# TSE SUI LUEN JEWELLERY (INTERNATIONAL) LIMITED
# 謝瑞麟珠寶(國際)有限公司 *

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 0417)**

## ANNOUNCEMENT OF RESULTS FOR 2007/2008

**RESULTS**

The board of directors ("the Board") of Tse Sui Luen Jewellery (International) Limited ("the Company") announces that the consolidated profit attributable to equity holders of the Company for the year ended 29 February 2008 was HK$99,240,000 (2007: HK$55,562,000). The basic earnings per share was HK$0.479 (2007: earnings per share HK$0.268).

**CONSOLIDATED INCOME STATEMENT**
*(Expressed in Hong Kong dollars)*

| | *Note* | **Year ended 29.02.2008** *HK$'000* | Year ended 28.02.2007 *HK$'000* |
|---|---|---|---|
| Turnover | *2* | **1,917,467** | 1,509,851 |
| Cost of sales | | **(898,714)** | (707,985) |
| Gross profit | | **1,018,753** | 801,866 |
| Other revenue | *3* | **7,579** | 5,449 |
| Selling expenses | | **(731,972)** | (577,650) |
| Administrative expenses | | **(126,771)** | (127,243) |
| Other operating expenses | | **–** | (168) |
| Profit from operations | | **167,589** | 102,254 |
| Finance costs | | **(9,857)** | (10,332) |
| Profit on disposal of land and buildings | | **–** | 1,603 |
| Gain on disposal of subsidiaries | | **–** | 1,384 |
| Impairment loss on goodwill | | **–** | (7,002) |
| Impairment loss on land and building | | **(1,825)** | – |
| Negative goodwill on acquisition of additional interest in a subsidiary | | **1,502** | 11,027 |
| Profit from ordinary activities before taxation | *4* | **157,409** | 98,934 |
| Taxation | *5* | **(46,053)** | (24,955) |
| Profit for the year | | **111,356** | 73,979 |
| Attributable to:– | | | |
| Equity holders of the Company | | **99,240** | 55,562 |
| Minority interests | | **12,116** | 18,417 |
| Profit for the year | | **111,356** | 73,979 |
| Dividend | *6* | **2,070** | – |
| Earnings per share | | | |
| Basic | *7(a)* | **47.9 cents** | 26.8 cents |
| Diluted | *7(b)* | **N/A** | N/A |

* *For identification purpose only*

## CONSOLIDATED BALANCE SHEET

| | | 29.02.2008 | | 28.02.2007 | |
|---|---|---|---|---|---|
| | *Note* | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | | | |
| Property, plant and equipment | | | **138,375** | | 130,663 |
| Other financial asset | | | **500** | | 500 |
| Club debenture | | | **–** | | 103 |
| Deferred tax assets | | | **18,883** | | 25,096 |
| | | | **157,758** | | 156,362 |
| **Current assets** | | | | | |
| Inventories | | **865,594** | | 521,589 | |
| Trade and other receivables | *8* | **156,590** | | 143,694 | |
| Current tax recoverable | | **44** | | 71 | |
| Cash at bank and in hand | | **78,998** | | 99,178 | |
| | | **1,101,226** | | 764,532 | |
| **Current liabilities** | | | | | |
| Trade and other payables | *9* | **(524,340)** | | (358,309) | |
| Bank overdrafts – secured | | **(25,804)** | | (18,486) | |
| Bank loans – secured | | **(73,797)** | | (12,800) | |
| Other loans – secured | | **(14,552)** | | (38,135) | |
| Other loans – unsecured | | **(1,782)** | | (1,640) | |
| Obligations under finance leases – current | | **(865)** | | (1,151) | |
| Current tax payable | | **(96,874)** | | (94,824) | |
| | | **(738,014)** | | (525,345) | |
| **Net current assets** | | | **363,212** | | 239,187 |
| **Total assets less current liabilities carried forward** | | | **520,970** | | 395,549 |

