u>		<u>156,362</u>
Current assets					
Inventories	8	729,349		521,589	
Trade and other receivables	9	116,563		143,694	
Tax recoverable		7		71	
Cash at bank and in hand		44,936		99,178	
		<u>890,855</u>		<u>764,532</u>	
Current liabilities					
Trade and other payables	10	(465,714)		(358,309)	
Bank overdraft		(16,550)		(18,486)	
Secured bank loans		(12,000)		(12,800)	
Secured other loans		(16,963)		(38,135)	
Unsecured other loans		(1,709)		(1,640)	
Obligations under finance lease		(907)		(1,151)	
Current Taxation		(92,148)		(94,824)	
		<u>(605,991)</u>		<u>(525,345)</u>	
Net current assets			<u>284,864</u>		<u>239,187</u>
Total assets less current liabilities carried forward			435,848		395,549

The notes on pages 10 to 25 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (continued)
 AT 31 AUGUST 2007 – UNAUDITED
 (Expressed in Hong Kong dollars)

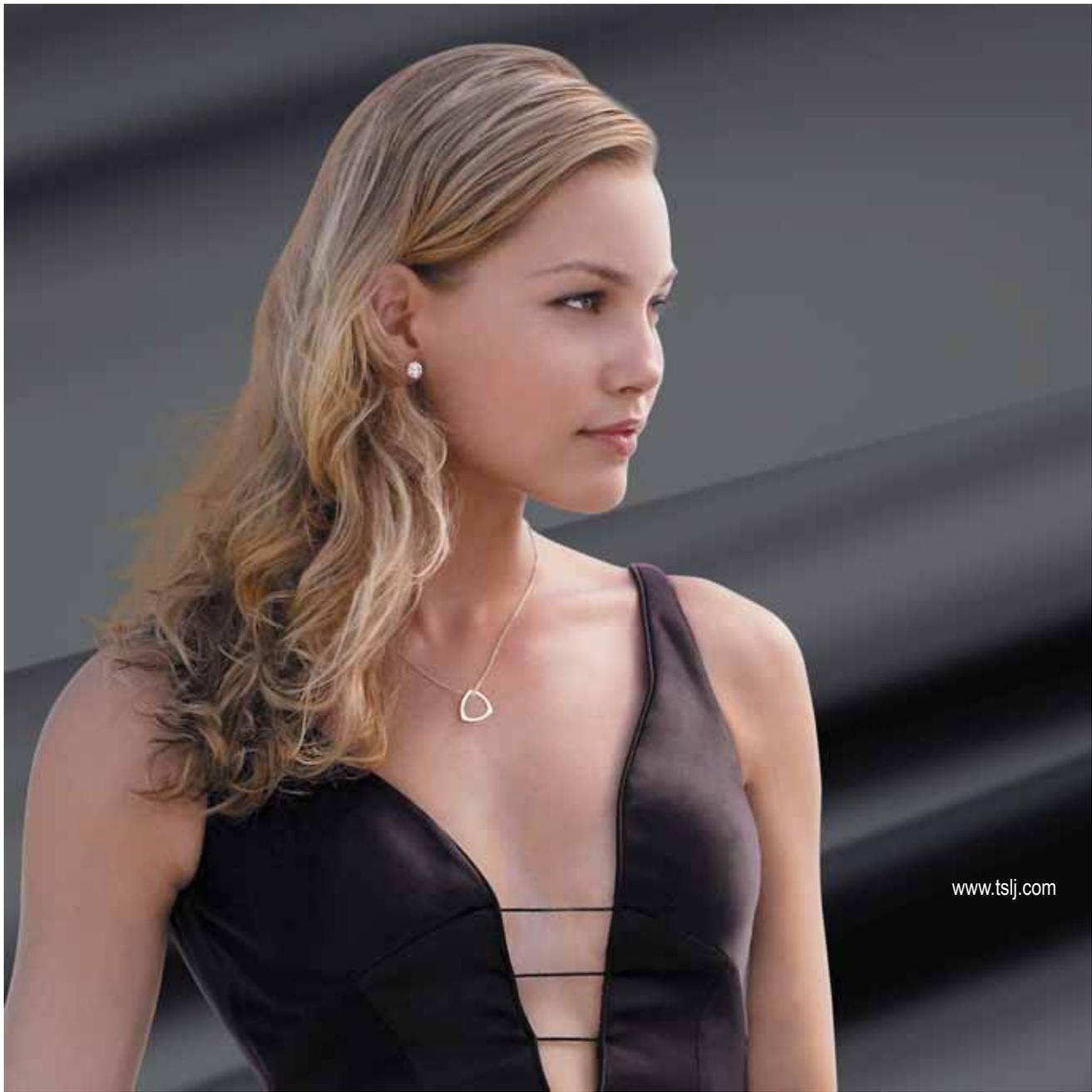
	Note	At 31 August 2007		At 28 February 2007	
		\$'000	\$'000	\$'000	\$'000
Total assets less current liabilities brought forward			435,848		395,549
Non-current liabilities					
Obligations under finance lease		(552)		(991)	
Secured other loans		(30,003)		(36,066)	
Unsecured other loans		(1,221)		(2,093)	
Secured bank loans		(49,000)		(38,200)	
Employee benefit obligations		(10,836)		(10,836)	
Deferred tax liabilities		(377)		(55)	
			(91,989)		(88,241)
NET ASSETS			343,859		307,308
Capital and reserves					
Share capital	11		51,766		51,766
Reserves			252,975		223,863
Total equity attributable to equity holders of the Company			304,741		275,629
Minority interests			39,118		31,679
Total equity			343,859		307,308

