

# T S L | 謝瑞麟

**Tse Sui Luen Jewellery (International) Limited**  
(incorporated in Bermuda with limited liability)  
Stock code: 417

# Corporate Profile

## Executive Directors

Tse Tat Fung, Tommy (Chairman)  
Peter Gerardus Van Weerdenburg (Deputy Chairman)  
Erwin Steve Huang (Deputy Chairman)  
Alex Chan  
Cheung Tse Kin, Michael  
Yau On Yee, Annie

## Independent Non-executive Directors

Chui Chi Yun, Robert  
Gerald Clive Dobby

## 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)  
Gerald Clive Dobby

## Remuneration Committee

Gerald Clive Dobby (Chairman)  
Chui Chi Yun, Robert  
Tse Tat Fung, Tommy

## Legal Advisers

As to Hong Kong law:

Herbert Smith  
23/F., Gloucester Tower  
15 Queen's Road  
Central, Hong Kong

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

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

Website  
<http://www.tslj.com>

Registered Office

Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

Principal Office

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

# 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 2006. The interim results for the six months ended 31 August 2006 have been reviewed by the Company's audit committee.

## CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 AUGUST 2006 — UNAUDITED (Expressed in Hong Kong dollars)

	<i>Note</i>	<u>Six months ended 31 August</u>	
		2006 \$'000	2005 \$'000
Turnover	2	727,718	560,141
Cost of sales		(372,950)	(277,361)
		<u>354,768</u>	<u>282,780</u>
Other revenue		2,622	2,599
Selling expenses		(264,882)	(227,231)
Administrative expenses		(55,474)	(48,651)
Other operating expenses		(175)	(50)
		<u>36,859</u>	<u>9,447</u>
Profit from operations	2	36,859	9,447
Finance costs	4	(5,129)	(2,196)
Gain on disposal of subsidiaries		1,430	—
		<u>33,160</u>	<u>7,251</u>
Profit before taxation	4	33,160	7,251
Taxation	5	(9,129)	(59,034)
		<u>24,031</u>	<u>(51,783)</u>
Profit/(Loss) after taxation		<u>24,031</u>	<u>(51,783)</u>
Attributable to:			
Equity holders of the Company		10,237	(60,230)
Minority interests		13,794	8,447
		<u>24,031</u>	<u>(51,783)</u>
Profit/(Loss) after taxation		<u>24,031</u>	<u>(51,783)</u>
Earnings/(Loss) per share			
Basic	7	<u>5 cents</u>	<u>(29) cents</u>

The notes on pages 10 to 23 form part of this interim financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 31 AUGUST 2006 — UNAUDITED**  
(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Land & Building revaluation reserve \$'000	share-based compensation reserve \$'000	Exchange reserve \$'000	Accumulated losses \$'000	Total \$'000	Minority interests \$'000	Total Equity \$'000
At 1 March 2005										
— as previously reported	51,766	116,634	97,992	24,997	—	(6,198)	(42,740)	242,451	17,648	260,099
— prior year adjustments in respect of: leasehold land & building held for own use	—	—	—	(24,997)	—	—	31,906	6,909	—	6,909
— as restated	51,766	116,634	97,992	—	—	(6,198)	(10,834)	249,360	17,648	267,008
Issue of share options	—	—	—	—	2,332	—	—	2,332	—	2,332
Exchange difference on translation of financial statements of subsidiaries	—	—	—	—	—	3,237	—	3,237	2,451	5,688
Loss for the year	—	—	—	—	—	—	(47,977)	(47,977)	19,859	(28,118)
Balance at 28 February 2006	51,766	116,634	97,992	—	2,332	(2,961)	(58,811)	206,952	39,958	246,910
At 1 March 2006	51,766	116,634	97,992	—	2,332	(2,961)	(58,811)	206,952	39,958	246,910
Equity settle share-based transaction	—	—	—	—	881	—	135	1,016	—	1,016
Release of reserve due to disposal of a subsidiary	—	—	—	—	—	(961)	—	(961)	—	(961)
Profit for the period	—	—	—	—	—	—	10,237	10,237	13,794	24,031
Balance at 31 August 2006	51,766	116,634	97,992	—	3,213	(3,922)	(48,439)	217,244	53,752	270,996

The notes on pages 10 to 23 form part of this interim financial report and the last annual report.