| | | 29.02.2008 | | 28.02.2007 | |
|---|---|---|---|---|---|
| | *Notes* | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| **Total assets less current liabilities brought forward** | | | **520,970** | | 395,549 |
| **Non-current liabilities** | | | | | |
| Bank loans – secured | | **(32,320)** | | (38,200) | |
| Other loans – secured | | **(21,514)** | | (36,066) | |
| Other loans – unsecured | | **(312)** | | (2,093) | |
| Obligations under finance leases – non-current | | **(126)** | | (991) | |
| Employee benefit obligations | | **(17,671)** | | (10,836) | |
| Deferred tax liabilities | | **(777)** | | (55) | |
| | | | **(72,720)** | | (88,241) |
| **NET ASSETS** | | | **448,250** | | 307,308 |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | | | **51,766** | | 51,766 |
| Reserves | | | **349,865** | | 223,863 |
| **Total equity attributable to equity holders of the Company** | | | **401,631** | | 275,629 |
| **Minority interests** | | | **46,619** | | 31,679 |
| **TOTAL EQUITY** | | | **448,250** | | 307,308 |

*NOTES:*

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial information was prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

### (b) Basis of preparation of financial information

The measurement basis used in the preparation of the financial information is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

The principal accounting policies and methods of computation used in the preparation of the financial information for the year ended 29 February 2008 are consistent with those adopted in the financial information for the year ended 28 February 2007, except for the adoption of the new and revised HKFRS as explained in (c) below.

A summary of the significant accounting policies adopted by the Group is set out below.

### (c) Adoption of new and revised Hong Kong Financial Reporting Standards

During the current year, the Group has adopted the following amendments to HKFRSs and Interpretations which are effective for accounting periods commencing on or after 1 January 2007:–

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

The adoption of the above amendments, new standards and interpretations has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial information.

### (d) Judgments and estimates

The preparation of financial information in conformity with HKFRSs requires the directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors have considered the development, selection and disclosure of the Group's critical accounting policies and estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are as follows:

*(i) Useful lives and depreciation of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

*(ii) Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment. Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

*(iii) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassesses the estimations at each balance sheet date.

*(iv) Allowance for bad and doubtful trade and other receivables*

The Group determines the allowance for bad and doubtful trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors reassesses the allowance at each balance sheet date.

## 2. TURNOVER

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

## 3. OTHER REVENUE

| | **Year ended 29.02.2008** | Year ended 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income | **468** | 55 |
| Interest income | **491** | 350 |
| Foreign exchange gain | **3,151** | 3,000 |
| Others | **3,469** | 2,044 |
| | **7,579** | 5,449 |

## 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

| | | **Year ended 29.02.2008** ***HK$'000*** | Year ended 28.02.2007 *HK$'000* |
|---|---|---|---|
| **(a)** | **Finance costs** | | |
| | Interest on bank loans and overdrafts | **6,255** | 4,764 |
| | Interest on other loans | **3,483** | 5,374 |
| | Finance charges on obligations under finance leases | **119** | 194 |
| | | **9,857** | 10,332 |
| **(b)** | **Staff costs** | | |
| | Contribution to defined contribution retirement plan | **5,487** | 5,629 |
| | Expense recognised in respect of long service payments | **6,835** | 2,125 |
| | Retirement costs | **12,322** | 7,754 |
| | Equity-settled share option expenses | **316** | 1,909 |
| | Salaries, wages and other benefits | **269,868** | 222,134 |
| | | **282,506** | 231,797 |
| **(c)** | **Other items** | | |
| | Auditors' remuneration | | |
| | – current year provision | **3,298** | 3,121 |
| | – prior year underprovision/(overprovision) | **167** | (22) |
| | Allowance for bad and doubtful debts | **697** | 14,271 |
| | Bad debts written off | **–** | 3 |
| | Cost of inventories sold | **898,714** | 707,985 |
| | Depreciation | **40,060** | 28,851 |
| | Operating leases charges | | |
| | – land and buildings situated in Hong Kong | **66,432** | 66,992 |
| | – land and buildings situated other than in Hong Kong | **12,956** | 9,770 |
| | Loss on disposal of property, plant and equipment | **296** | 168 |
| | (Reversal of provision)/provision for inventories | **(6,200)** | 9,970 |
| | Rentals receivable from properties less direct outgoings of HK$55,000 (2007: HK$14,000) | **(414)** | (41) |

Cost of inventories sold includes HK$51,291,000 (2007: HK$41,956,000) relating to staff costs, depreciation expenses, operating lease charges, which amounts are also included in the respective total amounts disclosed separately above in note 4(b) and 4(c) for each of these types of expenses.