The notes on pages 10 to 25 form part of this interim financial report.

CONSENSUED CONSOLIDATED CASH FLOW STATEMENT
 FOR THE SIX MONTHS ENDED 31 AUGUST 2007 – UNAUDITED
 (Expressed in Hong Kong dollars)

	<u>Six months ended 31 August</u>	
	2007	2006
	\$'000	\$'000
Net cash outflow from operating activities	(13,673)	(20,471)
Net cash outflow from investing activities	(15,134)	(24,997)
Net cash (outflow)/inflow from financing	<u>(23,683)</u>	<u>18,342</u>
Decrease in cash and cash equivalents	(52,490)	(27,126)
Effect of foreign exchange rates	184	–
Cash and cash equivalents at 1 March	<u>80,692</u>	<u>82,699</u>
Cash and cash equivalents at 31 August	<u><u>28,386</u></u>	<u><u>55,573</u></u>
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	44,936	73,493
Bank overdraft	<u>(16,550)</u>	<u>(17,920)</u>
	<u><u>28,386</u></u>	<u><u>55,573</u></u>

The notes on pages 10 to 25 form part of this interim financial report.



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notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1.

Basis of preparation

This interim financial report is unaudited but has 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 Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. 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 28 February 2007. The condensed consolidated interim 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”).

This interim financial report has been prepared in accordance with the same accounting policies adopted in the Group’s financial statements for the year ended 28 February 2007, except for the adoption of the following new standards, amendments to standards and interpretations issued by the HKICPA which are effective for the annual periods beginning 1 March 2007:–

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasure Share Transactions

1.

Basis of preparation (continued)

The adoption of the above new standards, amendments to standards and interpretations has had no material impact on the Group's accounting policies and the methods of computation in the Group's financial statements in the current or prior periods.

The Group has not adopted earlier or applied the following new and revised standards or interpretations that have been issued but are not yet effective. In the opinion of the directors, the application of these standards or interpretations will have no material impact on the results and financial positions of the Group:-

HKAS 23 (Revised)	Borrowing Costs *
HKFRS 8	Operating Segments *
HK(IFRIC)-Int 12	Service Concession Arrangements +
HK(IFRIC)-Int 13	Customer Loyalty Programmes #
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction +

* Effective for annual periods beginning on or after 1 January 2009

+ Effective for annual periods beginning on or after 1 January 2008

Effective for annual periods beginning on or after 1 July 2008

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 28 February 2007 included in the interim financial report does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 28 February 2007 are available from the Company's registered office.

2. Segmental information

The analysis of the geographical location of the operations of the Group during the financial period is as follows:

	PRC (including Hong Kong)		Others		Inter-segment elimination		Consolidated	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue from external customers	797,565	712,570	15,337	15,148	–	–	812,902	727,718
Inter-segment revenue	1,572	8,583	–	–	(1,572)	(8,583)	–	–
Other revenue from external customers	4,619	2,485	321	137	–	–	4,940	2,622
Total	<u>803,756</u>	<u>723,638</u>	<u>15,658</u>	<u>15,285</u>	<u>(1,572)</u>	<u>(8,583)</u>	<u>817,842</u>	<u>730,340</u>
Segment results	52,803	34,917	2,068	1,942			54,871	36,859
Finance costs							(4,962)	(5,129)
Gain on liquidation of subsidiaries							–	1,430
Income tax							(16,825)	(9,129)
Profit for the year							<u>33,084</u>	<u>24,031</u>
Depreciation for the period	19,442	14,648	184	34				
Significant non cash expenses/(income)	<u>171</u>	<u>1,016</u>	<u>–</u>	<u>–</u>				

2.