**CONSOLIDATED BALANCE SHEET**  
**AT 31 AUGUST 2006 — UNAUDITED**  
(Expressed in Hong Kong dollars)

		At 31 August 2006		At 28 February 2006	
	Note	\$'000	\$'000	\$'000	\$'000
Non-current assets					
Property, plant and equipment			115,871		117,691
Other financial asset			500		500
Club debenture			103		103
Deferred tax assets			20,506		20,834
			<u>136,980</u>		<u>139,128</u>
Current assets					
Investments in securities			28		1
Inventories	8	553,802		500,723	
Trade and other receivables	9	139,896		109,680	
Current tax recoverable			834		1,020
Cash at bank and in hand			73,493		101,249
			<u>768,053</u>		<u>712,673</u>
Current liabilities					
Trade and other payables	10	(374,196)		(355,019)	
Bank overdraft		(17,920)		(18,550)	
Secured bank loans		(10,000)		(4,000)	
Secured other loans		(25,400)		(14,500)	
Obligations under finance leases		(2,875)		(660)	
Current tax payable		(84,064)		(91,876)	
			<u>(514,455)</u>		<u>(484,605)</u>
Net current assets			<u>253,598</u>		<u>228,068</u>
Total assets less current liabilities carried forward			390,578		367,196

The notes on pages 10 to 23 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET (continued)**  
**AT 31 AUGUST 2005 — UNAUDITED**  
(Expressed in Hong Kong dollars)

	Note	At 31 August 2006		At 28 February 2006	
		\$'000	\$'000	\$'000	\$'000
Total assets less current liabilities brought forward			390,578		367,196
Non-current liabilities					
Obligations under finance leases		(4,297)		(614)	
Secured other loans		(59,408)		(57,867)	
Secured bank loans		(47,003)		(53,000)	
Employee benefit obligations		(8,759)		(8,759)	
Deferred tax liabilities		(115)		(46)	
			(119,582)		(120,286)
NET ASSETS			270,996		246,910
CAPITAL AND RESERVES					
Share capital	11		51,766		51,766
Reserves			165,478		155,186
Total equity attributable to equity holders of the Company			217,244		206,952
Minority interests			53,752		39,958
TOTAL EQUITY			270,996		246,910

The notes on pages 10 to 23 form part of this interim financial report.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 31 AUGUST 2006 — UNAUDITED**  
(Expressed in Hong Kong dollars)

	Six months ended 31 August	
	2006	2005
	\$'000	\$'000
Net cash outflow from operating activities	(20,471)	(5,053)
Net cash outflow from investing activities	(24,997)	(21,009)
Net cash inflow/(outflow) from financing	18,342	(10,341)
Decrease in cash and cash equivalents	(27,126)	(36,403)
Cash and cash equivalents at 1 March	82,699	81,825
Cash and cash equivalents at 31 August	55,573	45,422
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	73,493	45,422
Bank overdraft	(17,920)	—
	55,573	45,422

The notes on pages 10 to 23 form part of this interim financial report.

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# notes on the unaudited interim financial report

## 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”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The 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 2006.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, 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.

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 2006. 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”).

The financial information relating to the financial year ended 28 February 2006 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 28 February 2006 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	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from external customers	712,570	548,980	15,148	11,161	—	—	727,718	560,141
Inter-segment revenue	8,583	4,575	—	—	(8,583)	(4,575)	—	—
Other revenue from external customers	2,485	2,333	137	266	—	—	2,622	2,599
<b>Total</b>	<b>723,638</b>	<b>555,888</b>	<b>15,285</b>	<b>11,427</b>	<b>(8,583)</b>	<b>(4,575)</b>	<b>730,340</b>	<b>562,740</b>
Segment results	34,917	8,800	1,942	647			36,859	9,447
Finance costs							(5,129)	(2,196)
Gain on disposal of subsidiaries							1,430	—
Taxation							(9,129)	(59,034)
<b>Profit/(Loss) after taxation</b>							<b>24,031</b>	<b>(51,783)</b>
Depreciation for the period	14,648	8,948	34	14				
Significant non cash expenses/(income)	1,016	1,217	—	—				

