

T S L | 謝瑞麟

interim report 09|10

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Corporate Profile

Executive Directors

Yau On Yee, Annie (Chairman)

Erwin Steve Huang (Deputy Chairman)

Cheung Tse Kin, Michael

Lai Tsz Mo, Lawrence

Chow Kwok Ying, Rachel

Independent Non-executive Directors

Chui Chi Yun, Robert

Peter George Brown

Heng Ching Kuen, Franklin

Company Secretary

Lai Tsz Mo, Lawrence

Authorised Representatives

Yau On Yee, Annie

Lai Tsz Mo, Lawrence

Audit Committee

Chui Chi Yun, Robert (Chairman)

Peter George Brown

Heng Ching Kuen, Franklin

Remuneration Committee

Heng Ching Kuen, Franklin (Chairman)

Chui Chi Yun, Robert

Peter George Brown

Yau On Yee, Annie

Legal Advisers

K&L Gates As to Hong Kong law

35/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong

Conyers Dill & Pearman As to Bermuda law

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

Principal Banker

ABN AMRO Bank

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

Principle 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, 2 Church Street, Hamilton HM 11, Bermuda

Principal Office

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

Stock Code

417

Website

<http://www.tslj.com>

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

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Results

The board of directors 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 2009. The interim results for the six months ended 31 August 2009 have been reviewed by the Company’s audit committee.

Consolidated Statement of Comprehensive Income for the six months ended 31 August 2009 – Unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 August 2009 \$'000	2008 \$'000 (restated)
Turnover	2	851,408	968,414
Cost of Sales		(395,818)	(454,190)
Gross Profits		455,590	514,224
Other income		3,863	33,881
Selling Expenses		(345,500)	(389,924)
Administrative Expenses		(51,969)	(60,719)
Profit from operations	4	61,984	97,462
Finance Costs		(1,935)	(3,552)
Profit before tax		60,049	93,910
Income tax	5	(24,272)	(20,511)
Profit for the period		35,777	73,399
Other comprehensive income			
Exchange difference in translation		1,835	16,369
Other comprehensive income, net of tax		1,835	16,369
Total comprehensive income attributable to equity shareholders		37,612	89,768

		Six months ended 31 August	
	Note	2009	2008
		\$'000	\$'000
			(restated)
Profit attributable to:			
Equity holders of the Company		25,004	61,958
Minority interests		10,773	11,441
		35,777	73,399
Total comprehensive income attributable to:			
Equity holders of the Company		26,761	76,129
Minority interests		10,851	13,639
		37,612	89,768
Dividends	6	4,207	4,176
Earning per share			
– Basic	7	12 cents	30 cents
– Diluted		12 cents	N/A

Consolidated Statement of Change in Equity for the Six Month Ended 31 August 2009

(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	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	M.I. HK\$'000	Total Equity HK\$'000
Balance at 1 March 2009										
As previously reported	52,203	120,233	149,708	1,961	44,234	137,401	6,310	512,050	68,366	580,416
Effect of adoption HK(IFRIC) – Int 13	–	–	–	–	–	(1,207)	–	(1,207)	(263)	(1,470)
As restated	52,203	120,233	149,708	1,961	44,234	136,194	6,310	510,843	68,103	578,946
Lapse of share options	–	–	–	(1,129)	–	1,129	–	–	–	–
Share options exercised	381	3,131	–	(832)	–	–	–	2,680	–	2,680
Final dividends declared (2008/09)	–	–	–	–	–	–	(6,310)	(6,310)	–	(6,310)
Proposed interim dividend (2009/10)	–	–	–	–	–	(4,207)	4,207	–	–	–
Total comprehensive income for the period	–	–	–	–	1,757	25,004	–	26,761	10,851	37,612
Balance at 31 August 2009	52,584	123,364	149,708	–	45,991	158,120	4,207	533,974	78,954	612,928
Balance at 1 March 2008										
As previously reported	51,766	116,634	123,979	4,255	34,579	68,329	2,088	401,630	46,619	448,249
Effect of adoption HK(IFRIC) – Int 13	–	–	–	–	–	(1,164)	–	(1,164)	(270)	(1,434)
As restated	51,766	116,634	123,979	4,255	34,579	67,165	2,088	400,466	46,349	446,815
Lapse of share options	–	–	–	(1,257)	–	1,257	–	–	–	–
Share options exercised	438	3,599	–	(956)	–	–	–	3,081	–	3,081
Final dividends paid (2007/08)	–	–	–	–	–	–	(2,088)	(2,088)	–	(2,088)
Proposed interim dividend (2008/09)	–	–	–	–	–	(4,176)	4,176	–	–	–
Total comprehensive income for the period	–	–	–	–	14,171	61,958	–	76,129	13,639	89,768
Balance at 31 August 2008	52,204	120,233	123,979	2,042	48,750	126,204	4,176	477,588	59,988	537,576