Segmental information (continued)

In view of the fact that all the Group's turnover and trading results are generated from the manufacture, sale and marketing of jewellery products, no business segments analysis of the Group is presented.

3.

Acquisitions and disposals of fixed assets

During the six months ended 31 August 2007, the Group acquired items of property, plant and machineries with a cost of \$14,956,000 (six month ended 31 August 2006: \$13,350,000). Items of property, plant and machineries with a net book value of \$111,000 were disposed of during the six months ended 31 August 2007 (six months ended 31 August 2006: \$488,000), resulting in a loss on disposal of \$110,000 (six months ended 31 August 2006: \$172,000).

4.

Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 31 August	
	2007	2006
	\$'000	\$'000
Interest on borrowings	4,962	5,129
Depreciation	19,626	14,682
Gain on disposal of subsidiaries	–	(1,430)
Provision for inventory	1,267	1,590
	<u>25,855</u>	<u>29,971</u>

5. Income Tax

Income Tax in the consolidated profit and loss account represents:

	<u>Six months ended 31 August</u>	
	2007	2006
	\$'000	\$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	3,910	1,559
Underprovision in respect of prior years	<u>–</u>	<u>327</u>
	-----	-----
	3,910	1,886
Current tax – Overseas		
Tax for the period	11,883	6,846
Deferred tax Origination and reversal of temporary differences	<u>1,032</u>	<u>397</u>
	-----	-----
	<u>16,825</u>	<u>9,129</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2006: 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Tax on the assessable profits of subsidiary companies operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

6.

Dividends

The directors have resolved not to declare the payment of any interim dividend for the six months ended 31 August 2007 (2006: Nil).

7.

Earnings per share

_____ A _____

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company for the period of \$25,644,000 (2006: \$10,237,000) and on the weighted average of 207,063,221 ordinary shares (2006: 207,063,221 ordinary shares) in issue during the period.

_____ B _____

Diluted earnings per share

Diluted earning per share is not shown as all the potential ordinary shares are anti-dilutive.

8.

Inventories

	At 31 August 2007	At 28 February 2007
	\$'000	\$'000
Raw material	94,420	28,991
Work in progress	103,332	35,637
Finished goods	531,597	456,961
	<u>729,349</u>	<u>521,589</u>

9.

Trade and other receivables

Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 31 August 2007	At 28 February 2007
	\$'000	\$'000
0 to 30 days	56,120	74,692
31 to 60 days	3,315	6,306
61 to 90 days	5,047	1,135
Over 90 days	3,669	2,042
	<hr/>	<hr/>
Total debtors	68,151	84,175
Other receivables, deposits and prepayments	48,412	59,519
	<hr/>	<hr/>
	116,563	143,694
	<hr/> <hr/>	<hr/> <hr/>

Apart from retail customers, the Group allows an average credit period from 30 to 75 days to other customers.

10.

Trade and other payables

Included in trade and other payables are creditors with the following ageing analysis:

	At 31 August 2007	At 28 February 2007
	\$'000	\$'000
0 to 30 days	46,087	39,054
31 to 60 days	69,188	26,435
61 to 90 days	44,579	20,856
Over 90 days	130,634	100,651
Total creditors	290,488	186,996
Other payables and accruals	175,226	171,313
	<u>465,714</u>	<u>358,309</u>

11.

Share capital

Issued and fully paid:

	No. of shares	Amount
	'000	\$'000
At 28 February 2007 and 31 August 2007 – Ordinary shares of \$0.25 each	207,063	51,766

12.

Share options

As disclosed under the heading of Share Option Scheme, 8,825,000 options were granted to the directors, employees and service providers of the Company and its subsidiaries pursuant to the 2003 Share Option Scheme. 20% options granted are exercisable from 22 August, 2005. The next 40% options granted are exercisable from 18 months from the date of grant and the remaining 40% options granted are exercisable from 24 months from the date of grant.

The fair value of options granted, was determined by using the Binomial valuation model. The significant inputs into the model were share price of HK\$1.71 at the grant date, exercise price of HK\$1.76, expected volatility of the Company's share price: 60% p.a., expected life of options of 4 years, expected nil dividend, annual risk-free interest rate of 3.38%p.a., rate of leaving service of 15% p.a. and assume option holders will exercise their options when the share price is at least 180% of the exercise price. The fair value of options granted are as follows:

Exercise Period	Fair Value per Option	No. of Options Granted and Outstanding	
		At 31 August 2007	At 28 February 2007
22 August 2005 – 25 July 2009	HK\$0.56	1,602,500	1,622,500
22 January 2007 – 25 July 2009	HK\$0.69	3,205,000	3,245,000
25 July 2007 – 25 July 2009	HK\$0.73	3,205,000	3,245,000

During the period ended 31 August 2007, no options were exercised or cancelled. 100,000 options lapsed in accordance with the terms of the Share Option Scheme. At 31 August 2007 there are 8,012,500 share options outstanding under the Share Option Scheme.

