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## 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: 417)

### ANNOUNCEMENT OF INTERIM RESULTS FOR 2016/2017

FINANCIAL HIGHLIGHTS	Six months ended		
	31 August		
	2016	2015	Change
HK\$'000 (unaudited)	HK\$'000 (unaudited)		
Turnover	1,549,954	1,752,574	-11.6%
Profit from operations	62,318	62,422	-0.2%
Profit attributable to owners of the Company	11,739	15,457	-24.1%
Basic earnings per share	5.6 cents	7.3 cents	-24.1%
Interim dividend	1.5 cents	1.5 cents	0.0%
Total equity attributable to owners of the Company	1,010,152	1,030,803 <sup>†</sup>	-2.0%
Equity attributable to owners of the Company per share	HK\$4.80	HK\$4.90 <sup>†</sup>	-2.0%

<sup>†</sup> figure as at 29 February 2016(audited)

### BUSINESS HIGHLIGHTS

- The consolidated turnover for the period dropped by 11.6% as comparing with the same period in last year.
- PRC business grew steadily which contributed 60% in consolidated turnover for the period while it was 49% for same period in last year.
- Turnover for E-business increased about 5-time as the Group extended its e-business platform during the period.

## RESULTS

The board of directors (the “Board”) of Tse Sui Luen Jewellery (International) Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2016. The interim results for the six months ended 31 August 2016 have been reviewed by the Company’s audit committee (the “Audit Committee”).

### CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE SIX MONTHS ENDED 31 AUGUST 2016

		Six months ended 31 August	
	Notes	2016 HK\$’000 (unaudited)	2015 HK\$’000 (unaudited)
<b>Turnover</b>	4	<b>1,549,954</b>	1,752,574
Cost of sales		<b>(796,253)</b>	(955,303)
<b>Gross profit</b>		<b>753,701</b>	797,271
Other income and (losses)/gains, net		<b>(5,482)</b>	5,379
Selling and distribution expenses		<b>(597,968)</b>	(666,864)
Administrative expenses		<b>(87,933)</b>	(73,364)
<b>PROFIT FROM OPERATIONS</b>		<b>62,318</b>	62,422
Finance costs		<b>(34,419)</b>	(30,607)
<b>PROFIT BEFORE TAX</b>	5	<b>27,899</b>	31,815
Income tax expense	6	<b>(16,180)</b>	(16,415)
<b>PROFIT FOR THE PERIOD</b>		<b>11,719</b>	15,400
<b>ATTRIBUTABLE TO :</b>			
Owners of the Company		<b>11,739</b>	15,457
Non-controlling interests		<b>(20)</b>	(57)
		<b>11,719</b>	15,400
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Basic and diluted	8	<b>5.6 cents</b>	7.3 cents

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 AUGUST 2016**

	<b>Six months ended 31 August</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>PROFIT FOR THE PERIOD</b>	<u>11,719</u>	<u>15,400</u>
<b>OTHER COMPREHENSIVE LOSS</b>		
Other comprehensive loss to be reclassified to profit or loss in subsequent years:		
Exchange differences on translation of foreign operations	<u>(25,600)</u>	<u>(47,712)</u>
<b>OTHER COMPREHENSIVE LOSS FOR THE PERIOD , NET OF TAX</b>	<u>(25,600)</u>	<u>(47,712)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u><b>(13,881)</b></u>	<u><b>(32,312)</b></u>
<b>ATTRIBUTABLE TO :</b>		
Owners of the Company	<u>(13,861)</u>	<u>(32,279)</u>
Non-controlling interests	<u>(20)</u>	<u>(33)</u>
	<u><b>(13,881)</b></u>	<u><b>(32,312)</b></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 31 AUGUST 2016**

	Notes	At 31 August 2016 HK\$'000 (unaudited)	At 29 February 2016 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		138,080	139,441
Intangible assets		99	99
Other asset		500	500
Prepayments and deposits		42,681	43,379
Time deposits		34,884	71,429
Deferred tax assets		54,308	50,692
		<u>270,552</u>	<u>305,540</u>
<b>CURRENT ASSETS</b>			
Inventories		1,627,332	1,607,509
Trade receivables	9	217,335	254,642
Prepayments, deposits and other receivables		157,513	115,517
Tax recoverable		15,721	7,649
Time deposits		163,736	181,891
Cash and cash equivalents		267,354	202,549
		<u>2,448,991</u>	<u>2,369,757</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	10	(347,851)	(271,633)
Other payables and accruals		(242,639)	(244,471)
Derivative financial instruments		-	(3,648)
Gold loans	11	(79,295)	(98,849)
Interest-bearing bank and other borrowings		(614,860)	(610,925)
Convertible bonds		(359,159)	(12,500)
Dividend payable		(5,469)	-
Finance lease payables		(408)	(1,632)
Tax payable		(22,133)	(23,967)
		<u>(1,671,814)</u>	<u>(1,267,625)</u>
<b>NET CURRENT ASSETS</b>		<u>777,177</u>	<u>1,102,132</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,047,729</u>	<u>1,407,672</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**  
**AT 31 AUGUST 2016**