Consolidated Statement of Financial Position at 31 August 2009 – Unaudited

(Expressed in Hong Kong dollars)

	Note	At 31 August 2009		At 28 February 2009	
		\$'000	\$'000	\$'000 (restated)	\$'000 (restated)
Non-current assets					
Property, plant and equipment	3		124,294		134,625
			124,294		134,625
Other financial asset			500		500
Deferred tax assets			25,398		26,732
			150,192		161,857
Current assets					
Inventories	8	792,558		760,761	
Trade and other receivables	9	166,289		162,501	
Tax recoverable		105		116	
Cash at bank and in hand		163,784		127,121	
		1,122,736		1,050,499	

	Note	At 31 August 2009		At 28 February 2009	
		\$'000	\$'000	\$'000 (restated)	\$'000 (restated)
Current liabilities					
Trade and other payables	10	(454,342)		(393,235)	
Bank overdraft		(19,365)		(22,468)	
Secured bank loans		(62,969)		(74,374)	
Secured other loans		(14,238)		(14,552)	
Unsecured other loans		–		(311)	
Obligations under finance lease		(111)		(173)	
Current Taxation		(73,954)		(79,179)	
		(624,979)		(584,292)	
Net current assets					
			497,757		466,207
Total assets less current liabilities					
			647,949		628,064
Non-current liabilities					
Obligations under finance lease		(255)		(308)	
Secured other loans		–		(6,962)	
Secured bank loans		(2,800)		(12,640)	
Employee benefit obligations		(22,323)		(22,323)	
Deferred tax liabilities		(9,643)		(6,885)	
			(35,021)		(49,118)
NET ASSETS					
			612,928		578,946

	Note	At 31 August 2009		At 28 February 2009	
		\$'000	\$'000	\$'000	\$'000
				(restated)	(restated)
CAPITAL AND RESERVES					
Share capital	11		52,584		52,203
Reserves			481,390		458,640
Total equity attributable to equity holders of the Company			533,974		510,843
Minority interests			78,954		68,103
TOTAL EQUITY			612,928		578,946

Condensed Consolidated Cash Flow Statement for the Six Month Ended 31 August 2009

(Expressed in Hong Kong dollars)

	Six months ended 31 August	
	2009 \$'000	2008 \$'000 (restated)
Net cash inflow from operating activities	77,474	11,050
Net cash outflow from investing activities	(11,408)	(22,589)
Net cash outflow from financing	(28,201)	(29,486)
Increase / (decrease) in cash and cash equivalents	37,865	(41,025)
Effect of foreign exchange rates	1,901	15,930
Cash and cash equivalents at 1 March	104,653	53,194
Cash and cash equivalents at 31 August	144,419	28,099
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	163,784	67,122
Bank overdraft	(19,365)	(39,023)
	144,419	28,099

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 2009. 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”).