Given the above assumptions and the inherent limitations of the Binomial valuation model, shareholders and other investors are hereby warned of the subjectivity and uncertainty of the aforementioned values of the options.

13.

Pledge of assets

At 31 August, 2007, the Group's secured bank loans and secured other loans are secured by (a) all of the undertakings, properties and assets of the Company and 12 of its subsidiaries by way of fixed and floating charges and rental revenue of the Group; (b) the capital contribution to a subsidiary of the Group

amounting to US\$232,500 and all the benefits accruing to the pledged equity interest of 11.625% and (c) all rights, titles and interests in 80.46% of the entire share capital of two subsidiaries of the Group and all benefits accruing to the pledged equity interest.

14.

Connected and material related party transactions

A

At 31 August 2007, the outstanding loans due to Partner Logistics Limited ("Partner Logistics") amounted to \$46,966,000 (at 28 February 2007: \$57,866,000) are secured and interest bearing at Hong Kong Interbank Offering Rate plus 2%. During the period, interest expenses paid to Partner Logistics amounted to \$1,697,521 (2006: \$2,275,691).

Partner Logistics is a company ultimately controlled by Mr. Tse Tat Fung, Tommy, a substantial shareholder and a director of the Company.

14.

Connected and material related party transactions (continued)

B

During the period, TSL Manufacturing and Distribution Limited (“TSL M&D”), TSL Jewellery (H.K.) Co. Limited (“TSLJ(HK)”) and Tse Sui Luen Jewellery Company Limited (“TSLJ”), subsidiaries of the Company, purchased raw materials and finished goods from Rosy Blue Hong Kong Limited (“Rosy Blue HK”) totally amounting to \$101 million (2006: \$89 million).

During the period, the Company fully repaid an outstanding loan of \$16.3 million (US\$2.1 million) to Rosy Blue HK, which bears interest at London Interbank Offering Rate plus 3%. Interest paid to Rosy Blue HK during the period amounted to \$243,000.

During the period, no raw materials was sold to Rosy Blue Japan Limited (“Rosy Blue Japan”) (2006: \$12,000), but sold raw materials to Rosy Blue Fine Inc, amounting to \$4,000 (2006: \$203,000).

During the period, Excellent Ford Development Limited, a subsidiary of the Company, sold raw materials to Beijing Tse Sui Luen Jewellery Company Limited (“BTSL”) through Rosy Blue (Shanghai) Diamond Company Limited (“Rosy Blue SH”), an authorised diamond trading company in the PRC, amounting to \$53.2 million (2006: \$57.9 million).

Rosy Blue HK, Rosy Blue Japan, Rosy Blue Fine Inc. and Rosy Blue SH are subsidiaries of Rosy Blue Investments S.à.R.L., a preference shareholder of Partner Logistics. In the opinion of the Directors of the Company, the transactions were carried out on normal commercial terms and in the ordinary course of business.

C

TSLJ has entered into a Consultancy Agreement on 11 April 2005 with Mr. Tse Sui Luen (“Mr. Tse”) for the provision of consultancy service. Mr. Tse is the father of Mr. Tse Tat Fung, Tommy, the substantial shareholder and a director of the Company. During the period, consultancy fee of \$960,000 (2006: \$960,000) was paid to Mr. Tse and \$3,000 (2006: \$18,000) was amortized as expenses in the income statement in respect of share-based payments granted to Mr. Tse.

14.

Connected and material related party transactions (continued)

D

The Group paid key management personnel compensation as follows:

	Six months ended 31 August	
	2007	2006
	\$'000	\$'000
Salaries and other short-term employee benefit	4,292	5,035
Retirement scheme contributions	20	24
Value of share options	94	535
	<u>4,406</u>	<u>5,594</u>

15.

Contingent liabilities

A

As set out in the announcements of the Company dated 1 February 2006 and 20 April 2006, the Company was informed that two directors, a consultant and an employee (collectively “the Officers”) were charged by the Independent Commission Against Corruption (“ICAC”) relating to alleged offences under the Prevention of Bribery Ordinance, the Crime Ordinance and the Theft Ordinance (“the ICAC Charges”).

Under the Company’s Bye-Laws, the Company may be required to indemnify its directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur in execution of their duty, provided that such indemnity shall not be extended to any matter in respect of, among other things, fraud and dishonesty.