	At 31 August 2016 HK\$'000 (unaudited)	At 29 February 2016 HK\$'000 (audited)
<b>NON-CURRENT LIABILITIES</b>		
Other payables and accruals	(6,447)	(6,656)
Convertible bonds	-	(336,041)
Finance lease payables	-	(88)
Employee benefit obligations	(10,922)	(17,863)
Deferred tax liabilities	(20,353)	(16,346)
	<u>(37,722)</u>	<u>(376,994)</u>
<b>NET ASSETS</b>	<b><u>1,010,007</u></b>	<b><u>1,030,678</u></b>
<b>EQUITY</b>		
<b>Equity attributable to owners of the Company</b>		
Issued capital	(52,584)	(52,584)
Reserves	(957,568)	(978,219)
	<u>(1,010,152)</u>	<u>(1,030,803)</u>
<b>Non-controlling interests</b>	<u>145</u>	<u>125</u>
<b>TOTAL EQUITY</b>	<b><u>(1,010,007)</u></b>	<b><u>(1,030,678)</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

This interim financial report 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 "Stock Exchange" and the "Listing Rules", respectively) and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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 2016. These condensed consolidated 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") (which include all HKFRSs, HKASs and Interpretations).

These condensed consolidated financial statements have been prepared under historical cost convention, except for derivative financial instruments and gold loans which have been measured at fair value.

These condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group's financial statements for the year ended 29 February 2016, except for the adoption of the following revised HKFRSs which become effective for accounting periods beginning on or after 1 March 2016 as disclosed in note 2 below.

## 2. Changes in accounting policies and disclosures

The Group has adopted the following revised standards for the first time for the current period's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Presentation of financial statements: Disclosure initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

### 3a. Operating segment information

For management purposes, the Group is organised into business units based on business nature and has three reportable operating segments as follows:

- (a) Retail Business (including Hong Kong, Macau, Mainland China and Malaysia);
- (b) Wholesale Business; and
- (c) Other Businesses.

Retail Business includes direct retail sale of jewellery products to end consumers through the physical outlets carrying the trademark of TSL|謝瑞麟. It also includes the service fee income received from provision of retail management services to other retailers.

Wholesale Business includes wholesale sale of jewellery products to customers.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that finance costs and income tax expense are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

### 3a. Operating segment information (continued)

Six months ended 31 August 2016	Retail Business HK\$'000 (unaudited)	Wholesale Business HK\$'000 (unaudited)	Other Businesses HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
<b>Segment revenue:</b>				
Sales to external customers	1,297,745	186,474	52,116	1,536,335
Other revenue	13,619	-	-	13,619
	<u>1,311,364</u>	<u>186,474</u>	<u>52,116</u>	<u>1,549,954</u>
<b>Segment results</b>	<b>20,417</b>	<b>30,754</b>	<b>11,147</b>	<b>62,318</b>
<i>Reconciliation:</i>				
Finance costs				(34,419)
Income tax expense				(16,180)
Profit for the period				<u>11,719</u>
Six months ended 31 August 2015	Retail Business HK\$'000 (unaudited)	Wholesale Business HK\$'000 (unaudited)	Other Businesses HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
<b>Segment revenue:</b>				
Sales to external customers	1,547,922	176,659	13,499	1,738,080
Other revenue	14,494	-	-	14,494
	<u>1,562,416</u>	<u>176,659</u>	<u>13,499</u>	<u>1,752,574</u>
<b>Segment results</b>	<b>42,477</b>	<b>27,991</b>	<b>(8,046)</b>	<b>62,422</b>
<i>Reconciliation:</i>				
Finance costs				(30,607)
Income tax expense				(16,415)
Profit for the period				<u>15,400</u>

### 3b. Geographical information

*Revenue from external customers*

	Six months ended 31 August	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong and Macau	592,084	867,629
Mainland China	934,093	860,190
Other countries	23,777	24,755
	<u>1,549,954</u>	<u>1,752,574</u>

The revenue information above is based on the location of the customers.