1. Basis of preparation (continued)

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 2009, except for the adoption of the following new standards, amendments to standards and interpretations issued by the HKICPA which are effective for the accounting periods beginning 1 March 2009:–

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs 2008

1. Basis of preparation (continued)

Except for the adoption of HKFRS 8, HKAS 1 (Revised) and HK(IFRIC) – Int 13, the adoption of the above new standard, amendments/revisions to standards and interpretations which become effective for accounting periods beginning 1 March 2009 have had no material impact on the Group's results of operations and financial position.

HKFRS 8 "Operating Segments", which replaced HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owner, with all non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income with all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense recognized directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one statement.

HK(IFRIC) – Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Group maintains loyalty points programmes within its retail shops operate in Hong Kong and Mainland China which allow customers to accumulate points when they purchase products in the shops or joining our clubs/programmes. The points can then be redeemed for free products/gifts, subject to certain terms and conditions.

1. Basis of preparation (continued)

Following the adoption of HK(IFRIC) – Int 13, consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed.

The change in accounting policy has been applied retrospectively. As a result, prior period adjustment with the opening balances of the retained profits and minority interests as at 1 March 2009 restated by a reduction of \$1,207,000 and \$263,000 respectively and an increase in other payables and accruals of \$1,470,000. The comparative amounts in respect of turnover, cost of sales, selling expenses and profit for the six months ended 31 August 2009 have also been restated accordingly.

The Group has not adopted earlier or applied the following new interpretations and amendments/revisions to standards that have been issued but are not yet effective, in this interim financial report.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Eligible Hedged Items*
HKFRS 3 (Revised)	Business Combinations*
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners*
HK(IFRIC) – Int 18	Transfers of Assets from Customers#

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

Effective for transfers of assets from customers received on or after 1 July 2009

1. Basis of preparation (continued)

Apart from the above, the HKICPA has issued “Improvements to HKFRSs 2009” in May 2009. The Improvements set out amendments to a number of HKFRSs and are effective for annual reporting periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate. The Group has already commenced an assessment of the related impact of adopting the above new interpretations and amendments/revisions to standards in the period of initial application. So far, it has concluded that the adoption of the above new interpretations and amendments/revisions to standards will have no material impact on results of operations and financial position.

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 2009 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 2009 are available from the Company’s registered office.

2.Segmental information

The principal activities of the Group are the manufacture, sale and marketing of jewellery products. Turnover represents the sales value of jewellery products sold to customers.

The following table represents the revenue and results for the Group's reportable segments for the period ended 31 August 2009 and 2008, respectively.

	PRC (including Hong Kong and Macau)		Others		Inter-segment elimination		Consolidated	
	2009 \$'000	2008 \$'000 (restated)	2009 \$'000	2008 \$'000 (restated)	2009 \$'000	2008 \$'000 (restated)	2009 \$'000	2008 \$'000 (restated)
Revenue from external customers	841,007	950,438	10,401	17,976	–	–	851,408	968,414
Inter-segment revenue	1,961	4,705	–	–	(1,961)	(4,705)	–	–
Other revenue from external customers	3,819	33,612	44	269	–	–	3,863	33,881
Total	846,787	988,755	10,445	18,245	(1,961)	(4,705)	855,271	1,002,295
Segment results	62,755	95,195	(771)	2,267			61,984	97,462
Finance costs							(1,935)	(3,552)
Income tax							(24,272)	(20,511)
Profit for the period							35,777	73,399
Depreciation for the period	21,564	21,608	40	201				
Significant non cash expenses/(income)	–	–	–	–				

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3.Acquisitions and disposals of fixed assets

During the six months ended 31 August 2009, the Group acquired items of property, plant and machineries with a cost of \$11,413,000 (six months ended 31 August 2008: \$24,200,000). Items of property, plant and machineries with net book value of \$156,000 were disposed of during the six months ended 31 August 2009 (six months ended 31 August 2008: \$347,000), resulting in a loss on disposal of \$151,000 (six months ended 31 August 2008: \$347,000).