B

At the balance sheet date, the disputes of certain subsidiaries with Inland Revenue Department (“IRD”) regarding the tax treatment of certain offshore income and agent commission payments and promoter fees for prior years are still undetermined. The Group has established a provision of approximately \$91,000,000 in respect of such disputes. In the event that the Group is not successful in defending the tax treatments adopted, the Group may be subject to significant additional tax liabilities and possibly penalties which, under the provisions of the current tax legislation, may be up to three times any tax under-reported as assessed by the IRD.

The directors have consulted with the Company’s legal advisers as to what legal implication the ICAC Charges may have, if any, for the Group as a whole. In view of the discussions with the legal advisers, the directors are of the view that they are not in a position to conclude whether and/or to what extent the Company may be required to indemnify the directors involved in relation to the ICAC Charges. As a result, the directors will, in conjunction with the Company’s legal advisors, consider any such claims as and when they are received and the Company will make such provision or adjustment in the accounts as deemed necessary at that time.

Furthermore, the ICAC’s allegations as mentioned in (a) above may or may not have impact on the IRD’s challenges on the tax treatments adopted by the Group relating to agent commission payments and promoter fees arising in prior years. The directors consider that it is impractical to estimate the potential amount of additional tax liabilities arising if the IRD’s challenge in respect of the agent commission payments and promoter fees is successful.

Save as mentioned above, as at 31 August 2007, the Group did not have any other material contingent liabilities.

16.

Commitments

A

Capital commitments outstanding at 31 August 2007 not provided for in the interim financial report were as follows:

	At 31 August 2007	At 28 February 2007
	\$'000	\$'000
Contracted for	<u>2,978</u>	<u>874</u>
	<u>2,978</u>	<u>874</u>

B

At 31 August 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 August 2007	At 28 February 2007
	\$'000	\$'000
Within 1 year	58,128	65,568
After 1 year but within 5 years	67,072	53,704
After 5 years	<u>—</u>	<u>—</u>
	<u>125,200</u>	<u>119,272</u>

17.

Review of unaudited financial statements

The Audit Committee of the Company has reviewed the unaudited consolidated financial statements of the Group for the six months ended 31 August 2007.

18.

Approval of interim financial report

The interim financial report was approved by the Board on 19 November 2007.



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Interim Dividend

The Board resolved not to pay an interim dividend for ordinary shares of the Company for the six months ended 31 August 2007 (2006: Nil).

Business Review and Prospects

Financial Results

For the six months ended 31 August 2007 (the “first half”), the Group achieved a satisfactory improvement in its results over that achieved by it in the same period last year recording (i) an increase in consolidated turnover of 11.7% from HK\$727.7 million to HK\$812.9 million and (ii) an increase in the profit attributable equity holders of the Company from HK\$10.2 million to HK\$25.6 million. Earnings per share increased from HK 5 cents to HK 12 cents per share.

The improvement in the Group’s results for the first half is mainly attributable to (i) the benefits it has derived from the ongoing strength of the overall retail market generally and (ii) more specifically, the improved performance and contribution from our Mainland China (“the Mainland”) business and showroom business.

Review and Prospect

Thanks to the continuing high level of consumer confidence in Hong Kong and the continued steady inflow of tourists to Hong Kong from the Mainland during the first half, our Hong Kong

retail business recorded a 16% growth during this period in sales. However, due to the relatively stable gold price in the first half, this growth was partly off-set by a decline in the amount of recycled gold purchased and sold by the Group as compared to the same period last year.

During the first half, the Group also undertook a review of its retail operations in Hong Kong and, as a result, it has started to progressively shift the mix of its stores to better suit the changing shopping habits in Hong Kong and our brand positioning. In the first half, the Group opened two new counters in department stores in Tai Po and Tuen Mun and identified a number of other sites that would compliment its brand position. In this respect, in the second half of this year, the Group will open two new stores in shopping malls, namely Luk Yeung Galleria in Tsuen Wan and East Point City in Tsueng Kwan O respectively. Over the next 1–2 years, the Group will further look to remix its retail locations to better suit the changing market and our brand positioning.

Due to the rapid emergence of Macau as new economic force and tourist destination in the Pearl River Delta, the Group has decided to re-enter the Macau retail market to enjoy the opportunities that this market now presents. Following an exhaustive search, the Group located a suitable site in phase 2 of The Venetian Macao. This store has been opened on 19 November 2007. We believe that The Venetian Macao will become one of the premier shopping malls and sight-seeing spots for tourists visiting Macau and that this store will become our strategic anchor to serve our customers in this growing market.