## 5. TAXATION

Taxation in the consolidated income statement represents:

| | **Year ended 29.02.2008** *HK$'000* | Year ended 28.02.2007 *HK$'000* |
|---|---|---|
| **Current tax – Hong Kong profits tax** | | |
| Tax for the year | **6,592** | 11,083 |
| Underprovision in respect of prior years | **209** | 327 |
| | **6,801** | 11,410 |
| **Current tax – overseas** | | |
| Tax for the year | **31,859** | 17,492 |
| Underprovision in respect of prior years | **–** | 248 |
| | **31,859** | 17,740 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **7,393** | (4,195) |
| | **46,053** | 24,955 |

The provision for Hong Kong Profits Tax is calculated at 17.5% (2007 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

## 6. DIVIDEND

A final dividend for the year ended 29 February 2008, of HK$0.01 per share, amounting to a total final dividend of approximately HK$2,070,000 (2007: HK$ Nil) is to be proposed at the forthcoming annual general meeting of the Company. These financial information do not reflect this dividend payable.

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company in the amount of HK$99,240,000 (2007: profit attributable to equity holders of the Company of HK$55,562,000) and 207,063,221 (2007: 207,063,221) ordinary shares in issue during the year.

### (b) Diluted earnings per share

Diluted earnings per share is not shown for the year ended 29 February 2008 and 28 February 2007 as the exercise price of the share options of the Company outstanding during the year was higher than the market price of the Company's ordinary shares immediately before the suspension of trading in the shares of the Company and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

## 8. TRADE AND OTHER RECEIVABLES

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **127,350** | 98,446 |
| Other receivables, deposits and prepayments | **45,208** | 60,519 |
| | **172,558** | 158,965 |
| *Less:* Allowance for bad and doubtful debts (note (c)) | **(15,968)** | (15,271) |
| | **156,590** | 143,694 |

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

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **73,170** | 74,692 |
| 31 to 60 days | **21,299** | 6,306 |
| 61 to 90 days | **2,525** | 1,135 |
| Over 90 days | **15,388** | 2,042 |
| Total trade receivables | **112,382** | 84,175 |
| Other receivables, deposits and prepayments (note (e)) | **44,208** | 59,519 |
| | **156,590** | 143,694 |

Apart from retail customers, the Group allows an average credit period from 30 to 90 days to other customers.

(b) The aged analysis of the trade and other receivables that are neither individually nor collectively considered to be impaired is as follows:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **143,917** | 141,544 |
| Less than 6 months past due | **11,995** | 1,677 |
| Over 6 months past due | **678** | 473 |
| | **156,590** | 143,694 |

Receivables that were neither past due nor impaired relate to a wide range of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over those balances.

The directors consider that trade and other receivables approximate their fair value.

## 8. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Movements in allowance for bad and doubtful debts during the year were as follows:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1 March | **15,271** | 1,000 |
| Impairment losses recognised | **697** | 14,271 |
| 29 February/28 February | **15,968** | 15,271 |

(d) Details of trade and other receivables denominated in different currencies are as follows:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **36,736** | 45,618 |
| Chinese Renminbi | **96,225** | 87,089 |
| United States dollars | **22,965** | 9,768 |
| Others | **664** | 1,219 |
| | **156,590** | 143,694 |

(e) Details of other receivables, deposits and prepayments are as follows:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Others receivables | **9,493** | 16,067 |
| Deposits | **23,583** | 19,843 |
| Prepayments | **11,132** | 23,609 |
| | **44,208** | 59,519 |

## 9. TRADE AND OTHER PAYABLES

(a) Included in trade and other payables are trade payables with the following ageing analysis:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **33,579** | 39,054 |
| 31 to 60 days | **52,392** | 26,435 |
| 61 to 90 days | **45,808** | 20,856 |
| Over 90 days | **220,298** | 100,651 |
| Total trade payables | **352,077** | 186,996 |
| Other payables and accruals *(note (c))* | **172,263** | 171,313 |
| | **524,340** | 358,309 |

The directors consider that trade and other payables approximate their fair values.