4.Profit before taxation

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

	Six months ended 31 August	
	2009	2008
	\$'000	\$'000
Interest on borrowings	1,935	3,552
Depreciation	21,604	21,809
Reversal of provision for inventory	(206)	(4,063)

5. Income Tax

Income Tax in the consolidated statement of comprehensive income represents:

	Six months ended 31 August	
	2009 \$'000	2008 \$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	420	5,428
Under provision in respect of prior years	38	3,374
Tax for the period	458	8,802
Current tax – Overseas		
Tax for the period	19,727	14,721
Tax for the period	19,727	14,721
Deferred tax		
Origination and reversal of temporary differences	4,087	(3,012)
Tax for the period	4,087	(3,012)
Total	24,272	20,511

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2008: 16.5%) 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

(a) Dividends attributable to the periods

	Six months ended 31 August	
	2009	2008
	\$'000	\$'000
Interim dividend, declared after period end, of \$0.02 (2008: \$0.02) per ordinary share	4,207	4,176

At the board meeting held on 6 November 2009, the directors declared an interim dividend of \$0.02 per share. These dividends have not been recognized as a liability as at 31 August 2009.

(b) Dividends attributable to the previous financial year, approved during the period

	Six months ended 31 August	
	2009	2008
	\$'000	\$'000
Final dividend attributable to the previous financial year, approved during the period of \$0.03 (2008: \$0.01) per share	6,310	2,088

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 \$25,004,000 (2008: \$61,958,000 (restated)) and on the weighted average of 209,399,721 ordinary shares (2008: 207,938,221 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to the equity holders of the Company for the period of \$25,004,000 and on the weighted average of 209,918,804 ordinary shares adjusted for the effects of exercise of share options.

Diluted earnings per share is not shown for the period ended 31 August 2008 as all the potential ordinary shares during period ended 31 August 2008 are anti-dilutive.

8.Inventory

	At 31 August 2009 \$'000	At 28 February 2009 \$'000
Raw materials – at net realizable value	66,947	82,491
Work in progress – at cost	45,738	22,385
Finished goods – at net realizable value	679,873	655,885
	792,558	760,761

As at 31 August 2009, the carrying amount of inventories held by 6 subsidiaries (the “Subsidiaries”) amounted to \$384,883,000 was pledged as a continuing security of the debts arising from the supply of polished diamonds and precious stones by Rosy Blue Hong Kong Limited (“Rosy Blue HK”) to the Subsidiaries (the “Debts”) from time to time (see note 13 below).

9. Trade and other receivables

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

	At 31 August 2009 \$'000	At 28 February 2009 \$'000
0 to 30 days	91,178	76,088
31 to 60 days	11,010	5,513
61 to 90 days	2,411	3,071
Over 90 days	9,803	10,535
Total trade receivables	114,402	95,207
Other receivables, deposits and prepayments	51,887	67,294
	166,289	162,501

Apart from retail customers, the Group allows an average credit period from 30 to 90 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 2009 \$'000	At 28 February 2009 \$'000
0 to 30 days	44,271	44,130
31 to 60 days	37,457	24,523
61 to 90 days	32,463	23,126
Over 90 days	103,874	84,165
Total creditors	218,065	175,944
Other payables and accruals	236,277	217,291
	454,342	393,235

11.Share capital

	At 31 August 2009		At 28 February 2009	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
Authorised				
Ordinary shares of \$0.25 each	1,500,000	375,000	1,500,000	375,000
Issued and fully paid				
Ordinary shares				
At beginning of the period/year	208,813	52,203	207,063	51,766
Share options exercised	1,523	381	1,750	437
At the end of the period/year	210,336	52,584	208,813	52,203

12.Share option

As disclosed under the heading of Share Option Scheme, 8,825,000 options were granted in 2005 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 \$1.71 at the grant date, exercise price of \$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 is as follows:-

Exercise Period	Fair Value per Option	No. of Options Granted and Outstanding	
		At 31 August 2009	At 28 February 2009
22 August 2005 – 25 July 2009	\$0.56	–	717,500
22 January 2007 – 25 July 2009	\$0.69	–	1,435,000
25 July 2007 – 25 July 2009	\$0.73	–	1,435,000

During the period ended 31 August 2009, 1,523,000 options were exercised. The expiry of the exercise period was 25 July 2009, 2,064,500 options were lapsed on 26 July 2009 in accordance with the terms of the Share Option Scheme. At 31 August 2009, there is no share option outstanding under the Share Option Scheme. The weighted average closing price of the Company's shares traded on the Stock Exchange immediately before the date on which the options were exercised during the period ended 31 August 2009 was \$2.05.

