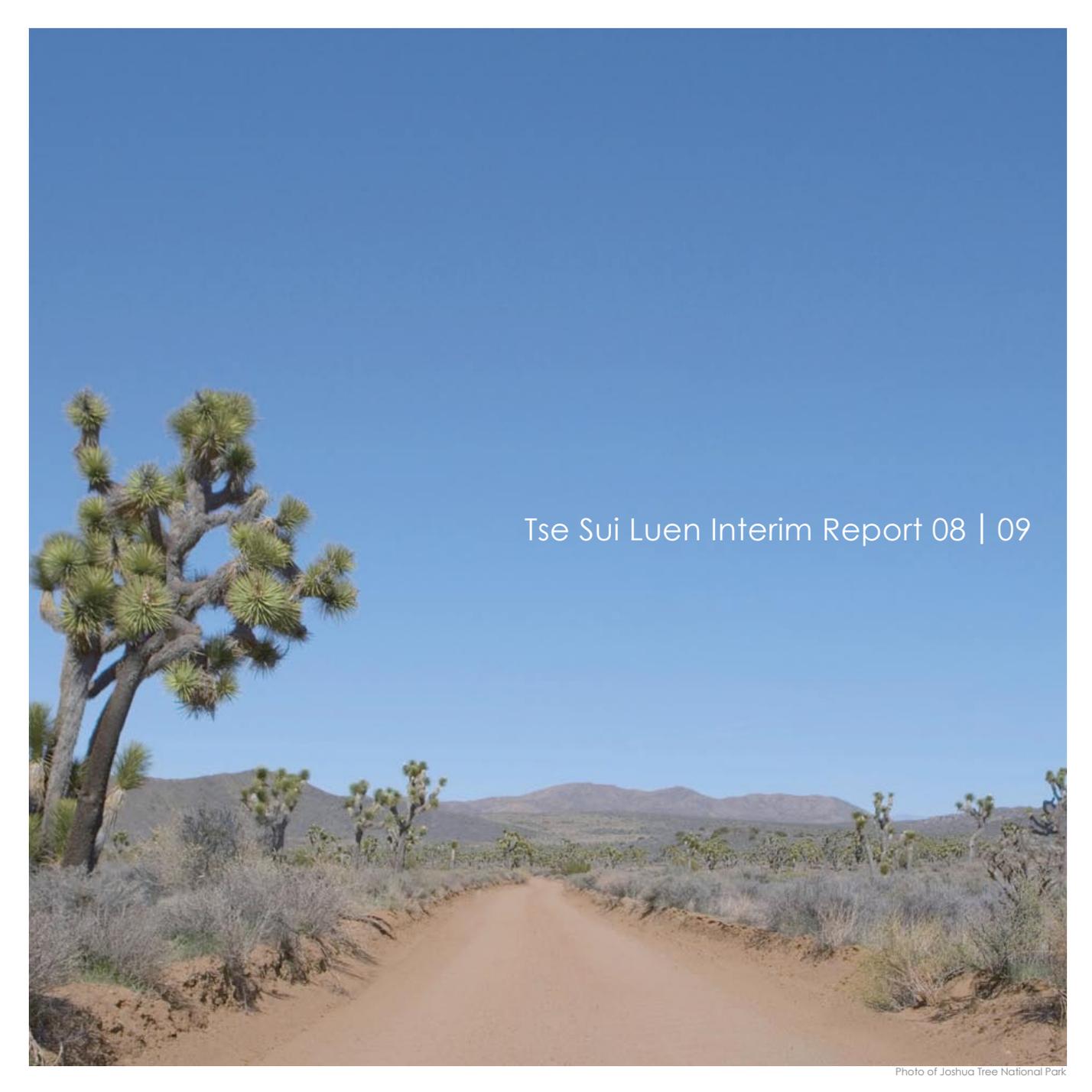


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interim report 2008 | 2009

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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