Sales in the Group's showroom business grew by 40% during the period under review due partly to the Group being able to successfully benefit from the consolidation that occurred in the market following the tightening of control over the industry. The Group has actively participated in the "Trustworthy Tourist Store" initiative of the Travel Industry Council ("TIC") and worked closely with other authorities on new guidelines/standards to protect the interests of tourists shopping in Hong Kong. We believe that the market may consolidate further and so there maybe further opportunities for long standing and reputable branded operators like the Group.

Our business in the Mainland saw satisfactorily growth in the first half which was in line with the increasing wealth of the population and the expanding Mainland economy generally. During the period under review, 11 new stores were opened by the Group. The Group intends to open approximately 20 new stores within this financial year. The Group sees its Mainland business as being one of the major growth opportunities going forward and it will continue to invest in this business to capitalize on the market opportunities in the Mainland.

The growth of our export business slowed slightly in the first half due to the uncertainties created in the economy of United States ("US") by the recent sub-prime mortgage crisis. As our export business is mainly targeted to the upper end market, this adverse impact should be transient unless the economy in the US deteriorates beyond that which we currently expect or anticipate. In the meantime, we have continued to progressively diversify the business away from the US market by continuing to

build our European market and by developing new markets by joining the jewellery exhibitions in other emerging markets like the Middle East and Eastern Europe.

The Malaysian operation recorded a stable growth in turnover and profitability as a result of improved merchandising.

Infrastructure Reinvestment Program

As anticipated, the final part of the Group's infrastructure reinvestment program was completed in August 2007 with the completion of the third (and final) phase of its Group's IT project. We believe that the completion of this project (and the previously completed projects under this reinvestment program) will gradually bring about ongoing cost savings and improvements to our operations as we harness these systems to supply better information for serving our customers and improving profitability. Also, the completion of this reinvestment program means that the Group now has a solid retail platform and infrastructure in place from which it can grow its business going forward. We look forward to entering an expansion phase for the Group using the systems and infrastructure that we have built up over the last 3 years.

Finance

Capital expenditure including store renovation and expansion, information technology investment and machinery during the period was approximately HK\$15 million. It was financed mainly from internal resources.

Liquidity, Capital Structure and Gearing

At 31 August 2007, the Group's total borrowings decreased to HK\$128.9 million from HK\$149.6 million at 28 February, 2007. Cash and bank balance at 31 August 2007 was HK\$44.9 million. Our debt to equity ratio (ratio of net borrowings to equity attributable to equity holders of the Company) has increased from 18.3% to 27.6%.

Pledge of assets

At 31 August 2007, the Group's secured bank loans and secured other loans are secured by (a) all of the undertakings, properties and assets of the Company and 12 of its subsidiaries by way of fixed and floating charges and rental revenue of the Group; (b) the capital contribution to a subsidiary of the Group amounting to US\$232,500 and all the benefits accruing to the pledged equity interest of 11.625% and (c) all rights, titles and interests in 80.46% of the entire share capital of two subsidiaries of the Group and all benefits accruing to the pledged equity interest.

Employees

At 31 August 2007, the total number of employees of the Group was approximately 3,000. The increase in headcount was mainly in production, sale and marketing in Mainland following the growth of the Group.

Subject to the foregoing, during the period under review, human resources policies, capital structure, financial policies, exposure to foreign exchange rates, plan for capital expenditure, contingent liabilities and charges on the Group assets do not materially differ from the information disclosed in the last annual report.



Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

At as 31 August 2007, the interests and short positions of the directors and chief executive and/or their respective associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions

7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(i) Interests and short positions in issued shares of the Company

Name of director	Personal interest	Family interest	Ordinary shares of HK\$0.25 each				% of total issued shares
			Corporate interest	Derivative interest (share option)	Short position	Other interest	
Tse Tat Fung, Tommy	–	–	152,960,914 (note 1)	2,000,000	–	–	73.87%
				100,000 (note 2)			
Peter Gerardus Van Weerdenburg	2,252,000	–	–	2,000,000	–	–	1.09%
Erwin Steve Huang	–	–	–	100,000	–	–	–
Yau On Yee, Annie	–	–	152,960,914 (note 3)	100,000	–	–	73.87%
				2,000,000 (note 4)			
Cheung Tse Kin, Michael	–	–	–	75,000	–	–	–
Lai Tsz Mo, Lawrence	–	–	–	200,000	–	–	–

Notes

1.

These ordinary shares were held by Partner Logistics Limited, a company which is owned and controlled by Blink Technology Limited. Blink Technology Limited is wholly and beneficially owned by Mr. Tse Tat Fung, Tommy. By virtue of the SFO, Mr. Tse Tat Fung, Tommy is deemed to be interested in all the shares held by Partner Logistics Limited.

2.