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

- (a) At 31 August 2009, debentures were executed by the Group in favour of its bankers and financial creditors charging, by way of fixed and floating charges, all of the undertakings, properties and assets of the Company and of its 12 subsidiaries as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers and financial creditors. Rental revenue of the Group is also charged in favour of the Group's bankers.
- (b) At 31 August 2009, the Group pledged all rights, titles and interests in 80.46% of the entire share capital of Infinite Assets Corp. and Tse Sui Luen Investment (China) Limited and all benefits accruing to the pledged equity interest to the Group's bankers and financial creditors as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers and financial creditors.
- (c) At 31 August 2009, the Company and the Subsidiaries executed a second floating charge and the Company made a guarantee to the Subsidiaries and there is a cross guarantee among the Subsidiaries in favour of Rosy Blue HK to pledge all of the Subsidiaries' respective rights to and title and interest from time to time in their inventories or stock-in-trade and their receivables from their overseas fellow subsidiaries in connection with the sales and supply of any inventory or stock-in-trade to such overseas fellow subsidiaries as a continuing security for the Debts. As at 31 August 2009, the Debts amounted to \$70,526,000.

14. Connected and material related party transactions

- (a) At 31 August 2009, the outstanding loans due to Partner Logistics Limited (“Partner Logistics”) amounted to \$14,238,000 (at 28 February 2009: \$21,514,000) are secured and interest bearing at Hong Kong Interbank Offering Rate plus 2% per annum. During the period, interest expenses paid to Partner Logistics amounted to \$212,000 (2008: \$654,000).

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

During the period, TSL Manufacturing and Distribution Limited (“TSL M&D”), a subsidiary of the Company, purchased raw materials and finished goods from Rosy Blue HK amounting to \$85 million (2008: \$63 million).

During the period, TSL Jewellery (H.K.) Co. Limited (“TSL(HK)”), a subsidiary of the Company, purchased raw materials and finished goods from Rosy Blue HK amounting to \$206,000 (2008: \$Nil).

During the period, Excellent Ford Development Limited (“EF”) 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 \$28 million (2008: \$4.3 million). EF and BTSL are subsidiaries of the Company.

Rosy Blue HK 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.

- (b) The Group paid key management personnel compensation as follows:

	Six months ended 31 August	
	2009	2008
	\$'000	\$'000
Salaries and other short-term employee benefit	4,357	4,246
Retirement scheme contributions	24	24
	4,381	4,270

15. Contingent liabilities

- (a) As set out in the announcements of the Company dated 3 June 2008, two directors of the Company, and a controller of showroom operation of a subsidiary and a consultant to a subsidiary were convicted by the District Court of Hong Kong of various charges involving offences under the Prevention of Bribery Ordinance, the Crime Ordinance and the Theft Ordinance. The Company has been informed that the two directors who have been convicted have commenced proceedings to appeal the verdict (“the Appeal”).

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.

The Directors are of the view that they are not in a position to conclude that whether and/or to what extent the Company may be required to indemnify the directors involved in relation to the Appeal.

- (b) As at 31 August 2009, 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 \$94 million for all the additional assessments issued and proposed by IRD 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. Furthermore, the verdict of the District Court of Hong Kong 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 agents 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 offshore income, agent commission payments and promoter fees is successful.

Save as mentioned above, as at 31 August 2009, the Group did not have any other material contingent liabilities.