#### 4. Turnover

The principal activities of the Group are the manufacture, sale and marketing of jewellery products and the provision of service. Turnover represents the sales value of jewellery products sold to customers, net of value added tax and discount, and service income. An analysis of turnover is as follows:

	<b>Six months ended 31 August</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Sales of jewellery products	<b>1,536,335</b>	1,738,080
Service income	<b>13,619</b>	14,494
	<b><u>1,549,954</u></b>	<b><u>1,752,574</u></b>

#### 5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	<b>Six months ended 31 August</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Cost of goods sold*	<b>798,444</b>	954,385
(Reversal of provision)/provision for impairment of inventories	<b>(2,191)</b>	918
Depreciation	<b>28,582</b>	28,013
Minimum lease payments in respect of operating leases**	<b>94,723</b>	108,268
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	<b>292,505</b>	277,225
Equity-settled share option expense	<b>(1,321)</b>	1,102
Pension scheme contributions***	<b>4,107</b>	4,573
	<b><u>295,291</u></b>	<b><u>282,900</u></b>
Equity-settled share option expense to service providers	-	155
Fair value loss/(gain) on gold loans designated at fair value through profit or loss ****	<b>9,788</b>	(106)
Fair value loss on derivative financial instruments ****	<b>806</b>	-
(Gain)/loss on disposal of items of property, plant and equipment	<b>(21)</b>	39
Foreign exchange differences, net	<b><u>1,174</u></b>	<b><u>1,189</u></b>

\* Cost of goods sold includes HK\$47,059,000 (2015: HK\$46,965,000) relating to employee benefit expense, depreciation and operating lease payments, which are also included in the respective type of expenses disclosed separately above.

## 5. Profit before tax (continued)

\*\* Not including commission payments in relation to sales counters in department stores and shopping malls.

\*\*\* At 31 August 2016, there were no forfeited contributions available to the Group to reduce its contributions to pension scheme in future years (2015: Nil).

\*\*\*\* These amounts are included in "Other income and (losses)/gains, net" in the consolidated statement of profit or loss. The purpose of the above gold loans and derivative financial instruments entered into by the Group is to manage the Group's gold price exposure. Such loans and contracts did not meet the criteria for hedge accounting.

## 6. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	<b>Six months ended 31 August</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Current – Hong Kong	426	1,774
Current – Other than Hong Kong	15,543	16,558
Deferred	211	(1,917)
	<u>16,180</u>	<u>16,415</u>

## 7. Dividend

	<b>Six months ended 31 August</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interim dividend of HK\$0.015 (2015: HK\$0.015) per ordinary share declared	3,155	3,155
2014/15 approved final dividend of HK\$0.037 per ordinary share	-	7,782
2015/16 approved final dividend of HK\$0.026 per ordinary share	5,469	-
	<u>8,624</u>	<u>10,937</u>

The interim dividend was not recognised as a liability as at 31 August 2016 and 2015 because it was declared after the end of the reporting period.

## 8. Earnings per share attributable to owners of the company

The calculation of basic earnings per share amount is based on the profit for the period attributable to owners of the Company of HK\$11,739,000 (2015: HK\$15,457,000), and the weighted average number of ordinary shares of 210,336,221 (2015: 210,336,221) in issue during the period.

No adjustment has been made to basic earnings per share amounts presented for the periods ended 31 August 2016 and 2015 in respect of a dilution as the impact of the share options and convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

## 9. Trade receivables

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	<b>At 31 August 2016 HK\$'000 (unaudited)</b>	<b>At 29 February 2016 HK\$'000 (audited)</b>
Within 1 month	<b>195,982</b>	234,656
1 to 2 months	<b>6,526</b>	9,177
2 to 3 months	<b>5,216</b>	2,784
Over 3 months	<b>9,611</b>	8,025
	<b><u>217,335</u></b>	<b><u>254,642</u></b>

The Group's retail sales are normally made on cash basis. Credit card receivables from financial institutions in respect of retail sales are aged within one month. Apart from retail customers, the Group allows an average credit period from 30 to 90 days to other customers. Trade receivables are non-interest-bearing in general.

