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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 THE SIX MONTHS ENDED 30 SEPTEMBER 2018

FINANCIAL HIGHLIGHTS

	Six months ended		
	30 September 2018 HK$'000 (unaudited)	31 August 2017 HK$'000 (unaudited)	Change
Turnover	**1,910,035**	1,733,498	10.2%
Profit from operations	**60,640**	51,012	18.9%
Profit attributable to owners of the Company	**24,269**	17,474	38.9%
Basic earnings per share	**9.8 HK Cents**	7.1 HK Cents	38.0%
Interim dividend	**4.8 HK Cents**	2.1 HK Cents	128.6%
Total equity attributable to owners of the Company	**1,031,015**	1,152,834†	-10.6%
Equity attributable to owners of the Company per ordinary share	**HK$4.16**	HK$4.67†	-10.9%

†*figure as at 31 March 2018(audited)*

BUSINESS HIGHLIGHTS

- The consolidated turnover for the period increased by 10.2% as compared to the six months ended 31 August 2017 in last year.
- Profit attributable to owners of the Company for the period increased by 38.9% as compared to the six months ended 31 August 2017 in last year.

* *For identification purpose only*

RESULTS

The board of directors (the "Board") of Tse Sui Luen Jewellery (International) Limited (the "Company") announces that the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2018 (the "Period"). The interim results for the Period have been reviewed by the Company's audit committee (the "Audit Committee").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

		Six months ended	
	Notes	**30 September 2018 HK$'000 (unaudited)**	31 August 2017 HK$'000 (unaudited)
Turnover	4	**1,910,035**	1,733,498
Cost of sales		**(1,166,864)**	(1,021,263)
Gross profit		**743,171**	712,235
Other income and (losses)/gains, net		**(2,649)**	11,565
Selling and distribution expenses		**(589,366)**	(591,247)
Administrative expenses		**(90,516)**	(81,541)
PROFIT FROM OPERATIONS		**60,640**	51,012
Finance costs		**(20,913)**	(21,548)
PROFIT BEFORE TAX	5	**39,727**	29,464
Income tax expense	6	**(15,542)**	(12,002)
PROFIT FOR THE PERIOD		**24,185**	17,462
ATTRIBUTABLE TO :			
Owners of the Company		**24,269**	17,474
Non-controlling interests		**(84)**	(12)
		24,185	17,462
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	8	**9.8 HK cents**	7.1 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	Six months ended	
	30 September 2018	31 August 2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD	**24,185**	17,462
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent years:		
Exchange differences on translation of foreign operations	**(127,300)**	70,281
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(127,300)**	70,281
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(103,115)**	87,743
ATTRIBUTABLE TO :		
Owners of the Company	**(102,995)**	87,755
Non-controlling interests	**(120)**	(12)
	(103,115)	87,743

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2018

	Notes	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**170,276**	140,117
Intangible assets		**99**	99
Other asset		**500**	500
Prepayments and deposits		**56,668**	38,398
Deferred tax assets		**54,789**	57,784
		282,332	236,898
CURRENT ASSETS			
Inventories		**1,468,443**	1,641,873
Trade receivables	9	**156,008**	189,218
Prepayments, deposits and other receivables		**151,285**	154,125
Tax recoverable		**14,849**	11,163
Time deposits		**47,727**	52,500
Cash and cash equivalents		**293,338**	268,073
		2,131,650	2,316,952
CURRENT LIABILITIES			
Trade payables	10	**(195,627)**	(274,293)
Other payables and accruals		**(355,810)**	(291,739)
Gold loans	11	**(50,400)**	-
Interest-bearing bank and other borrowings		**(374,550)**	(376,563)
Finance lease payables		**(661)**	(643)
Tax payable		**(14,399)**	(16,579)
		(991,447)	(959,817)
NET CURRENT ASSETS		**1,140,203**	1,357,135
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,422,535**	1,594,033

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AT 30 SEPTEMBER 2018

	Note	**At 30 September 2018 HK$'000 (unaudited)**	At 31 March 2018 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		**(7,093)**	(4,720)
Interest-bearing bank and other borrowings		**(358,440)**	(408,972)
Finance lease payables		**(344)**	(680)
Employee benefit obligations		**(9,766)**	(9,766)
Deferred tax liabilities		**(16,017)**	(17,081)
		(391,660)	(441,219)
NET ASSETS		**1,030,875**	1,152,814
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	**(61,989)**	(61,709)
Reserves		**(969,026)**	(1,091,125)
		(1,031,015)	(1,152,834)
Non-controlling interests		**140**	20
TOTAL EQUITY		**(1,030,875)**	(1,152,814)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

These interim consolidated financial statements have 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 ("HKICPA").