These 100,000 share options were granted to Ms. Yau On Yee, Annie, the spouse of Mr. Tse Tat Fung, Tommy. By virtue of the SFO, Mr. Tse Tat Fung, Tommy is deemed to be interested in these share options.

3.

These ordinary shares were held by Partner Logistics Limited, a company which is owned and controlled by Blink Technology Limited. Blink Technology Limited is wholly and beneficially owned by Mr. Tse Tat Fung, Tommy, the spouse of Ms. Yau On Yee, Annie. By virtue of the SFO, Ms. Yau On Yee, Annie is deemed to be interested in all the shares held by Partner Logistics Limited.

4.

These 2,000,000 share options were granted to Mr. Tse Tat Fung, Tommy, the spouse of Ms. Yau On Yee, Annie. By virtue of the SFO, Ms. Yau On Yee, Annie is deemed to be interested in these share options.

(ii) Interests in underlying shares

As at 31 August 2007, the directors of the Company had interests in option to subscribe for shares of the Company as follows:

Name of director	Date of grant	Date of acceptance	Exercise price	Exercisable period	Number of share options held	
					as at 1 March 2007	as at 31 August 2007
Tse Tat Fung, Tommy	25 July 2005	28 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	2,000,000	2,000,000
Peter Gerardus Van Weerdenburg	25 July 2005	28 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	2,000,000	2,000,000
Erwin Steve Huang	25 July 2005	1 August 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	100,000	100,000
Yau On Yee, Annie	25 July 2005	28 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	100,000	100,000
Cheung Tse Kin, Michael	25 July 2005	28 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	75,000	75,000
Lai Tsz Mo, Lawrence	25 July 2005	29 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	–	200,000 <i>(note 3)</i>

Notes

1.

The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 25 July 2005 was HK\$1.71, being the date on which the relevant options were offered for grant.

2.

For one of the conditions of grant, the grantee concerned agreed with the Company that (i) 20% of the options granted can be exercised during the period from 22 August 2005 to 25 July 2009; (ii) the next 40% of the options granted can be exercised during the period from 25 January 2007 to 25 July 2009; and (iii) the remaining 40% of the options granted can be exercised during the period from 25 July 2007 to 25 July 2009.

3.

Mr. Lai Tsz Mo, Lawrence was appointed as an Executive Director of the Company on 18 June 2007.

Other than as disclosed above and certain nominee shares in subsidiaries held by the directors in trust for the Company or its subsidiaries, none of the Company's directors, chief executive and their respective associates, had any other interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive is taken or deemed to have taken under such provisions of the SFO); or which were required pursuant to section 352 of the SFO to be entered into the register maintained by the Company; or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company or the Stock Exchange.



Substantial Shareholders' and Other Person's Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 August 2007, the interests and short positions of any substantial shareholders or other persons (not being directors or chief executive of the Company) in the shares and/or underlying shares of the Company which have been disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Capacity	Direct interest	Ordinary shares of HK\$0.25 each				
			% of total issued share capital	Short position	% of total issued share capital	Other interest	% of total issued share capital
Partner Logistics Limited <i>(note 1)</i>	Beneficial owner	152,960,914	73.87%	–	–	–	–
Blink Technology Limited <i>(note 1)</i>	Deemed interest	–	–	–	–	152,960,914	73.87%
Prime Investments S.A. <i>(note 2)</i>	Deemed interest	–	–	–	–	152,960,914	73.87%
Rosy Blue Investments S.à.R.L. <i>(note 2)</i>	Deemed interest	–	–	–	–	152,960,914	73.87%
Harshad Ramniklal Mehta <i>(note 2)</i>	Deemed interest	–	–	–	–	152,960,914	73.87%

Notes

1.

These ordinary shares were held by Partner Logistics Limited, a company which is owned and controlled by Blink Technology Limited. Blink Technology Limited is wholly and beneficially owned by Mr. Tse Tat Fung, Tommy, an executive director of the Company. Ms. Yau On Yee, Annie is the spouse of Mr. Tse Tat Fung, Tommy. By virtue of the SFO, Blink Technology Limited, Mr. Tse Tat Fung, Tommy and Ms. Yau On Yee, Annie are deemed to be interested in all the shares held by Partner Logistics Limited.

2.

These ordinary shares were held by Partner Logistics Limited, a company which is owned and controlled by Blink Technology Limited. Prime Investments S.A. is the preference shareholder of Partner Logistics Limited. Prime Investments S.A. is owned as to 99.83% by Rosy Blue Investments S.à.R.L., which in turn is owned as to 75% by Mr. Harshad Ramniklal Mehta. By virtue of the SFO, each of Prime Investments S.A., Rosy Blue Investments S.à.R.L. and Mr. Harshad Ramniklal Mehta, is deemed to be interested in all the shares held by Partner Logistics Limited.