## 10. Trade payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>At 31 August 2016 HK\$'000 (unaudited)</b>	<b>At 29 February 2016 HK\$'000 (audited)</b>
Within 1 month	<b>85,508</b>	77,969
1 to 2 months	<b>78,160</b>	73,069
2 to 3 months	<b>67,622</b>	37,419
Over 3 months	<b>116,561</b>	83,176
	<b>347,851</b>	271,633

The trade payables are non-interest-bearing.

## 11. Gold loans

	<b>At 31 August 2016 HK\$'000 (unaudited)</b>	<b>At 29 February 2016 HK\$'000 (audited)</b>
Secured gold loans	<b>46,721</b>	74,214
Unsecured gold loans	<b>32,574</b>	24,635
	<b>79,295</b>	98,849
Contracted interest rate	<b>3.0% – 4.0%</b>	3.0% – 5.2%
Original maturity	<b>within 1 year</b>	within 1 year

The amounts represent borrowings from banks and the amounts payable are pegged with gold prices.

As at 31 August 2016, the gold loans of HK\$46,721,000 (at 29 February 2016: HK\$74,214,000) were secured by several pledged time deposits of the Group totalling HK\$43,314,000 (at 29 February 2016: HK\$54,238,000) as disclosed in note 12(b) below.

Gold loans are borrowed to reduce the impact of fluctuation of gold prices on gold inventories. However, the criteria for hedge accounting are not fully met. Gold loans are designated as financial liabilities at fair value through profit or loss as they are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management and investment strategy, and information about the gold loans is provided on that basis to the Group's top management.

## **12. Pledge of assets**

- (a) The Group entered into banking facility arrangements with two banks pursuant to which certain land and buildings in Hong Kong with aggregate carrying value as at 31 August 2016 of HK\$52,770,000 (at 29 February 2016: HK\$53,678,000) are mortgaged by way of a first legal charge, as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the banks.
- (b) As at 31 August 2016, time deposits of the Group denominated in RMB and totalling equivalent to HK\$43,314,000 (at 29 February 2016: HK\$54,238,000) have been pledged to secure several gold loan contracts outstanding at the end of the reporting period.
- (c) As at 31 August 2016, time deposits of the Group denominated in RMB and totalling equivalent to HK\$155,306,000 (at 29 February 2016: HK\$179,558,000) have been pledged to secure standby letters of credit relating to a cross border treasury arrangement.

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of 1.5 HK cents per ordinary share of the Company for the six months ended 31 August 2016 (2015: 1.5 HK cents per ordinary share) to shareholders whose names appear on the Register of Members of the Company on Friday, 18 November 2016. The interim dividend will be paid on Wednesday, 23 November 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Thursday, 17 November 2016 to Friday, 18 November 2016, both days inclusive, during which period no transfer of shares will be registered. 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. (Hong Kong Time) on Wednesday, 16 November 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overall Financial results

For the first half of the financial year 2016/2017 (the "First Half"), the Group's sales turnover decreased by 11.6% from HK\$1,753 million to HK\$1,550 million. The profit attributable to owners of the Company declined by 24.1% from HK\$15.5 million to HK\$11.7 million. Earnings per share attributable to owners of the Company were 5.6 HK cents (2015: 7.3 HK cents per share).

The decline in sales and profit attributable to owners of the Company in the First Half was mainly attributable to a significant year-on-year drop in retail sales activity in Hong Kong resulting from a continued reduction in the number of tourists visiting from Mainland China. We believe that the reduction in the number of tourists visiting Hong Kong from Mainland China and also their reduced consumption sentiment was mainly due to the comparatively stronger Hong Kong dollar and the ongoing uncertainties being experienced in both the global and local economic and political arenas. On a more positive note, we are pleased to report that the Group's overall performance was buoyed by the encouraging growth of our Mainland China businesses, especially our franchise business.

### Review and outlook

#### Retailing Business

##### *Hong Kong and Macau*

As mentioned above, in the First Half, our Hong Kong & Macau businesses witnessed a continuation in the drop of the number of tourists visiting from Mainland China together with a weakening in their overall consumption sentiment, all of which conspired to result in a decrease in overall tourist and other customer's spending in these markets. In addition, due to an increase in the gold price of more than 6.9% during the First Half (due to uncertainties in the global economy and the impact of "Brexit"), the total weight of gold sold slipped by almost 27.0%. As a result, the sales turnover in Hong Kong and Macau decreased by 32.6% and same store sales growth for all businesses in the regions decreased 31.4% during the First Half.