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 thirteen months ended 31 March 2018. These interim 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 interim consolidated financial statements have been prepared under historical cost convention, except for gold loans which have been measured at fair value.

The interim consolidated financial statements and the related notes presented for the current period covered a six-month period from 1 April 2018 to 30 September 2018 while the corresponding comparative amounts shown for the interim consolidated statement of profit or loss, the interim consolidated statement of comprehensive income and the related notes covered a six-month period from 1 March 2017 to 31 August 2017, which, as a result, may not be comparable with amounts shown for the current period.

These interim consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s financial statements for the thirteen months ended 31 March 2018, except for the adoption of the following revised HKFRSs which become effective for accounting periods beginning on or after 1 April 2018 as disclosed in note 2 below.

2. Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current Period's consolidated financial statements:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the impact of the adoption of HKFRS 15 as further explained below, the adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

The following table sets out a summary of adjustments to the opening balances of financial statement line items of the consolidated statement of financial position as at 1 April 2018 upon the adoption of HKFRS 15.

Consolidated statement of financial position (extract)	Balance as at 31 March 2018 as originally presented HK$'000	Adjustments due to HKFRS 15 HK$'000	Balance as at 1 April 2018 Restated HK$'000
Current assets			
Inventories	1,641,873	2,635	1,644,508
Prepayments, deposits and other receivables	154,125	72	154,197
Current liabilities			
Other payables and accruals	(291,739)	(6,035)	(297,774)
Equity			
Retained profits	(696,654)	3,328	(693,326)

2. Changes in accounting policies and disclosures (continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

HKFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted HKFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 April 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at that date. The Group elected to apply the standard to all contracts as at 1 April 2018.

The cumulative effect of initially applying HKFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained profits. Therefore, the comparative information was not restated and continues to be reported under HKAS 18 and related Interpretations.

The effect of adopting HKFRS 15 as at 1 April 2018 is shown in the table on page 7.

2. Changes in accounting policies and disclosures (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Set out below, are the amounts by which each financial statements line item is affected as at and for the period ended 30 September 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 did not have a material impact on other comprehensive income or the Group’s operating, investing and financing cash flows. The first column shows what the amounts would have been had HKFRS 15 not been adopted and the third column shows the amounts prepared under HKFRS 15:

Consolidated statement of profit or loss for the period ended 30 September 2018 (extract)	Before adoption of HKFRS 15 HK$’000	Effect of adopting HKFRS 15 HK$’000	As reported HK$’000
Sales of jewellery products	1,891,222	(4,355)	1,886,867
Cost of sales	(1,169,191)	2,327	(1,166,864)
Consolidated statement of financial position as at 30 September 2018 (extract)			
Current assets			
Inventories	1,466,116	2,327	1,468,443
Prepayments, deposits and other receivables	151,224	61	151,285
Current liabilities			
Other payables and accruals	(351,394)	(4,416)	(355,810)
Equity			
Retained profits	(719,623)	2,028	(717,595)

The Group’s contracts with customers for the sales of jewellery products generally include one performance obligation. The Group has concluded that revenue from sales of jewellery products should be recognized at the point of time when control of the asset is transferred to the customer, generally on delivery of the jewellery. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition. However, the amount of revenue to be recognized was affected, as noted below.

(a) Variable consideration - right of return

Certain return schemes are included in group policy. Prior to the adoption of HKFRS 15, the Group recognized revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

Under HKFRS 15, rights of return give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

2. **Changes in accounting policies and disclosures (continued)**

HKFRS 15 Revenue from Contracts with Customers (continued)

(a) Variable consideration - right of return (continued)

Under HKFRS 15, the consideration received from the customers is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in HKFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Group made provision for a refund liability and an asset for the right to recover products from a customer with the corresponding value-added tax in other payables and accruals, inventories and prepayments, deposits and other receivables respectively in the consolidated statement of financial position.

(b) Customer loyalty programmes

The Group maintains loyalty points programmes within its retail shops in Hong Kong and the People's Republic of China (the "PRC"), which allow customers to accumulate point award credits upon purchase of goods in the shops and joining the programmes. The point award credits can then be redeemed for goods or other gifts, subject to certain terms and conditions. Prior to adoption of HKFRS 15, the loyalty points programmes offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty point programmes using the fair value of award credits granted for which they could be redeemed and recognition of deferred revenue in relation to award credits granted but not yet redeemed or expired. The Group concluded that under HKFRS 15, the loyalty points programmes give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty credits awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty points programs compared with that before adoption of HKFRS 15 was not significant and thus, no adjustment was made to the opening balance of retained profits as at 1 April 2018.