9. **TRADE AND OTHER PAYABLES (CONTINUED)**

(b) Details of trade and other payables denominated in different currencies are as follows:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **155,289** | 162,226 |
| Chinese Renminbi | **119,438** | 87,082 |
| United States dollars | **241,767** | 105,721 |
| Others | **7,846** | 3,280 |
| | **524,340** | 358,309 |

(c) Details of other payables and accruals are as follows:–

| | **29.02.2008** | 28.02.2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other payables | **74,126** | 84,303 |
| Customer deposits | **13,431** | 5,925 |
| Provision for liabilities | **19,471** | 23,544 |
| Accruals | **65,235** | 57,541 |
| | **172,263** | 171,313 |

10. **SEGMENT REPORTING**

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of assets is chosen because this is more relevant to the Group in making operating and financial decisions. No business segments analysis of the Group is presented as all the Group's turnover and trading result are generated from the manufacture, sale and marketing of jewellery products.

| | **PRC (including Hong Kong and Macau) Year ended** | | **Others Year ended** | | **Inter-segment elimination Year ended** | | **Consolidated Year ended** | |
|---|---|---|---|---|---|---|---|---|
| | **29.02.2008** | 28.02.2007 | **29.02.2008** | 28.02.2007 | **29.02.2008** | 28.02.2007 | **29.02.2008** | 28.02.2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **1,879,932** | 1,477,688 | **37,535** | 32,163 | **–** | – | **1,917,467** | 1,509,851 |
| Inter-segment revenue | **14,995** | 16,890 | **–** | – | **(14,995)** | (16,890) | **–** | – |
| Other revenue from external customers | **7,038** | 4,828 | **541** | 621 | **–** | – | **7,579** | 5,449 |
| Total | **1,901,965** | 1,499,406 | **38,076** | 32,784 | **(14,995)** | (16,890) | **1,925,046** | 1,515,300 |
| Segment results | **163,902** | 100,145 | **3,687** | 2,109 | | | **167,589** | 102,254 |
| Finance costs | | | | | | | **(9,857)** | (10,332) |
| Profit on disposal of land and buildings | | | | | | | **–** | 1,603 |
| Gain on disposal of subsidiaries | | | | | | | **–** | 1,384 |
| Impairment loss on land and buildings | | | | | | | **(1,825)** | – |
| Impairment loss on goodwill | | | | | | | **–** | (7,002) |
| Negative goodwill on acquisition of additional interest in a subsidiary | | | | | | | **1,502** | 11,027 |
| Taxation | | | | | | | **(46,053)** | (24,955) |
| Profit for the year | | | | | | | **111,356** | 73,979 |

## FINAL DIVIDEND

The Board have declared a final dividend of HK$ one (1) cent per ordinary share of the Company for the year ended 29 February 2008 (2007: Nil) to shareholders whose names appear on the Register of Members of the Company on Tuesday, 29 July 2008. The final dividend will be paid on Friday, 15 August 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of Members of the Company will be closed from Wednesday, 23 July 2008 to Tuesday, 29 July 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged will the Company's share register, Trior Secretaries Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. (Hong Kong Time) on Tuesday, 22 July 2008.

## REVIEW AND OUTLOOK

The Group has continually achieved substantial improvement in its results for the financial year ended 29 February 2008 ("the year") over that achieved by it in the previous financial years.

The improvement was mainly due to (i) the steady expansion of the Group's mainland China retail network that maximized business opportunities in the buoyant market, (ii) the full-year enjoyment of benefits resulted from the acquisition by the Group of an additional 24% interest in our mainland China business during the previous financial year and (iii) the increased market share of TSL in the tourist showroom business resulted from the consolidation of market players and the winning of customers' confidence by TSL in the tourism industry.

During the year, our Hong Kong retail business improved modestly in its financial results notwithstanding its saturated and high-cost market. Organic sales growth was also achieved by the Malaysian retail business through the improved product mix and variety. Moreover, the Group-wide substantial improvement was assisted by the on-schedule completion of the ERP system implementation project in August 2007 and other cost control measures throughout the year.

The Group nevertheless faced challenges in its export business. Due to the sub-prime mortgage loan crisis and the subsequent downturn of the economy in the United States of America, our export business took a cautious approach in expanding its business in the United States and other affected countries. Despite the unstable global market situation, our businesses with certain major export customers had grown steadily with sound improvement.

Highlights of the Group's achievements during the year include:

- The expansion of 22 stores in the mainland China retail network for maximizing the business opportunities arisen from the growing consumer market in China.

- The opening of the first flagship store in The Venetian Macao-Resort-Hotel for anchoring our business in one of the rapidly developing cities in Asia.