In order to offset the effects of the above and to enable the Group to expand sales by exploring new consumer groups and attracting more market attention, the Group introduced limited-time offers on its gold products and developed a number of new products with the aim of enriching our product collections, customer experience as well as to better cater to our different customers' needs.

An example of the above is the Nova collection which was one of the Group's new jewellery design that was positioned to be good value for money and to appeal to the "office lady" clientele. In addition, to reinforce the Group's brand positioning as a wedding expert, our Park Lane flagship store was transformed into a wedding concept jewellery store with a wedding pop-up corner. This project has received a warm reception by wedding customers since its launch in August 2016.

Given the challenging market situation, the Group will keep reviewing and adjusting its store network in Hong Kong in order to reduce its operating costs and to better reach and serve its

customers. The renewal of tenancy agreements for our retail shops will also be critically examined to ensure that it is strategically and commercially sensible. During the First Half, there was a downward rental adjustment for shop leases that came up for renewal. Rental expenditure for our Hong Kong and Macau shops dropped by 14.4% in the First Half. Subject to the availability of appropriate locations and a reasonable level of rental expenses, we target to open two new retail stores this year in order to broaden our store network in Hong Kong and maintain a good mix of attractive locations to serve our customers.

### *Mainland China*

Our retail business in Mainland China grew by 5.0% during the First Half with same store sales growth increasing by 1.5% during this same period. This business accounted for 44.9% of the Group's total turnover.

During the First Half, our franchised store business in Mainland China continued to expand. 16 new stores were opened under the Group's franchising model, representing a net increase of franchised stores from 83 to 98 which, when coupled with our 197 self-operated stores, meant the Group had 295 stores in total in Mainland China extending its footprint to 105 cities. The Group will regularly review its store network and increase the store opening pace to better reach and serve our customers.

The Group continues to put more focus on the development and expansion of our end-user market and on our unique brand positioning of quality design and craftsmanship. The Group will also continue to explore the possibility of further cooperations with various fashion or jewellery industry participants with a view to offering our customers more unique lines of jewellery products.

The Group believes that the appetite for luxury jewellery for personal use in Mainland China by the rising middle class will remain strong. The rising disposable income, in particular among the female population, and the rising women's job market participation rate, is the strong force behind this belief.

### *Malaysia*

Our Malaysia retail business dropped by 8.4% during the First Half. The Group seized an opportunity to open a brand new retail shop in Subang Jaya, Selangor in June 2016 so as to enhance the sales network in Malaysia. Looking ahead, the Group remains optimistic but at the same time prudent towards the growth prospects of this business. Should the opportunity arise, it will seek to open another one to two more stores in Malaysia in the forthcoming year.

## **Wholesale Business**

As previously mentioned, 16 new stores were opened under the Group's franchising model during the First Half bringing the total number of franchised stores to 98 as at 31 August 2016. The Group will continue to explore more opportunities to work with local business partners to facilitate a more rapid growth of the Group's franchise store sales network. The Group is looking forward to

increasing its franchise sales network and shop opening momentum shall be maintained in Mainland China in the forthcoming years.

### **Other Business**

The Group further extended its e-business platform during the First Half with the result that turnover for this period increased by 5 times when compared with turnover achieved in the same period last year. The Group will continue to explore more new channels to complement its existing e-business platform and the Group's brand.

The Group expects that its e-business channel will be able to maintain this high growth rate in the second half of this year.

### **Financial Structure**

Capital expenditure, comprising mainly store renovation and expansion, furniture & fixtures and machinery, incurred during the First Half amounted to approximately HK\$31 million (2015: HK\$23 million), which was mainly financed by borrowings and funds generated from internal resources.

As at 31 August 2016, the Group's interest-bearing liabilities decreased to HK\$1,054 million from HK\$1,060 million as at 29 February 2016. Net borrowings (total interest-bearing liabilities less cash and cash equivalent and time deposits) decreased from HK\$604 million to HK\$588 million.

The net gearing ratio (the ratio of total interest-bearing liabilities (less cash and cash equivalents and time deposits) to total equity) slightly decreased from 59% to 58% during the First Half and is at a healthy level. All borrowings of the Group are denominated in Hong Kong dollars or RMB. Interest on bank borrowings is calculated on either the inter-bank interest rate or the prime rate or the benchmark interest rate while interest on convertible bonds is fixed.