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.

Other Business includes business other than the above.

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 30 September 2018	**Retail Business HK$'000 (unaudited)**	**Wholesale Business HK$'000 (unaudited)**	**Other Businesses HK$'000 (unaudited)**	**Total HK$'000 (unaudited)**
Segment revenue:				
Sales to external customers	**1,443,427**	**372,485**	**70,955**	**1,886,867**
Other revenue	**23,168**	**-**	**-**	**23,168**
	1,466,595	**372,485**	**70,955**	**1,910,035**
Segment results	**38,658**	**66,962**	**13,503**	**119,123**
Reconciliation:				
Unallocated expenses				**(58,483)**
Finance costs				**(20,913)**
Income tax expense				**(15,542)**
Profit for the Period				**24,185**

Six months ended 31 August 2017	Retail Business HK$'000 (unaudited) (restated)	Wholesale Business HK$'000 (unaudited) (restated)	Other Businesses HK$'000 (unaudited) (restated)	Total HK$'000 (unaudited) (restated)
Segment revenue:				
Sales to external customers	1,321,126	318,992	73,845	1,713,963
Other revenue	19,535	-	-	19,535
	1,340,661	318,992	73,845	1,733,498
Segment results	48,692	53,114	537	102,343
Reconciliation:				
Unallocated expenses				(51,331)
Finance costs				(21,548)
Income tax expense				(12,002)
Profit for the period				17,462

3b. Geographical information

Revenue from external customers

	Six months ended	
	30 September	31 August
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Hong Kong and Macau	**712,198**	631,810
Mainland China	**1,167,716**	1,075,076
Other countries	**30,121**	26,612
	1,910,035	1,733,498

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:

	Six months ended	
	30 September	31 August
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Sales of jewellery products	**1,886,867**	1,713,963
Service income	**23,168**	19,535
	1,910,035	1,733,498

5. Profit before tax

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

	Six months ended	
	30 September 2018	31 August 2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of goods sold*	**1,170,214**	1,019,681
(Reversal of provision)/provision for impairment of inventories	**(3,350)**	1,582
Depreciation	**26,881**	26,618
Minimum lease payments in respect of operating leases**	**107,304**	107,153
Employee benefit expense (including directors' remuneration):		
Wages, salaries and other benefits	**317,133**	277,431
Pension scheme contributions***	**3,858**	3,592
	320,991	281,023
Fair value gain on gold loans designated at fair value through profit or loss ****	**(524)**	(132)
Loss/(gain) on disposal of items of property, plant and equipment	**1,172**	(2)
Foreign exchange differences, net	**5,919**	(2,752)

* Cost of goods sold includes HK$50,078,000 (2017: HK$41,467,000) relating to employee benefit expense, depreciation and operating lease payments, which are also included in the respective type of expenses disclosed separately above.

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

*** At 30 September 2018, there were no forfeited contributions available to the Group to reduce its contributions to pension scheme in future years (31 August 2017: Nil).

**** These amounts are included in "Other income and (losses)/gains, net" in the interim consolidated statement of profit or loss. The purpose of the above gold loans entered into by the Group is to manage the Group's gold price exposure. Such loans 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% (2017: 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.

	Six months ended	
	30 September 2018	31 August 2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current – Hong Kong	**1,405**	2,607
Current – Other than Hong Kong	**12,718**	11,807
Deferred	**1,419**	(2,412)
	15,542	12,002

7. Dividend

	Six months ended	
	30 September 2018	31 August 2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Interim dividend of HK$0.048 (2017/18 first interim dividend: HK$0.021) per ordinary share declared	**11,902**	5,170
2017/18 approved second dividend of HK$0.073 per ordinary share	**18,019**	-
2016/17 approved final dividend of HK$0.0375 per ordinary share	-	7,888
	29,921	13,058

The interim dividend was not recognised as a liability as at 30 September 2018 because it was declared after the end of the Period.

The Board resolved that the interim dividend be satisfied wholly in the form of an allotment of scrip shares. The shareholders of the Company will be given the option of receiving the interim dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares. The arrangement was subject to the Stock Exchange's granting the listing of and permission to deal in the scrip shares issued in respect of the interim dividend.