Other than as disclosed above, the Company had not been notified of any persons who had interests or short positions in the shares and/or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

Share Option Scheme

The Company's share option scheme was adopted by shareholders of the Company on 26 November 2003 ("2003 Share Option Scheme"). The purpose of the 2003 Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity").

Under the 2003 Share Option Scheme, the directors of the Company are authorised, at their discretion, at any time following the date of the adoption of the 2003 Share Option Scheme but before the tenth anniversary of that date, to offer options to any person belonging to any of the following classes of participants to subscribe for shares of the Company:

*

any employee (whether full time or part time employee, including any executive directors but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity;

*

any customer of the Group or any Invested Entity;

*

any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

*

any person or entity that provides research, development or technological support or other services to the Group or any Invested Entity; and

*

any supplier of goods or services to any member of the Group or any Invested Entity;

*

any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer of the grant. An offer of an option shall be deemed to have been accepted within 28 days from the date of offer upon acceptance of the option duly signed by the grantee together with a remittance of HK\$1. The maximum number of securities available for issue under the 2003 Share Option Scheme shall not exceed 10% of the issued share capital of the Company. The maximum entitlement of each grantee in any 12-month period is limited to 1% of the ordinary shares in issue of the Company. The option period will not be more than ten years from the date of grant of the option and the Company's board of directors may at its discretion determine the minimum period for which the option has to be held or other restriction before the exercise of the subscription right attaching thereon.

As at 31 August 2007, the number of shares issuable under options granted pursuant to the 2003 Share Option Scheme was 8,012,500 which represented approximately 3.87% of the then issued share capital of the Company. The movements in the number of share options under the 2003 Share Option Scheme during the six months ended 31 August 2007 were as follows:

Date of grant	Date of acceptance	Exercise price	Exercisable period	Balance in issue at 1 March 2007	Number of share options granted during the period	Number of share options exercised during the period	Number of share options lapsed during the period	Balance in issue at 31 August 2007
25 July 2005	26 July 2005 to 19 August 2005 (note 1)	HK\$1.76 (note 2)	22 August 2005 to 25 July 2009 (note 4)	8,075,000	–	–	100,000	7,975,000
28 July 2005	8 August 2005	HK\$1.73 (note 3)	22 August 2005 to 25 July 2009 (note 4)	37,500	–	–	–	37,500

Notes

1.

Due to the large number of employees participating in the 2003 Share Option Scheme, the relevant information can only be shown within a reasonable range in this Interim Report. For options granted to employees, the options were granted during the underlying periods for acceptance of such options by the employees concerned.

2.

The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 25 July 2005 was HK\$1.71, being the date on which the relevant options were offered for grant.

3.

The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 28 July 2005 was HK\$1.68, being the date on which the relevant options were offered for grant.

4.

As one of the conditions of grant, the grantee concerned agreed with the Company that (i) 20% of the options granted can be exercised during the period from 22 August 2005 to 25 July 2009; (ii) the next 40% of the options granted can be exercised during the period from 25 January 2007 to 25 July 2009; and (iii) the remaining 40% of the options granted can be exercised during the period from 25 July 2007 to 25 July 2009.

No share options have been exercised during the six months ended 31 August 2007.

The fair value of options granted estimated in accordance with the Binomial valuation model is disclosed in note 12 to the unaudited interim financial report.

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 six months ended 31 August 2007.

Corporate Governance

Compliance with of the Code on Corporate Governance Practices of the Listing Rules

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31 August 2007, except the following deviations from code provisions A.3.2 of the CG Code:



Mr. Gerald Clive Dobby resigned as an Independent Non-executive Director of the Company on 28 February 2007 for personal reasons and the number of the Independent Non-executive Directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules and the number of the members of audit committee fell below the minimum number required under Rule 3.21 of the Listing Rules. Subsequently, Mr. Siu Ming Wah was appointed to fill the vacancy of Independent Non-executive Director and member of the audit committee on 2 May 2007.

Audit Committee

The Audit Committee, which terms of reference are in compliance with the provisions set out in the CG Code, comprises three members who are all Independent Non-executive Directors of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management regarding auditing, internal control and financial reporting matters including the review of the Company's unaudited interim results for the six months ended 31 August 2007.

Model Code on Securities Transactions By Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Enquiry has been made with all Directors and the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 31 August 2007.

By Order of the Board
Tse Tat Fung, Tommy
Chairman

Hong Kong, 19 November 2007

Nine hearts. One blossom.



Estrella
1 0 0 F A C E T S