As at 31 August 2016, the Group had time deposits and cash and bank balances and undrawn banking facilities of approximately HK\$466 million and HK\$173 million respectively which, in the opinion of the directors, should be sufficient to meet the Group's present working capital requirements

On 13 September 2016, certain subsidiaries of the Company as borrowers together with the Company as guarantor entered into a five-year syndicated loan facilities agreement with four leading international financial institutions. Pursuant to which term loan facilities in the aggregate amount of HK\$573 million, inclusive of an exercised greenshoe option upside of HK\$23 million, has been granted to the borrowers for a term of 5 years from the date of the first utilisation of such facilities. The board of directors of the Company is of the opinion that entering into this facilities agreement provides a stabilized basis of general working capital to the Group.

## **Exchange Rates**

During the First Half, the transactions of the Group were mainly denominated in local currencies and United States dollars. The impact of any fluctuation in the exchange rate of these currencies to the Group is minimal.

## **Charge on group assets and Contingent Liabilities**

- (a) The Group entered into banking facility arrangements with two banks pursuant to which certain land and buildings in Hong Kong with aggregate carrying value as at 31 August 2016 of HK\$52,770,000 (at 29 February 2016: HK\$53,678,000) are mortgaged by way of a first legal charge, as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the banks.
- (b) As at 31 August 2016, time deposits of the Group denominated in RMB and totalling equivalent to HK\$43,314,000 (at 29 February 2016: HK\$54,238,000) have been pledged to secure several gold loan contracts outstanding at the end of the reporting period.
- (c) As at 31 August 2016, time deposits of the Group denominated in RMB and totalling equivalent to HK\$155,306,000 (at 29 February 2016: HK\$179,558,000) have been pledged to secure standby letters of credit relating to a cross border treasury arrangement.

The Group did not have any material contingent liabilities not provided for in the financial statements as at 31 August 2016.

## **Human Resources**

As at 31 August 2016, the total number of employees of the Group was approximately 3,390 (29 February 2016: 3,420). The change was mainly due to normal staff turnover, minor headcount adjustment of sales teams in Hong Kong and delayed recruitment in light of the uncertain business environment. There were no major changes in human resource policies.

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. Retail frontline staff are provided with formal on-the-job training by internal senior staff and external professional trainers. There are discussion forum and in-house seminars for experience sharing.

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

## **REVIEW OF UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 31 August 2016 (the "Reporting Period").

## **CORPORATE GOVERNANCE**

### **Compliance with the Corporate Governance Code of the Listing Rules**

The Company is committed to the establishment of good governance practices and procedures. During the Reporting Period, the Company has applied the principles and complied with all of the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules, except for the deviation of code provision A.2.1 of the CG Code as expressly stated below.

#### **Code provision A.2.1**

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and clearly established and set out in writing. During the Reporting Period, the roles of the Chairman and the Chief Executive Officer of the Company were performed by Ms. Yau On Yee, Annie. The Board considered that the current management structure had operated efficiently. According to the Company’s practice, all major strategic decisions are taken by the Board, or relevant committee of the Board, as duly constituted.

#### **Audit Committee**

The Audit Committee comprises three Independent Non-executive Directors of the Company, namely, Mr. Chui Chi Yun, Robert, Mr. Chan Yue Kwong, Michael and Mr. Chow Chee Wai, Christopher. Its terms of reference are in compliance with the provisions set out in the CG Code.

The Audit Committee has reviewed the Company’s unaudited consolidated financial statements and interim report for the Reporting Period, including the accounting principles and practices adopted by the Group, and discussed with management regarding auditing, internal control and financial reporting matters.

#### **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 Reporting Period.

## **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 Reporting Period.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2016/2017 INTERIM REPORT**

The interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.tslj.com](http://www.tslj.com). The 2016/2017 Interim Report will be despatched to the shareholders and published on the above websites.

By order of the Board  
**Tse Sui Luen Jewellery (International) Limited**  
**YAU On Yee, Annie**  
*Chairman*

Hong Kong, 27 October 2016

At the date of this announcement, the Board comprises:

*Executive Directors:*

Ms. YAU On Yee, Annie

Ms. NG Yi Kum, Estella

*Non-executive Directors:*

Mr. Erwin Steve HUANG

Mr. WANG Guosheng

*Independent Non-executive Directors:*

Mr. CHUI Chi Yun, Robert

Mr. CHAN Yue Kwong, Michael

Mr. CHOW Chee Wai, Christopher