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$24,269,000 (2017: HK$17,474,000), and the weighted average number of ordinary shares of 247,516,271 (31 August 2017: 245,391,878) in issue during the Period.

No diluted earnings per share amounts have been presented for the periods ended 30 September 2018 and 31 August 2017 as the impact of the share options outstanding had no diluting 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 Period, based on the invoice date and net of provisions, is as follows:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within 1 month	**130,741**	170,290
1 to 2 months	**7,748**	12,899
2 to 3 months	**3,218**	1,272
Over 3 months	**14,301**	4,757
Total trade receivables	**156,008**	189,218

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 Period, based on the invoice date, is as follows:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within 1 month	**41,361**	119,039
1 to 2 months	**66,208**	39,278
2 to 3 months	**28,209**	48,560
Over 3 months	**59,849**	67,416
Total trade payables	**195,627**	274,293

The trade payables are non-interest-bearing.

11. Gold loans

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Unsecured gold loans	**50,400**	-
Contracted interest rate	**4.5%**	N/A
Original maturity	**within 1 year**	N/A

The amounts represented borrowings from banks and the amounts payable were pegged with gold prices.

Gold loans were borrowed to reduce the impact of fluctuation of gold prices on gold inventories. However, the criteria for hedge accounting was not fully met. Gold loans were designated as financial liabilities at fair value through profit or loss as they were managed and their performance were 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. Share Capital

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Authorised:		
1,500,000,000 ordinary shares of HK$0.25 each	**375,000**	375,000
Issued and fully paid:		
247,956,970 (31 March 2018: 246,836,860) ordinary shares of HK$0.25 each	**61,989**	61,709

A summary of the movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital HK$'000**
At 1 March 2017	210,336,221	52,584
Bonus issue (note 1)	35,055,657	8,764
Scrip issue (note 2)	1,444,982	361
At 31 March 2018 and 1 April 2018	246,836,860	61,709
Scrip issue (note 3)	1,120,110	280
At 30 September 2018	**247,956,970**	**61,989**

Note 1: A bonus issue of one bonus share for every six existing shares held by members on the register of members of the Company on 27 July 2017 was made at an issue price of HK$0.25 per bonus share, resulting in an increase of share capital of HK$8,764,000 and decrease of share premium of HK$8,764,000 accordingly.

Note 2: The scrip issue included the scrip dividends for 2016/17 final dividend and 2017/18 first interim dividend, resulting in the issues of 1,444,982 shares for a total consideration of HK$3,726,000, representing an increase of share capital and share premium of HK$361,000 and HK$3,365,000, respectively.

Note 3: The scrip issue included the scrip dividends for 2017/18 second interim dividend, resulting in the issue of 1,120,110 shares for a consideration of HK$2,523,000, representing an increase in share capital and share premium of HK$280,000 and HK$2,243,000, respectively.

13. Pledge of assets

(a) The Group entered into banking facility arrangements with a bank pursuant to which certain land and buildings in Hong Kong with an aggregate carrying value as at 30 September 2018 of HK$48,992,000 (31 March 2018: HK$49,899,000) were 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 that bank.

(b) The Group entered into a subscription agreement with two institutional investors for senior secured notes issued by a subsidiary of the Group in Hong Kong, pursuant to which certain inventories (i.e. up to an aggregate book value of HK$200,000,000 of raw materials, work-in-progress and finished goods) of such subsidiary were pledged by way of a first floating charge, as security for, *inter alia*, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the two institutional investors.

(c) As at 30 September 2018, time deposits of the Group denominated in RMB and totaling equivalent to approximately HK$47,727,000 (31 March 2018: HK$52,500,000) have been pledged to secure standby letters of credit relating to a cross border treasury arrangement.

14. Comparative figures

Certain comparative figures have been reclassified to conform with the current Period's presentation.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 4.8 HK cents (for the six-month period ended 31 August 2017: 2.1 HK cents) per ordinary share of the Company for the Period (the "Interim Dividend") in scrip form with cash option to shareholders whose names appear on the register of members of the Company on Wednesday, 5 December 2018.