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 2006, the Group acquired items of property, plant and machineries with a cost of \$13,350,000 (six months ended 31 August 2005: \$21,051,000). Items of property, plant and machineries with a net book value of \$488,000 were disposed of during the six months ended 31 August 2006 (six months ended 31 August 2005: \$42,000), resulting in a loss on disposal of \$172,000 (six months ended 31 August 2005: \$42,000).

### 4.

## Profit from Ordinary Activities Before Taxation

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

	Six months ended 31 August	
	2006	2005
	\$'000	\$'000
Interest on borrowings	5,129	2,196
Depreciation	14,682	8,962
Gain on disposal of subsidiaries	(1,430)	—
Provision for inventory	1,590	1,321

## 5. Taxation

Income Tax in the consolidated income statement represents:

	<u>Six months ended 31 August</u>	
	2006	2005
	\$'000	\$'000
Current tax — Provision for Hong Kong Profits Tax		
Tax for the period	1,559	270
Underprovision in respect of prior years	327	50,964
Tax for the period	<u>1,886</u>	<u>51,234</u>
Current tax — Overseas		
Tax for the period	6,846	7,650
Deferred tax		
Origination and reversal of temporary differences	397	150
	<u>9,129</u>	<u>59,034</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2005 : 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 2006 (2005: Nil).

## 7. Earnings/(Loss) Per Share

————— A —————

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to the equity holders of the Company for the period of \$10,237,000 (2005: loss \$60,230,000) and on the weighted average of 207,063,221 ordinary shares (2005: 207,063,221 ordinary shares) in issue during the period.

————— B —————

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is not shown as all the potential ordinary shares are anti-dilutive.

## 8. Inventories

	At 31 August 2006	At 28 February 2006
	\$'000	\$'000
Raw material	76,164	80,776
Work in progress	39,886	54,422
Finished goods	437,752	365,525
	<u>553,802</u>	<u>500,723</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 2006	At 28 February 2006
	\$'000	\$'000
0 to 30 days	45,522	41,983
31 to 60 days	6,380	3,117
61 to 90 days	3,858	2
Over 90 days	18,786	20,386
	<u>74,546</u>	<u>65,488</u>
Total debtors	74,546	65,488
Other receivables, deposits and prepayments	65,350	44,192
	<u>139,896</u>	<u>109,680</u>

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 2006	At 28 February 2006
	\$'000	\$'000
0 to 30 days	26,536	34,603
31 to 60 days	22,055	31,713
61 to 90 days	29,406	19,209
Over 90 days	118,917	97,461
Total creditors	196,914	182,986
Other payables and accruals	177,282	172,033
	<u>374,196</u>	<u>355,019</u>

## 11.

### Share Capital

Issued and fully paid:

	No. of shares	Amount
	'000	'000
At 28 February 2006 and 31 August 2006		
— Ordinary shares of \$0.25 each	207,063	51,766
	<u>207,063</u>	<u>51,766</u>

## 12. Share Options

As disclosed under the heading of Share Option Scheme, 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 \$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 are as follows:

Exercise Period	Fair Value per Option	No. of Options Granted and Outstanding	
		At 31 August 2006	At 28 February 2006
22 August 2005–25 July 2009	HK\$0.56	1,672,500	1,755,000
22 January 2007–25 July 2009	HK\$0.69	3,345,000	3,510,000
25 July 2007–25 July 2009	HK\$0.73	3,345,000	3,510,000

During the period ended 31 August 2006, no options were exercised or cancelled. 412,500 options lapsed in accordance with the terms of the Share Option Scheme. At 31 August 2006 there were 8,362,500 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

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 16 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\$ 235,000 and all the benefits accruing to the pledged equity

interest of 11.625%; (c) all rights, titles and interests in 56.46% of the entire share capital of two subsidiaries of the Group and all benefits accruing to the pledged equity interest and (d) an equitable mortgage over the entire issued share capital of a subsidiary.