16. Commitments

- (a) There were no capital commitments outstanding at 31 August 2009 and 28 February 2009 not provided for in the financial statements.
- (b) At 31 August 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 August 2009 \$'000	At 28 February 2009 \$'000
Within 1 year	77,669	57,484
After 1 year but within 5 years	83,234	70,925
	160,903	128,409

17. Review of unaudited interim financial report

The unaudited interim financial report for the six months ended 31 August 2009 has been reviewed by the audit committee of the Company.

18. Comparative figures

As further explained in note 1, due to the adoption of the HKFRSs and HK(IFRIC) during the current period, certain comparative figures have been restated to confirm with the current period's presentation.

19. Approval of interim financial report

The interim financial report was approved by the board on 6 November 2009.

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Interim Dividend

The Board resolved to declare an interim dividend of 2 HK cents per ordinary share of the Company for the six months ended 31 August 2009 (2008: 2 HK cents per ordinary share) to shareholders whose names appear on the Register of Members of the Company on Friday, 27 November 2009. The interim dividend will be paid on Friday, 11 December 2009.

Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 25 November 2009 to Friday, 27 November 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Tricor Secretaries Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong Time) on Tuesday, 24 November 2009.

Business Review and Prospects

Financial results

Consolidated turnover for the first half of the 2009/2010 financial year decreased by 12% from HK\$968 million to HK\$851 million. Profit attributable to equity holders of the Company fell from HK\$62 million to HK\$25 million, an element of which was the compensatory income of HK\$24 million relating to early termination of shop leases during the last period. Excluding this non-recurring item, profit attributable to equity holders dropped by 34% from HK\$37.9 million. Earnings per share decreased from 30 HK cents to 12 HK cents per share.

Review and prospects

As expected, the global financial crisis combined with the threat of Influenza A (H1N1) posed a formidable challenge to the Hong Kong retail market during the six months under review, with no prospect of demand from weak US and European markets to drive an export revival. The inevitable upshot was a decline in sales and profitability for the first half of the year, compared with the financial results for the corresponding period last year, when the global financial crisis had not yet impacted fully on Asia. In order to mitigate the effects of such unfavorable market conditions and maximize business opportunities, the Group adopted stringent cost-control measures and made adjustments to our range of merchandise.

Despite a downturn in certain business sectors, retail sales in mainland China grew satisfactorily during the first six months of the financial year. The momentum of China's rapid development had a diminishing effect on the negative impact of the global financial crisis and kept the economy relatively strong. Nevertheless, the Group maintained a conservative attitude towards expanding business in the mainland because of an uncertain global economic recovery and the lingering threat of H1N1. Looking ahead, the central government continues to make efforts to balance issues such as inflationary pressure and employment, thereby giving rise to a degree of economic instability in the mainland.

Operating in such an uncertain environment, the Group has taken a cautious approach to business, which continues to involve cross-segment adjustments to the store and inventory portfolio, implementing stringent cost-control measures and improving internal efficiencies.

Market conditions showed signs of improvement towards the end of the period under review – and we believe that, if sustainable, this positive change will enable the Group to achieve a higher level of performance in the second half of the financial year.

Finance

Capital expenditure for the period was incurred mainly by store renovation and expansion activity and amounted to approximately HK\$11 million, which was funded largely by internal resources.

Liquidity, capital structure and gearing

As of 31 August 2009, the Group's total borrowings decreased to HK\$99.7 million from HK\$131.8 million as of 28 February 2009. The Group's cash and bank balance as of 31 August 2009, was HK\$163.8 million, while undrawn banking facilities stood at HK\$23.7 million. Our debt-to-equity ratio (ratio of total borrowings to total equity) has decreased from 22.8% to 16.3%.

Employees

As of 31 August 2009, the Group's total complement of employees was approximately 3,082, indicating a slight decrease in headcount brought about mainly as a result of natural attrition presenting opportunities to reduce costs.