Independent Non-executive Directors

Chui Chi Yun, Robert

Peter George Brown

Siu Ming Wah

Company Secretary

Lai Tsz Mo, Lawrence

Qualified Accountant

Lai Tsz Mo, Lawrence

Authorised Representatives

Yau On Yee, Annie

Lai Tsz Mo, Lawrence

Audit Committee

Chui Chi Yun, Robert Chairman

Peter George Brown

Siu Ming Wah

Remuneration Committee

Siu Ming Wah Chairman

Chui Chi Yun, Robert

Peter George Brown

Yau On Yee, Annie

Legal Advisers

Kirkpatrick & Lockhart Preston Gates Ellis 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 N.V.

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

Principal Share Registrar

Westbroke Limited

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

Hong Kong Branch Share Registrar

Tricor Secretaries Limited

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

Registered Office

Clarendon House, Church Street, Hamilton HM11, Bermuda

Principal Office

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

Website

<http://www.tsj.com>

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

Raindrop



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 2008. The interim results for the six months ended 31 August 2008 have been reviewed by the Company's audit committee.

Consolidated Income Statement for the six months ended 31 August 2008 – Unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 August	
		2008 \$'000	2007 \$'000
Turnover	2	968,070	812,902
Cost of sales		(453,097)	(370,257)
Other revenue		514,973	442,645
Selling expenses		33,881	4,940
Administrative expenses		(391,017)	(329,405)
Other operating expenses		(60,719)	(63,232)
		–	(77)
Profit from operations	4	97,118	54,871
Finance costs		(3,552)	(4,962)
Profit before taxation		93,566	49,909
Income tax	5	(20,511)	(16,825)
Profit after taxation		73,055	33,084
Attributable to:			
Equity holders of the company		61,706	25,644
Minority interests		11,349	7,440
Profit after taxation		73,055	33,084
Dividend attributable to the period	6	4,176	–
Earnings per share			
Basic	7	30 cents	12 cents

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 2008 – Unaudited

(Expressed in Hong Kong dollars)

	Share Capital	Share premium	Capital reserves	Share-based compensation reserve	Exchange reserves	Profit/(loss) attributable to equity holders	Total	M.I.	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 March 2007	51,766	116,634	97,992	4,154	8,149	(3,066)	275,629	31,679	307,308
Share option expense	-	-	-	333	-	-	333	-	333
Adjustment arising from lapse of share option	-	-	-	(231)	-	231	-	-	-
Release of reserve due to disposal of subsidiaries	-	-	25,987	-	-	(25,987)	-	-	-
Increase in interests in subsidiaries	-	-	-	-	(197)	-	(197)	(3,148)	(3,345)
Exchange difference on translation of financial statements of subsidiaries	-	-	-	-	26,626	-	26,626	5,972	32,598
Profit for the year	-	-	-	-	-	99,240	99,240	12,116	111,356
Balance at 29 February 2008	51,766	116,634	123,979	4,256	34,578	70,418	401,631	46,619	448,250
Balance at 1 March 2008	51,766	116,634	123,979	4,256	34,578	70,418	401,631	46,619	448,250
Adjust due to cancellation of share option	-	-	-	(1,256)	-	1,256	-	-	-
Adjust due to exercise of share option	437	3,598	-	(956)	-	-	3,079	-	3,079
Exchange difference on translation of financial statements of subsidiaries	-	-	-	-	14,171	-	14,171	2,198	16,369
Dividend	-	-	-	-	-	(2,088)	(2,088)	-	(2,088)
Profit for the period	-	-	-	-	-	61,706	61,706	11,349	73,055
Balance at 31 August 2008	52,203	120,232	123,979	2,044	48,749	131,292	478,499	60,166	538,665

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

Consolidated Balance Sheet at 31 August 2008 – Unaudited

(Expressed in Hong Kong dollars)