## 14.

### Connected and Material Related Party Transactions

#### A

During the period, four subsidiaries of the Company, Tse Sui Luen Jewellery Trading & Distribution Co Ltd ("TSL Trading"), Beijing Tse Sui Luen Jewellery Co Ltd ("BTSL"), Guangzhou Xiang Yun Jewellery Company Limited ("GZ Xiang Yun") and Excellent Ford Development Ltd ("EF") sold finished goods to Beijing Hua Long Rui Lin Economic and Trading Company Limited ("Hua Long") amounting to \$408,016 (2005: \$3,114,118) and Beijing Rui Feng Da Lin Jewellery Co., Ltd. ("Rui Feng") amounting to \$Nil (2005: \$684,183). The transactions were carried out by way of cost-plus pricing arrangement in the normal course of business of the subsidiaries.

For the period ended 31 August 2005, TSL Trading received commission, depending on the nature of the products, amounting to \$372,000 from Hua Long and \$82,000 from Rui Feng for their respective confirmed purchase from BTSL. No commission has been charged to Hua Long and Rui Feng during the period.

During the period, Tse Sui Luen Jewellery Consultancy Service Limited ("TSLJCS") and BTSL paid Hua Long consultation fees amounting to \$46,512 (2005: \$325,581) to Hua Long for advice on public relation matters to TSLJCS and BTSL.

Hua Long and Rui Feng are companies controlled by Mr. Qi Jian Hong ("Mr. Qi") who is a substantial shareholder and a director of the two subsidiaries of the Company, Infinite Assets Corp. ("IAC") and Tse Sui Luen Investment (China) Limited ("TSL China"), and is also a director of a subsidiary of TSL China, BTSL. The licensing, sales, consignment commission and consultancy service arrangements therefore constituted connected transactions under the Listing Rules.

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## B

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As at 31 August 2006, the outstanding loans due to Partner Logistics Limited ("Partner Logistics") amounted to HK\$72,367,000 (at 28 February 2006: \$72,367,000) are secured and interest bearing at Hong Kong Interbank Offering Rate plus 2%. During the period, interest expenses paid to Partner Logistics amounted to HK\$2,275,691 (2005: \$1,733,462).

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

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## C

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During the period, Tse Sui Luen Jewellery Company Limited ("TSLJ"), a subsidiary of the Company, purchased raw materials

from Rosy Blue Hong Kong Ltd. ("Rosy Blue HK") amounting to \$89 million (2005: \$75 million).

During the period, the Company borrowed \$12.4 million (US\$1.6 million) from Rosy Blue HK, which bears interest at London Interbank Offering Rate plus 3%. Interest paid to Rosy Blue HK during the period amounted to \$115,000.

During the period, TSLJ sold raw materials to Rosy Blue Japan Limited ("Rosy Blue Japan") amounting to \$12,000 (2005: \$221,000), sold raw materials to Rosy Blue Fine Inc, amounting to \$203,000 (2005: \$217,000)

During the period, EF sold raw materials to BTSL through Rosy Blue (Shanghai) Diamond Company Limited ("Rosy Blue SH"), an authorised diamond trading company in the PRC, amounting to \$57.9 million (2005: \$14.7 million).

Rosy Blue HK, Rosy Blue Japan, Rosy Blue Fine Inc. and Rosy Blue SH are subsidiaries of Rosy Blue Investments S.a.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.

## D

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 was paid to Mr. Tse and \$17,918 was amortised as expenses in the income statement in respect of share-based payments granted to Mr. Tse.

The Group paid key management personnel compensation as follows:

	<u>Six months ended 31 August</u>	
	2006	2005
	\$'000	\$'000
Salaries and other short-term employee benefit	5,035	5,827
Retirement scheme contributions	24	19
Value of share options	535	607
	<u>5,594</u>	<u>6,453</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.

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.