- The opening of 2 new stores in Tsuen Wan and Tseung Kwan O for further penetration of our business into the Hong Kong local consumer market.

- As the first retailer to support the 6-month refund policy initiated by Travel Industry Council of Hong Kong in the tourist showroom business.

- The continual refurbishment of retail stores in Hong Kong and China (including showrooms in the Hung Hom headquarter) that aligned the TSL brand image across the regions and improved space management.

- The new and exclusive product launch of “113 SOL”, the 113-facet diamond products carried by one of our showrooms, and the re-launch of the “TSL Estrella Diamond” at the grand opening of the Macau flagship store.

- The successful completion of the ERP system implementation and business process re-engineering project which enabled easy accessibility of accurate and timely business information as well as streamlined business processes.

- The recognition of our entrenched quality service culture of the Group by our business partners, including “FOREVERMARK Ambassador of the Year” and “Best FOREVERMARK Ambassador” of DeBeers Group Marketing won by a Hong Kong frontline staff and a Shanghai frontline staff respectively, and the “Total Quality Service Regime – Top Performer 2007/Annual Quality Service Award” of MTR Property Management won by our Telford Garden store in Hong Kong.

- Various international and local jewellery design awards won by our creative jewellery design team.

Looking ahead, the downturn of the economy in the United States and the damages caused by natural disasters in the mainland China this year have brought short-term impacts to the global economy. The Group, therefore, will take a more cautious approach when making our business decisions in the subsequent financial years. Nonetheless, we believe that the impacts from the natural disasters in China will be transient as the fact that China will become the largest consumer market in the world within the next 5 to 10 years remains unchanged. The Group is still recognizing the Mainland business as its growth engine and hence will invest confidently and yet flexibly according to the coming market changes.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the financial year ended 29 February 2008 the Group achieved (i) a consolidated turnover of $1,917 million (2007:$1,510 million), an increase of 27% from last financial year and (ii) a profit attributable to equity holders of the Company of $99.2 million (2007: $55.6 million). Earnings per share were 47.9 cents (2007: 26.8 cents)

The continuous improvement mainly came from (i) the ongoing strength of retail sentiment in all geographical areas the Group operates and (ii) more specifically, the improved performance and contribution from our Mainland China (“the Mainland”) business and Showroom business.

**Retail Operations in Hong Kong, Mainland and Overseas**

Thanks to the general improvement in retail atmosphere and the steady inflow of Mainland tourists to Hong Kong, the Hong Kong retail business sale grew by 18% from last year. During the year under review, the Group opened 2 new stores in shopping malls respectively in Tsuen Wan and in Tseung Kwan O and 2 counters respectively in Tai Po and Tuen Mun. The Group will continue reviewing the operation and store mix in Hong Kong to better suit the changing shopping habits and our brand positioning. The retail environment in Hong Kong has to face the challenge of increasing rental and staff cost pressures and so we are still maintaining a cautious approach to our investment in this area.

Sales of the Group's Showroom business grew by 49% during the year. The improvement was due to the improvement in service and merchandising internally. The Group has also been successfully benefited from the market consolidation following the tightening of control over the travel industry. The Group has actively participated in the "Trustworthy Tourist Store" initiative of the Travel Industry Council and worked closely with the other authorities to establish new guidelines/standards to protect the interests of tourists shopping in Hong Kong.

The Group opened 22 new stores in the Mainland during the year. Sales from our business in the Mainland have increased 32% with growth being achieved from the strength of the market generally, improved merchandising and our new store openings. The Group sees its Mainland business as being one of its major growth engines going forward and it will continue to invest in this business to capitalize on the market opportunities in the Mainland.

Due to the rapid emergence of Macau as new economic force and tourist destination in Pearl River Delta, the Group has decided to set up a store in phase 2 of the Venetian Macao to enjoy the growing opportunities in this market. We believe that The Venetian Macao will become one of the premier shopping malls and sight-seeing spots for tourists visiting Macau. This store will become our strategic anchor to serve our customers in this growing market.

The Groups export business grew by 14% during the year under review. The orders from United States has slowed down because the economy of United States deteriorates. In the meantime, we have progressively diversified the business away from the US market by continuing to build our European market and by developing new markets by joining the jewellery exhibitions in other emerging markets like the Middle East and Eastern Europe.