Subject to the listing committee of the Stock Exchange granting the listing of and permission to deal in the new shares to be issued under the Interim Dividend, each shareholder will be allotted fully paid shares having an aggregate market value equal to the total amount which such shareholders could elect to receive in cash and they will be given the option of electing to receive payment in cash of HK$0.048 per share instead of the allotment of scrip shares. A circular containing details of the scrip dividend arrangement will be despatched to shareholders of the Company together with a form of election for cash dividend on or about 10 December 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to the Interim Dividend, the register of members of the Company will be closed from Tuesday, 4 December 2018 to Wednesday, 5 December 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the Interim Dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17/F., Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. (Hong Kong Time) on Monday, 3 December 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overall Financial Results

As this is our first interim report that covers the six-month period from 1 April 2018 to 30 September 2018, all comparative figures stated in this report refer to the six-month period from 1 March 2017 to 31 August 2017 this being our previous reporting period.

The Group's turnover for the Period increased by 10.2% from HK$1,733 million (for the six-month period ended 31 August 2017) to HK$1,910 million. The profit attributable to owners of the Company increased by 38.9% from HK$17.5 million (for the six-month period ended 31 August 2017) to HK$24.3 million. Earnings per share attributable to owners of the Company were 9.8 HK cents (for the six-month ended 31 August 2017: 7.1 HK cents per share).

In light of the improved retail sentiment in Hong Kong since September 2017 (primarily due to the year-on-year increase in the number of incoming tourists and the growing consumption appetite of local customers), the retail market in Hong Kong has continued to progress in an L-shape. Overall speaking, the Group's performance for the Period was in line with our expectations. However, the recent outbreak and escalation of trade dispute between China and the United States has cast some doubts on the economic outlook for both the global and local economies going forward. One consequence has been the devaluation of Renminbi during the Period, which could bring certain influence to our business in Hong Kong and Mainland China during the remainder of this financial year. While it is still too early to conclude the actual impact on the Group's performance, we will continue to take a cautiously optimistic approach in our major operating regions, namely Hong Kong and Mainland China.

Review and Outlook

Retailing Business

Hong Kong and Macau

With the increasing number of tourists visiting Hong Kong and Macau from Mainland China and by virtue of the "store-for-store strategy" taken by us over the past few years, we are glad to report that our retail businesses in Hong Kong and Macau recorded an increase of 15.3% in turnover and that the same store sales growth for all businesses in this region was 14.8% during the Period.

The retail rentals incurred in Hong Kong during the Period remained static and at a more reasonable level than that experienced in past years. As a result, the Group has continued to capitalize on this trend in order to expand its retail business in Hong Kong and by enlarging the shop area of some of our existing retail chain stores, such as Times Square in Causeway Bay and Plaza Hollywood in Diamond Hill. We will continue to identify other suitable high-traffic shopping arcades and on-street stores in order to further penetrate tourist and residential precincts as applicable. Nevertheless, the ongoing manpower shortage situation in Hong Kong remains a concern in setting the pace of expansion. In respect to Macau, due to a steady increase in tourists from Mainland China and their spending powers, our business in Macau achieved an increase of 8.7% in turnover during the Period.

Following the completion and opening of a number of major transport infrastructure projects in Hong Kong in the second half of 2018 (namely, the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link), we believe that these will create a catalyst to further improve the retail market in Hong Kong, whereas the effect of which has yet been emerged. In addition, following the launch of our Signature Collection earlier this year, The 12 Treasures, we will continue to focus on improving our sales by enriching our products assortments and customer experience, introducing limited-time offers and developing unique products with Trendsetting Craftsmanship, and invest in developing the younger generation market to better serve our customers.

Mainland China

Our retail business in Mainland China via self-operated stores accounted for 37.3% of the Group's total turnover during the Period. This business continues to play a significant role in the Group's overall performance as well as in its future development and direction. We remain upbeat on the future prospects of this business, which recorded a modest increase of 4.2% in turnover during the Period. By continuously putting our effort into network optimization in this region, we are optimistic that the same store sales growth of minus 3.5% for the Period will be further improved.

Apart from our self-operated stores, the Group continues to expand its retail network in Mainland China through its franchise network. As at the end of the Period, 25 new franchised stores were opened, resulting in a net increase in franchised stores from 187 to 207. When combined with our 197 self-operated stores, the total number of stores in Mainland China amounted to 404.

The growing middle class is the key driver of rising consumption for luxury jewellery for personal use in the Mainland China as they seek more expensive and premium brands and spend more on high-quality goods and services. Besides, the successful launch of the official website for mobile users (the China version) enables the Group to be in touch with customers of various layers so as to boost the online-to-offline and the offline-to-online business. The Group will strive to bring quality designs with Trendsetting Craftsmanship to meet our customers' needs.