	Note	At 31 August 2008		At 29 February 2008	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Property, plant and equipment	3		140,484		138,375
Other financial asset			500		500
Deferred tax assets			22,036		18,883
			163,020		157,757
Current assets					
Inventories	8	875,268		865,594	
Trade and other receivables	9	175,768		156,590	
Tax recoverable		44		44	
Cash at bank and in hand		67,122		78,998	
		1,118,202		1,101,226	
Current liabilities					
Trade and other payables	10	(474,018)		(524,340)	
Bank overdraft		(39,023)		(25,804)	
Secured bank loans		(63,305)		(73,797)	
Secured other loans		(14,552)		(14,552)	
Unsecured other loans		(1,221)		(1,782)	
Obligations under finance lease		(590)		(865)	
Current Taxation		(91,970)		(96,874)	
		(684,679)		738,014	
Net current assets					
			433,523		363,212
Total assets less current liabilities carried forward					
			596,543		520,970

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

	Note	At 31 August 2008		At 29 February 2008	
		\$'000	\$'000	\$'000	\$'000
Total assets less current liabilities brought forward			596,543		520,970
Non-current liabilities					
Obligations under finance lease		(367)		(126)	
Secured other loans		(14,238)		(21,514)	
Unsecured other loans		–		(312)	
Secured bank loans		(24,480)		(32,320)	
Employee benefit obligations		(17,671)		(17,671)	
Deferred tax liabilities		(1,122)		(777)	
			57,878		(72,720)
NET ASSETS			538,665		448,250
CAPITAL AND RESERVES					
Share capital	11		52,203		51,766
Reserves			426,296		349,865
Total equity attributable to equity holders					
of the Company			478,499		401,631
Minority interests			60,166		46,619
TOTAL EQUITY			538,665		448,250

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 2008 – Unaudited

(Expressed in Hong Kong dollars)

	Six months ended 31 August	
	2008	2007
	\$'000	\$'000
Net cash inflow/(outflow) from operating activities	11,050	(13,673)
Net cash outflow from investing activities	(22,589)	(15,134)
Net cash outflow from financing	(29,486)	(23,683)
Decrease in cash and cash equivalents	(41,025)	(52,490)
Effect of foreign exchange rates	15,930	184
Cash and cash equivalents at 1 March	53,194	80,692
Cash and cash equivalents at 31 August	28,099	28,386
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	67,122	44,936
Bank overdraft	(39,023)	(16,550)
	28,099	28,386

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

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 29 February 2008. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial report has been prepared in accordance with the same accounting policies adopted in the Group's financial statements for the year ended 29 February 2008, except for the adoption of the following new standards, amendments to standards and interpretations issued by the HKICPA which are effective for the annual periods beginning 1 March 2008:-

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

1. Basis of preparation (continued)

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

HKAS 1 (Revised)	Presentation of financial statements*
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 3 (Revised)	Business Combinations*
HKFRS 8	Operating Segments*
HKAS 23 (Revised)	Borrowing Costs*
HK(IFRIC)-Int 13	Customer Loyalty Programmes*

Effective for annual periods beginning on or after 1 July 2008

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

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

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 29 February 2008 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 29 February 2008 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 and Macau)		Others		Inter-segment elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	950,094	797,565	17,976	15,337	-	-	968,070	812,902
Inter-segment revenue	4,705	1,572	-	-	(4,705)	(1,572)	-	-
Other revenue from external customers	33,612	4,619	269	321	-	-	33,881	4,940
Total	988,411	803,756	18,245	15,658	(4,705)	(1,572)	1,001,951	817,842
Segment results	94,851	52,803	2,267	2,068			97,118	54,871
Finance costs							(3,552)	(4,962)
Income tax							(20,511)	(16,825)
Profit for the year							73,055	33,084
Depreciation for the period	21,608	19,442	201	184				
Significant non cash expenses	-	171	-	-				

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 2008, the Group acquired items of property, plant and machineries with a cost of \$24,200,000 (six months ended 31 August 2007: \$14,956,000). Items of property, plant and machineries with a net book value of \$347,000 were disposed of during the six months ended 31 August 2008 (six months ended 31 August 2007: \$111,000), resulting in a loss on disposal of \$347,000 (six months ended 31 August 2007: \$110,000).