### B

The outcome of the challenges by the Inland Revenue Department (“IRD”) on the tax treatments adopted by the Group relating to certain offshore income and agent commission payments and promoter fees arising in prior years is undetermined as at 31 August 2006. The Group has established a provision of approximately \$91 million 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 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 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 agent commission payments and promoter fees is successful.

Save as mentioned above, as at 31 August 2006, the Group did not have any other material contingent liabilities.

## 16. Commitments

### A

Capital commitments outstanding at 31 August 2006 not provided for in the interim financial report were as follows:

	At 31 August 2006	At 28 February 2006
	\$'000	\$'000
Contracted for	7,174	3,017
	<u>7,174</u>	<u>3,017</u>

### B

At 31 August 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 August 2006	At 28 February 2006
	\$'000	\$'000
Within 1 year	64,233	57,444
After 1 year but within 5 years	67,722	56,829
After 5 years	—	—
	<u>131,955</u>	<u>114,273</u>

## **17.**

### Post Balance Sheet Event

As set out in the announcement dated 22 September 2006 regarding the acquisition of a substantial interest in TSL China, TSLJ and Liberty Mark Limited (“Liberty Mark”), both wholly owned subsidiaries of the Company, completed the acquisition of 1,105 B shares and 542 B shares respectively in TSL China from The China Retail Fund, LDC (“CRF”) in accordance with the TSL China Shareholders Agreement on 22 September 2006. Following the Completion, the Company, indirectly through TSLJ and Liberty Mark, holds 5,522 B shares or approximately 80.46% of TSL China.

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

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

## **18.**

### Review of Unaudited Interim Financial Report

The unaudited interim financial report for the six months ended 31 August 2006 has been reviewed by the audit committee of the Company.

## **19.**

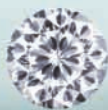
### Approval of Interim Financial Report

The interim financial report was approved by the board on 21 November 2006.