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

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

As at 31 August 2009, 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 ("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 ("Model Code"), were as follows:

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

Name of Director	Ordinary shares of HK\$0.25 each						Approximate percentage of total issued share capital
	Personal interest	Family interest	Corporate interest	Derivative interest (share options)	Short position	Other interest	
Yau On Yee, Annie	100,000 (Note 1)	152,960,914 (Note 2)	–	–	–	–	72.77%
Erwin Steve Huang	100,000 (Note 3)	–	–	–	–	–	0.05%
Lai Tsz Mo, Lawrence	200,000 (Note 4)	–	–	–	–	–	0.10%
Chow Kwok Ying, Rachel	200,000 (Note 5)	–	–	–	–	–	0.10%

Notes

1. The personal interest of Ms. Yau On Yee, Annie arises from her exercise of share options during the six months ended 31 August 2009, the details of which are stated in section (ii) “Interests in underlying shares” below.
2. These ordinary shares are 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, an executive director of the Company. By virtue of the SFO, Ms. Yau On Yee, Annie is deemed to be interested in all the shares held by Partner Logistics Limited.
3. The personal interest of Mr. Erwin Steve Huang arises from his exercise of share options during the six months ended 31 August 2009, the details of which are stated in section (ii) “Interests in underlying shares” below.
4. The personal interest of Mr. Lai Tsz Mo, Lawrence arises from his exercise of share options during the six months ended 31 August 2009, the details of which are stated in section (ii) “Interests in underlying shares” below.
5. The personal interest of Ms. Chow Kwok Ying, Rachel arises from her exercise of share options during the six months ended 31 August 2009, the details of which are stated in section (ii) “Interests in underlying shares” below.

(ii) Interests in underlying shares

As at 31 August 2009, the particulars of share options held by the directors of the Company granted under the Share Option Scheme of the Company were as follows:

Name of director	Date of grant	Date of acceptance	Exercise price	Exercisable period	Number of share options held as at 1 March 2009	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled/lapsed during the period	Number of share options held as at 31 August 2009
Yau On Yee, Annie	25 July 2005	28 July 2005	HK\$1.76 (note 1)	22 August 2005 to 25 July 2009 (note 2)	100,000	–	100,000	–	–
Erwin Steve Huang	25 July 2005	1 August 2005	HK\$1.76 (note 1)	22 August 2005 to 25 July 2009 (note 2)	100,000	–	100,000	–	–
Cheung Tse Kin, Michael	25 July 2005	28 July 2005	HK\$1.76 (note 1)	22 August 2005 to 25 July 2009 (note 2)	75,000	–	–	75,000 (note 3)	–
Lai Tsz Mo, Lawrence	25 July 2005	29 July 2005	HK\$1.76 (note 1)	22 August 2005 to 25 July 2009 (note 2)	200,000	–	200,000	–	–
Chow Kwok Ying, Rachel	25 July 2005	9 August 2005	HK\$1.76 (note 1)	22 August 2005 to 25 July 2009 (note 2)	200,000	–	200,000	–	–

Notes

1. The closing price of the Company's shares traded on the Stock Exchange on 25 July 2005 was HK\$1.71, being the date on which the relevant options were offered for grant.
2. As one of the conditions of grant, the grantees 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. 75,000 share options held by Mr. Cheung Tse Kin, Michael were lapsed on 26 July 2009 upon the expiry of the exercise period on 25 July 2009.

Other than as disclosed above and certain nominee shares in subsidiaries held by 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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company or the Stock Exchange.