Our Malaysian business saw good growth during the year and has enjoyed a very strong customer base due to the outstanding quality of our merchandising.

**Finance**

The Group has adopted certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") in the current period. The impact of these HKFRSs is set out in the financial information.

Capital expenditure including store renovation and expansion, information technology investment and machinery made during the year was approximately $48 million. This was mainly financed from bank borrowings and internal resources.

**Liquidity, Capital Structure and Gearing**

At 29 February 2008, the Group's total borrowings increased to $171.1 million from $149.6 million at 28 February, 2007. Our debt to equity ratio (ratio of total borrowings to total equity) has decreased from 48.7% to 38.2% mainly because of the increase in total equity value resulting from the profit during the year.

As at 29 February 2008, the Group had cash balance of $79 million which in the opinion of directors, should be sufficient for the present working capital requirements.

**Charges on Group Assets**

(1) At 29 February 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 29 February 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) On 27 September 2007, 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"). As at 29 February 2008, the Debts amounted to HK$110,189,000.

**Exchange Rates**

During the year, the transactions of the Group were mainly denominated in local currencies and US dollars. The impact of the fluctuation of foreign exchange rates of these currencies is insignificant to the Group.

**Contingent Liabilities**

(1) At 29 February 2008, the Company has issued guarantees to banks and financial creditors in respect of general banking and other credit facilities extended to certain subsidiaries of the Company amounting to HK$172,029,000 (2007: HK$129,298,000).

(2) As set out in the announcements of the Company dated 3 June 2008, two directors of the Company, and a controller of showroom operation of a subsidiary and a consultant to a subsidiary were convicted by the District Court of Hong Kong of various charges involving offences under the Prevention of Bribery Ordinance, the Crime Ordinance and the Theft Ordinance. The Company has been informed that the two directors who have been convicted have commenced proceedings to appeal the verdict ("the Appeal"). Under the Company's Bye-Laws, the Company may be required to indemnify its directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur in execution of their duty, provided that such indemnity shall not be extended to any matter in respect of, among other things, fraud and dishonesty. The Directors are of the view that they are not in a position to conclude that whether and/or to what extent the Company may be required to indemnify the two directors involved in relation to the Appeal.

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

**Employees**

As at 29 February 2008, the total number of employees of the Group was approximately 3,200. The increase in headcount was mainly in sales and marketing in Mainland China. Employees are rewarded on a performance basis with reference to market rates. Other employee benefits include medical cover and subsidies for job-related continuing education. The Group also has an employee share option scheme. No options were granted pursuant to the scheme during the year. Retail front line staff are provided with formal on-the-job training by internal seniors and external professional trainers. Experience sharing with seniors at in-house seminars and discussion groups enhance intra-departmental communications.

## REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 29 February 2008.

## REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 29 February 2008 have been agreed by the Group's auditors, Moore Stephens, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Moore Stephens in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens on the preliminary announcement.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 3:00 p.m. on Tuesday, 29 July 2008 at Second Floor, Block B, Summit Building, 30 Man Yue Street, Hung Hom, Kowloon, Hong Kong.

## BOOK CLOSE FOR ANNUAL GENERAL MEETING

The Register of Members of the Company will be closed from 23 July 2008 to 29 July 2008 (both dates inclusive) to ascertain shareholders' rights for the purpose of attending and voting at the forthcoming Annual General Meeting. During which period, no transfer of shares will be registered.

## CORPORATE GOVERNANCE

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

The Company is committed to the establishment of good corporate governance practices and procedures. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 29 February 2008, except the following deviations from code provisions A.3.2 of the CG Code:

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

### Audit Committee

The Audit Committee, which terms of reference are posted in the Company's website and which 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 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 Audit Committee meets at least twice a year.

### 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 year ended 29 February 2008.

## 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 year ended 29 February 2008.

At the date of this announcement, the Board comprises:

*Executive Directors:*
Ms. Yau On Yee, Annie
Mr. Erwin Steve Huang
Mr. Cheung Tse Kin, Michael
Mr. Lai Tsz Mo, Lawrence

*Independent Non-executive Directors:*
Mr. Chui Chi Yun, Robert
Mr. Peter George Brown
Mr. Siu Ming Wah

By order of the Board
**Yau On Yee, Annie**
*Chairman*

Hong Kong, 18 June 2008