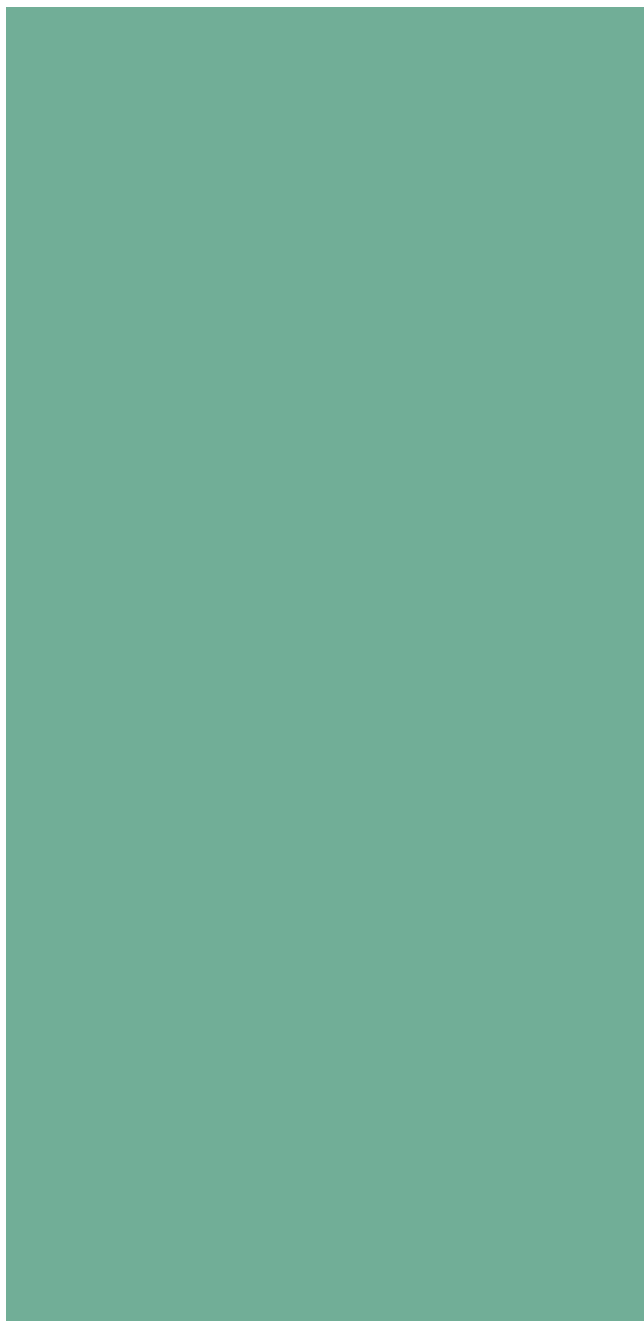


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## Interim Dividend

The Board resolved not to pay an interim dividend for ordinary shares of the Company for the six months ended 31 August 2006 (2005: Nil).

## Business Review and Prospects

### Financial Results

For the six months ended 31 August 2006 (the “first half”), the Group achieved a major improvement in its results over that which it achieved in the first half of last financial year recording (i) an increase of 29.9% in its consolidated turnover to HK\$727.7 million (2005: HK\$560.1 million) and (ii) a return to profitability with a profit attributable to equity holders of the Company of HK\$10.2 million (2005: Loss of HK\$60.2 million). A major turnaround from the same period last financial year.

This improvement was mainly due to (i) the sales growth achieved by the Group across all its business units during the first half and (ii) to a larger extent, the absence of any tax provisioning relating to prior year tax disputes with the Hong Kong Inland Revenue Department which adversely affected the result for the first half of last financial year.

In addition, the improved result was also assisted by the commencement, during the first half, of the winding down of the

Group’s three year reinvestment program which is now coming to an end and will be completed in 2007. The majority of this program to rebuild the Group’s businesses and core infrastructure is now substantially complete with the Group starting to enjoy the benefits of the projects completed by it so far under this program.

### Review and Prospects

During the period under review, the Group did not open any new stores in Hong Kong as, notwithstanding improved sales being achieved by the Group in Hong Kong during the first half, the retail environment in Hong Kong still remained very competitive and patchy and so we have maintained our cautious approach to our investment in this area.

Sales from our business in Mainland China (“the Mainland”) have increased with growth being achieved from the strength of the market generally and from the increased productivity of our existing stores. In September, 2006, the Group successfully acquired a further 24% stake in its Mainland business from its joint venture partner, The China Retail Fund, LDC increasing its interest in that business from 56.46% to 80.46%. The Group sees its Mainland business as being one of its main growth engines going forward and so this acquisition will further enhance its ability to capitalize on this market.

The Group's showroom business continues to trade well with a pleasing increase in the overall number of tourists visiting its showrooms during the period. The Group expects that this business will continue to prosper albeit that competition remains fierce. The Group has partially completed the upgrade of its showroom business located within its Hung Hom headquarters to create a better shopping environment and this has been well received by our customers. The Group expects to complete the remainder of these upgrade works in the second half of this financial year.

Our Malaysian business remains stable and the Group's export business has continued to grow steadily during the period under review assisted by the opening of our new factory in Panyu in April 2006.

Overall, the Group is still continuing to concentrate its efforts and resources on its Mainland, showroom and export businesses as these businesses continue to provide the Group with a better return on its investment.

In respect to the service leadership of the Group, we are pleased to report that our colleagues, Mr. Law Kam Fai and Mr. Ho Siu Wai, Sam of our Hong Kong Retail Division have beaten 570 participants to win the 2006 Service & Courtesy Award — Specialty Store Category of the Mystery Shoppers Programme run by Hong Kong Retail Management Association in the Supervisory Level and the Junior Frontline Level respectively.

This is the second consecutive year that we have won these honours at both levels which exemplifies the Group's insistence and ability to deliver consistent quality service to our customers.

### Infrastructure reinvestment program

The Group has now substantially completed the majority of the projects undertaken by it in respect to this program (i.e. renovation of stores, increase in factory capacity, store expansion in HK and PRC, brand, product and image relaunch etc) with only the IT project still remaining to be completed. The first phase of the IT project was successfully launched in Hong Kong in September 2006 with the remaining phases to be rolled out across the Group over the next 9 months. The update of the Group's overall IT infrastructure, ranging from its office to manufacturing to retail operations, will be completed by mid 2007. We believe that this project, after completion, will result in cost savings and better information for serving our customers and improving profitability.