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

As at 31 August 2009, 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:

Ordinary shares of HK\$0.25 each

Name	Capacity	Direct interest	Approximate percentage of total issued share capital	Short position	Approximate percentage of total issued share capital	Other interest	Approximate percentage of total issued share capital
Partner Logistics Limited (<i>Note 1</i>)	Beneficial owner	152,960,914	72.72%	–	–	–	–
Blink Technology Limited (<i>Note 1</i>)	Deemed interest	–	–	–	–	152,960,914	72.72%
Tse Tat Fung, Tommy (<i>Note 1</i>)	Deemed interest	–	–	–	–	152,960,914	72.72%
Prime Investments S.A. (<i>Note 2</i>)	Deemed interest	–	–	–	–	152,960,914	72.72%
Rosy Blue Investments S.à.r.l. (<i>Note 2</i>)	Deemed interest	–	–	–	–	152,960,914	72.72%
Harshad Ramniklal Mehta (<i>Note 2</i>)	Deemed interest	–	–	–	–	152,960,914	72.72%

Notes

1. These ordinary shares are held by Partner Logistics Limited, a company of 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, an executive director of the Company. By virtue of the SFO, Blink Technology Limited, Ms. Yau On Yee, Annie and Mr. Tse Tat Fung, Tommy are deemed to be interested in all the shares held by Partner Logistics Limited.
2. These ordinary shares are 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 has 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 the SFO.

Changes of Directors’ Information pursuant to Rule 13.51B(1) of the Listing Rules

With effect from 1 April 2009, the monthly remuneration of Mr. Lai Tsz Mo, Lawrence, an executive director and Chief Financial Officer of the Company, had been adjusted to HK\$90,000.

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 non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of the Group 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 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 2009, there was no outstanding share option under the 2003 Share Option Scheme. The movements in the number of share options under the 2003 Share Option Scheme during the six months ended 31 August 2009 were as follows:

Date of grant	Date of acceptance	Exercise price	Exercisable period	Balance in issue at 1 March 2009	Number of share options granted during the period	Number of share options exercised during the period	Number of share options cancelled during the period	Number of share options lapsed during the period	Balance in issue at 31 August 2009
25 July 2005	26 July 2005 to 18 August 2005 (note 1)	HK\$1.76 (note 2)	22 August 2005 to 25 July 2009 (note 4)	3,550,000	–	1,523,000 (note 6)	–	2,027,000 (note 7)	–
28 July 2005	8 August 2005	HK\$1.73 (note 3)	25 August 2005 to 25 July 2009 (note 5)	37,500	–	–	–	37,500 (note 7)	–

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 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 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 grantees 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.
5. 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 25 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.
6. The weighted average closing price of the Company's shares traded on the Stock Exchange immediately before the date on which the options were exercised during the period was HK\$2.05.

1,523,000 share options have been exercised during the six months ended 31 August 2009.
7. The expiry of the exercise period was 25 July 2009, 2,064,500 share options were lapsed on 26 July 2009.

Save as disclosed above, no share options were granted, exercised, cancelled or lapsed during the period.

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 2009.

Corporate Governance

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

The Company is committed to the establishment of good governance practices and procedures. During the six months ended 31 August 2009, save for code provision A.2.1 as disclosed below, the Company has applied the principles and complied with most of the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules.

Code provision A.2.1

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. Presently, the Chairman and the Chief Executive Officer of the Company are held by separate persons. The Chairman, Ms. Yau, is responsible for the Group’s overall strategy and corporate functions. The Chief Executive Officer, Mr. Huang, is responsible for the business strategy and delivering business results. Under Mr. Huang’s contract with the Group, he is under the direction, supervision and control of Ms. Yau, but the Company’s practice is to require that all major strategic decisions are taken by the Board, or relevant committee of the Board, as duly constituted.

Audit Committee

The Audit Committee comprises of three Independent Non-executive Directors of the Company, namely Mr. Chui Chi Yun, Robert, Mr. Peter George Brown and Mr. Heng Ching Kuen, Franklin. Its terms of reference are in compliance with the provisions set out in the CG Code.

The Audit Committee has reviewed the Company’s unaudited financial statements and interim report for the six months ended 31 August 2009, including the accounting principles and practices adopted by the Group, and discussed with management regarding auditing, internal control and financial reporting matters.

Model Code for Securities Transactions By Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Specific 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 2009.

By Order of the Board
Yau On Yee, Annie
Chairman

Hong Kong, 6 November 2009

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