4. Profit from ordinary activities before taxation

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

	Six months ended 31 August	
	2008	2007
	\$'000	\$'000
Interest on borrowings	3,552	4,962
Depreciation	21,809	19,626
(Reversal of provision)/Provision for inventory	(4,063)	1,267

5. Income Tax

Income Tax in the consolidated income statement represents:

	Six months ended 31 August	
	2008	2007
	\$'000	\$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	5,428	3,910
Underprovision in respect of prior years	3,374	–
Tax for the period	8,802	3,910
Current tax – Overseas		
Tax for the period	14,721	11,883
	14,721	11,883
Deferred tax		
Origination and reversal of temporary differences	(3,012)	1,032
	(3,012)	1,032
	20,511	16,825

- (a) The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2007 : 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.

- (b) Since the end of the last financial year and up to the date of this report, a subsidiary of the Group received from the Inland Revenue Department (“IRD”) additional assessments relating to certain agent commission payments and promoter fees arising in prior years under dispute in respect of which the IRD have challenged the tax treatments adopted by the subsidiary. The subsidiary is in the process of gathering relevant information to support the tax treatments adopted. The directors believe that the information being gathered will provide sufficient grounds to support the tax treatments adopted. However, the directors consider it prudent to establish an additional provision of \$3.4 million in respect of the above which has been charged to the consolidated income statement for the period.

6. Dividends

	Six months ended 31 August	
	2008	2007
	\$'000	\$'000
Interim dividend, declared after period end, of HK\$0.02 (2007: Nil) per ordinary share	4,176	–

At the board meeting held on 18 November 2008, the directors declared interim dividend of HK\$0.02 per share. These dividends have not been recognised as a liability at the balance sheet date.

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 \$61,706,000 (2007: \$25,644,000) and on the weighted average of 207,938,221 ordinary shares (2007: 207,063,221 ordinary shares) in issue during the period.

(b) Diluted earnings per share

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

8. Inventories

	At 31 August	At 29 February
	2008	2008
	\$'000	\$'000
Raw material – at net realizable value	95,759	162,356
Work in progress – at cost	48,158	85,517
Finished goods – at net realizable value	731,351	617,721
	875,268	865,594

8. Inventories (continued)

As at 31 August 2008, the carrying amount of inventories held by 6 subsidiaries (the "Subsidiaries") amounted to \$439,893,000 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 also note 13 below).

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 2008 \$'000	At 29 February 2008 \$'000
0 to 30 days	64,237	73,170
31 to 60 days	12,194	21,299
61 to 90 days	7,807	2,525
Over 90 days	4,077	15,388
Total debtors	88,315	112,382
Other receivables, deposit and prepayments	87,453	44,208
	175,768	156,590

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 2008 \$'000	At 29 February 2008 \$'000
0 to 30 days	40,391	33,579
31 to 60 days	21,422	52,392
61 to 90 days	12,087	45,808
Over 90 days	183,853	220,298
Total creditors	257,753	352,077
Other payables and accruals	216,265	172,263
	474,018	524,340

11. Share capital

	At 31 August 2008		At 29 February 2008	
	No. of shares	Amount	No. of shares	Amount
	'000	\$'000	'000	\$'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	207,063	51,766	207,063	51,766
Exercise of share option	1,750	437	–	–
At end of the period/year	208,813	52,203	207,063	51,766

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.

12. Share options (continued)

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

Exercise Period	Fair Value per Option	No. of Options Granted and Outstanding	
		At 31 August 2008	At 29 February 2008
22 August 2005 – 25 July 2009	HK\$0.56	747,500	1,557,500
22 January 2007 – 25 July 2009	HK\$0.69	1,495,000	3,115,000
25 July 2007 – 25 July 2009	HK\$0.73	1,495,000	3,115,000

During the period ended 31 August 2008, 1,750,000 options were exercised and 2,300,000 options were cancelled in accordance with the terms of the Share Option Scheme. At 31 August 2008 there are 3,737,500 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

- (a) At 31 August 2008, 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 2008, the Group pledged all rights, titles and interests in 80.46% of the entire share capital of IAC and TSL China 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) On 27 September 2007, 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 2008, the Debts amounted to \$75,194,000.