Overall, the projects undertaken by the Group under this program over the last 2 to 3 years have lead to an increase in the Group's overhead costs and so caused a drag on the Group's profits during this time. This increase in overhead costs will continue for a little while longer until the completion of the IT project in mid 2007.

## Finance

Capital expenditure including store renovation and expansion, information technology investment and machinery made during the period was approximately HK\$13 million. This was mainly financed from internal resources.

## Liquidity, Capital Structure and Gearing

At 31 August 2006, the Group's total borrowings were HK\$166.9 million an increase of HK\$17.7 million since 28 February, 2006. Our debt to equity ratio (ratio of net borrowings to net assets) has increased from 23% to 43 % mainly because of the increase in net borrowings during the period.

As at 31 August 2006, the Group had cash balance of HK\$73.5 million which is sufficient for the present working capital requirements.

## Charges on Group Assets

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 16 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\$235,000 and all the benefits accruing to the pledged

equity interest of 11.625%; (c) all rights, titles and interests in 56.46% of the entire share capital of two subsidiaries of the Group and all benefits accruing to the pledged equity interest and (d) an equitable mortgage over the entire issued share capital of a subsidiary.

## Employees

As at 31 August 2006, the total number of employees of the Group was approximately 2,600. The increase in headcount was mainly in sales and marketing and production in Mainland China.

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 2006, 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	Corporate interest	Ordinary shares of HK\$0.25 each			% of total issued shares
				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	—	—	—
Alex Chan	—	—	—	200,000	—	—	—
Cheung Tse Kin, Michael	—	—	—	75,000	—	—	—
Yau On Yee, Annie	—	—	152,960,914 (note 3)	100,000	—	—	73.87%
				2,000,000 (note 4)			

## 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 in turn 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 share 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 2006, 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 2006	as at 31 August 2006
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
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
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
Alex Chan	25 July 2005	1 August 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	—	200,000
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
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



## 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.

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 2006, 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. 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 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 2006, the number of shares issuable under options granted pursuant to the 2003 Share Option Scheme was 8,362,500 which represented approximately 4.04% 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 2006 were as follows:

Date of grant	Date of acceptance	Exercise price	Exercisable period	Balance in issue at 1 March 2006	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 2006
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)	8,737,500	—	—	412,500	8,325,000
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 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.

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.

No share options have been exercised during the six months ended 31 August 2006.

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 2006.

## 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 Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31 August 2006, except the following deviations from code provisions A.3.2, A.4.1 and A.4.2 of the CG Code:

#### 1.

Mr. Lui Pui Kee, Francis resigned as an Independent Non-executive Director of the Company on 17 July 2006 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.

#### 2.

Mr. Gerald Clive Dobby and Mr. Lui Pui Kee, Francis, Independent Non-executive Directors of the Company, were not appointed for a specific term since their service contracts ended in November 2005 but they are subject to retirement in accordance with the Company's Bye-laws. At the annual general meeting of the Company held on 9 August, 2006, Mr. Gerald Clive Dobby retired by rotation as a director of the Company and was re-elected as an Independent Non-executive Director of the Company for a term of three years.

### 3.

In accordance with the Company's Bye-laws, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation at each annual general meeting of the Company, but the directors were not required to retire by rotation at least once every three years. In addition, according to the Company's Bye-laws, any directors appointed to fill a casual vacancy shall hold office only the next following annual general

meeting and shall then be eligible for re-election at that meeting. At the annual general meeting of the Company held on 9th August, 2006, an amendment to the Bye-laws of the Company was proposed and approved by shareholders so that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

#### Audit Committee

The Audit Committee, with terms of reference in compliance with the provisions set out in the CG Code, comprises two members who are all Independent Non-executive Directors of the Company. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company.

The Group's interim report for the six months ended 31 August 2006 has been reviewed by the Audit Committee.

#### 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 2006.

By Order of the Board  
Tse Tat Fung, Tommy  
Chairman

Hong Kong, 21 November 2006







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