14. Connected and material related party transactions

- (a) At 31 August 2008, the outstanding loans due to Partner Logistics Limited ("Partner Logistics") amounted to HK\$28,790,000 (at 29 February 2008: \$36,066,000) 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\$654,000 (2007: \$2,991,000).

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.

14. Connected and material related party transactions (continued)

- (b) During the period, TSL Manufacturing and Distribution Ltd ("TSL M&D"), TSL Jewellery (H.K.) Co. Limited ("TSLJ(HK)") and Tse Sui Luen Jewellery Co Ltd ("TSLJ"), subsidiaries of the Company, purchased raw materials and finished goods from Rosy Blue HK totally amounting to \$63 million (2007: \$101 million).

During the period, no raw materials sold to Rosy Blue Fine Inc (2007: \$4,000).

During the period, Excellent Ford Development Limited ("EF") sold raw materials to Beijing Tse Sui Luen Jewellery Company Limited ("BTSLJ") through Rosy Blue (Shanghai) Diamond Company Limited ("Rosy Blue SH"), an authorised diamond trading company in the PRC, amounting to \$4.3 million (2007: \$53.2 million). EF and BTSLJ are subsidiaries of the Company.

Rosy Blue HK, 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.

- (c) TSL Management Services Limited has entered into a Consultancy Agreement on 6 February 2008 with Mr. Tse Sui Luen ("Mr. Tse") for the provision of consultancy service. Mr Tse is the father-in-law of Ms Yau On Yee, Annie, the spouse of the substantial shareholder and a director of the Company. During the period, consultancy fee of \$288,000 (2007: \$960,000) was paid to Mr. Tse and Nil (2007: \$3,000) was amortized as expenses in the income statement in respect of share-based payments granted to Mr. Tse.

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

	Six months ended 31 August	
	2008	2007
	\$'000	\$'000
Salaries and other short-term employee benefit	4,246	4,292
Retirement scheme contributions	24	20
Value of share options	–	94
	4,270	4,406

15. Contingent liabilities

(a) As set out in the announcements of the Company dated 3 June 2008, two directors of the Company, and the 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 the balance sheet date, the disputes of certain subsidiaries with 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 \$94.4 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 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, the agent commission payments and promoter fees is successful.

Save as mentioned above, as at 31 August 2008, the Group did not have any other material contingent liabilities.

16. Commitments

(a) Capital commitments outstanding at 31 August 2008 not provided for in the interim financial report were as follows:

	At 31 August 2008 \$'000	At 29 February 2008 \$'000
Contracted for	1,030	2,690
	1,030	2,690

(b) At 31 August 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 August 2008 \$'000	At 29 February 2008 \$'000
Within 1 year	80,125	53,400
After 1 year but within 5 years	108,958	53,209
After 5 years	–	–
	189,083	106,609

17. Review of unaudited interim financial report

The unaudited interim financial report for the six months ended 31 August 2008 has been reviewed by the audit committee of the Company.

18. Approval of interim financial report

The interim financial report was approved by the board on 18 November 2008.

Sonata



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 2008 (2007: Nil) to shareholders whose names appear on the Register of Members of the Company on Wednesday, 10 December 2008. The interim dividend will be paid on Thursday, 15 January 2009.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 8 December 2008 to Wednesday, 10 December 2008, 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 Friday, 5 December 2008.

Business Review and Prospects

Financial Results

The Group achieved a satisfactory and continuous improvement in its results for the six months ended 31 August 2008 (the "first half"), compared with the same period of last year. Consolidated turnover increased by 19% to HK\$968 million from HK\$813 million and the profit attributable to equity holders of the Company increased from HK\$25.6 million to HK\$61.7 million. Earnings per share increased from HK12 cents to HK30 cents per share.

The improvement in the Group's results for the first half is mainly attributable to (i) the improved performance and contribution from our Mainland China (the "Mainland") business and (ii) other income from compensation for early termination of shop lease. Excluding the effect of the other income, the profit attributable to equity holders increased by 47% from HK\$25.6 million to HK\$37.7 million.

Review and Prospect

During the first half, Hong Kong and Macau Retail markets have slowed down because of the decrease in number of tourists from Mainland shopping in these two markets. The abolition of the long Labour Day Holidays and the visa policy adjustment by Mainland has resulted in the decline in shoppers from Mainland.

The Group continued the review of its retail operations in Hong Kong and progressively shifted the mix of its stores to better suit the changing shopping habits in Hong Kong. In the first half, the Group opened a new store in Sun Yuen Long Centre. In this respect, the Group has also scheduled to open another new store in Landmark North of Sheung Shui early next year.

Despite the decrease in number of tourists from Mainland and overseas as a result of visa policy adjustment by Mainland, sales in the Group's showroom business managed to grow by 6% during the period under review.

Our business in the Mainland saw satisfactorily growth in the first half which was in line with the increasing wealth of the population and the expanding Mainland economy generally. During the period under review, 9 new stores were opened by the Group of which 6 are Saxx stores. This second brand has been well-received by consumers and our business partners.

In view of the deteriorating global economy, our export business has tightened the credit policy and the growth of the business slowed down in the first half. The fluctuating material prices have also put pressures on the margin and affected the performance of this business.

The Malaysian operation recorded a healthy growth in turnover and profitability as a result of successful cost control and focus on our VIP customers.

Because of the deepening of the global financial crisis in September and October, luxury consumption atmosphere will inevitably be affected. The Group will take a cautious approach to critically review the store and inventory portfolio of all business segments. The Group will also implement stringent cost control measures and improve the internal efficiency. On the other hand, the Group is cautiously optimistic about the business outlook in medium to long term as it is still generally believed that there will be 5–6% per annum economic growth in Mainland in which the Group has a very good presence. Furthermore, Hong Kong economy can also leverage on the moderate growth of Mainland and benefit from the recent announcement of further favourable Mainland's economic policies towards Hong Kong.

Finance

Capital expenditure including store renovation and expansion, information technology investment and machinery during the period was approximately HK\$24 million. It was financed mainly from internal resources.

Liquidity, Capital Structure and Gearing

At 31 August 2008, the Group's total borrowings decreased to HK\$157.8 million from HK\$171.1 million at 29 February 2008. Cash and bank balance at 31 August 2008 was HK\$67.1 million. Our debt to equity ratio (ratio of total borrowings to total equity) has decreased from 38.2% to 29.3%.

Charges on Group Assets

- (1) At 31 August 2008, 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 12 of its 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.
- (2) At 31 August 2008, 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.
- (3) At 31 August 2008, the Company and its 6 subsidiaries (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 favor of Rosy Blue Hong Kong Limited ("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 arising from the supply of polished diamonds and precious stones by Rosy Blue HK to the Subsidiaries (the "Debts"). At 31 August 2008, the Debts amounted to HK\$75,194,000.

Contingent Liabilities

As at the balance sheet date, the disputes of certain subsidiaries with Inland Revenue Department ("IRD") regarding the tax treatment of certain offshore income, agents commission payments and promoter fees for prior years are still undetermined. During the period, a subsidiary received additional assessments in relation to the dispute on the tax treatment of agent commission payments and promoter fees for prior years. The Group has established a provision of approximately HK\$94.4 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 verdict of the District Court of Hong Kong as disclosed in the announcement of the Company dated 3 June 2008 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.

Employees

At 31 August 2008, the total number of employees of the Group was approximately 3,200. The increase in headcount was mainly in sale and marketing in Mainland in line with the growth of the Group.

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

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

At as 31 August 2008, 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 Issuers ("Model Code"), were as follows:

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

Name of director	Personal interest	Family interest	Ordinary shares of HK\$0.25 each				% of total issued shares
			Corporate interest	Derivative interest (share options)	Short position	Other interest	
Yau On Yee, Annie	-	-	152,960,914 (note 1)	100,000	-	-	73.25%
Erwin Steve Huang	-	-	-	100,000	-	-	-
Cheung Tse Kin, Michael	-	-	-	75,000	-	-	-
Lai Tsz Mo, Lawrence	-	-	-	200,000	-	-	-

Eclipse



Note

1. 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. By virtue of the SFO, Ms. Yau On Yee, Annie is deemed to be interested in all the shares held by Partner Logistics Limited.

(ii) Interests in underlying shares

As at 31 August 2008, the directors of the Company had interests in options 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 2008	as at 31 August 2008
Yau On Yee, Annie	25 July 2005	28 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	100,000	100,000
Erwin Steve Huang	25 July 2005	1 August 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	100,000	100,000
Cheung Tse Kin, Michael	25 July 2005	28 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	75,000	75,000
Lai Tsz Mo, Lawrence	25 July 2005	29 July 2005	HK\$1.76 <i>(note 1)</i>	22 August 2005 to 25 July 2009 <i>(note 2)</i>	200,000	200,000

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. 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.

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

As at 31 August 2008, 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	73.25%	–	–	–	–
Blink Technology Limited <i>(note 1)</i>	Deemed interest	–	–	–	–	152,960,914	73.25%
Tse Tat Fung, Tommy <i>(note 1)</i>	Deemed interest	–	–	–	–	152,960,914	73.25%
Prime Investments S.A. <i>(note 2)</i>	Deemed interest	–	–	–	–	152,960,914	73.25%
Rosy Blue Investments S.à.R.L. <i>(note 2)</i>	Deemed interest	–	–	–	–	152,960,914	73.25%
Harshad Ramniklal Mehta <i>(note 2)</i>	Deemed interest	–	–	–	–	152,960,914	73.25%

Notes

1. 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, 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 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 the SFO.

Seduction





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 2008, the number of shares issuable under options granted pursuant to the 2003 Share Option Scheme was 3,737,500 which represented approximately 1.79% 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 2008 were as follows:

Date of grant	Date of acceptance	Exercise price	Exercisable period	Balance in issue at 1 March 2008	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 2008
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)	7,750,000	–	1,750,000 (note 6)	2,300,000	–	3,700,000
28 July 2005	8 August 2005	HK\$1.73 (note 3)	25 August 2005 to 25 July 2009 (note 5)	37,500	–	–	–	–	37,500

Notes

1. Due to the large number of employees participating in the 2003 Share Option Scheme, the relevant information can only be shown within a reasonable range in this Interim Report. For options granted to employees, the options were granted during the underlying periods for acceptance of such options by the employees concerned.
2. The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 25 July 2005 was HK\$1.71, being the date on which the relevant options were offered for grant.
3. The closing price of the Company's shares traded on the Hong Kong Stock Exchange on 28 July 2005 was HK\$1.68, being the date on which the relevant options were offered for grant.
4. As one of the conditions of grant, the 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 Hong Kong Stock Exchange immediately before the date on which the options were exercised during the period was HK\$0.83.

1,750,000 share options have been exercised during the six months ended 31 August 2008.

Saved 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 2008.

Corporate Governance

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

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31 August 2008.

Audit Committee

The Audit Committee, which terms of reference are in compliance with the provisions set out in the CG Code, comprises three members who are all Independent Non-executive Directors of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management regarding auditing, internal control and financial reporting matters including the review of the Company's unaudited interim results for the six months ended 31 August 2008.

Model Code on 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 2008.

By Order of the Board
Yau On Yee, Annie
Chairman

Hong Kong, 18 November 2008