Malaysia

Following the opening of a new retail outlet at Genting, Malaysia in June 2018, the number of our retail stores in Malaysia reached 5 by the end of the Period. Accounting for an insignificant contribution to the Group's performance, our retail business in Malaysia recorded an increase in sales of 13.9% during the Period. As the Group remains positive about the jewellery retail business in this region, we will continue to explore the possibility of further expansion in appropriate locations should opportunities arise.

Wholesale Business

With a view to accomplishing our target of opening 100 additional retail stores over the next 2 years, the expansion in Mainland China through the franchising model is our prime strategy to achieve this ambition. We have not slowed down and are pleased to report that the sales turnover of wholesale business has been on an increasing trend since we started franchising and 25 new stores were opened under the Group's franchising model during the Period, bringing the total number of franchised stores to 207. Looking ahead, we will continue to stringently identify appropriate business partners who share the same values of ours to contribute to the Group's business development.

Other Business

By capturing the trend and putting effort in the promotion of our e-business platforms during the Period, the Group recorded a year-on-year growth in the turnover of that business of 12.8%. From the performance of e-business over the past few years, we consider that there is potential for this sector to grow and develop into an important source of revenue for the Group going forward. The Group will therefore continue to develop our own official mobile website and to focus on increasing its sales performance and the ranking of the Group's brand in its existing e-business platforms to further boost both the online-to-offline and the offline-to-online effect.

Financial Structure

Capital expenditure, comprising mainly store renovation and expansion, furniture & fixtures and machinery, incurred during the Period amounted to approximately HK$63 million (for the six-month ended 31 August 2017: HK$26 million), and was mainly financed by borrowings and funds generated from internal resources.

As at 30 September 2018, the Group's interest-bearing liabilities decreased from HK$921 million as at 31 August 2017 to HK$784 million, which included current interest-bearing bank and other borrowings of HK$425 million and non-current interest-bearing bank and other borrowings of HK$359 million. Net borrowings (total interest-bearing liabilities less cash and cash equivalent and time deposits) decreased from HK$532 million (as at 31 August 2017) to HK$443 million.

Internally generated funding and borrowings have mainly been applied during the Period to finance the enhancement of the Group's inventory, the opening of new stores and capital expenditure incurred.

The net gearing ratio (the ratio of total interest-bearing liabilities (less cash and cash equivalents and time deposits) to total equity) decreased from 50% (for the six-month ended 31 August 2017) to 43% during the Period and is progressively improving. All borrowings of the Group are denominated in Hong Kong dollars or Renminbi. Interest on bank borrowings is calculated on either the inter-bank interest rate or the prime rate or the benchmark interest rate.

As at 30 September 2018, the Group had time deposits, cash and bank balances, and undrawn borrowing facilities of approximately HK$341 million and HK$123 million respectively which, in the opinion of the directors of the Company, should be sufficient to meet the Group's present working capital requirements.

In 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 upsize of HK$23 million, was granted to the borrowers for a term of 5 years from the date of the first utilisation of such facilities.

In 2016, the Company as guarantor and its indirectly wholly-owned subsidiary as issuer, entered into a subscription agreement with two institutional investors for the senior secured notes in an aggregate principal amount of up to HK$200 million maturing on the second anniversary of the issue date of such notes.

The board of directors of the Company is of the opinion that entering into the facilities and subscription agreements provide a stabilized basis of general working capital to the Group.

Exchange Rates

During the Period, 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

Charge on the Group's assets during the Period is disclosed in note 13 to the interim condensed consolidated financial statements whereas the Group did not have any material contingent liabilities which have not been provided for in the financial statements as at 30 September 2018 (as at 31 August 2017: Nil).

Human Resources

As at 30 September 2018, the total number of employees of the Group was approximately 3,170 (as at 31 August 2017: 3,080). The change was mainly due to the Group's business strategy with due regard to the market conditions. There were no major changes in human resources policies.

The Company offers competitive remuneration packages including salary, allowances, and discretionary bonus. Employees are rewarded on a performance basis with reference to market rates. To provide incentive or rewards to the employees, the Company has adopted a share option scheme. 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 the Group's assets did not differ materially during the Period from the information presented in the last annual report.

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 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 of CG Code as expressly 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 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 has reviewed the Company's unaudited consolidated financial statements and interim report for the Period, including the accounting principles and practices adopted by the Group, and discussed with management regarding auditing, risk management and internal control, and financial reporting matters.

Messrs. Ernst & Young, the Company's external auditors, have been engaged by the Company to conduct certain procedures on the Group's interim consolidated financial statements for the Period in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the HKICPA. The Audit Committee of the Company discussed with Messrs. Ernst & Young the findings of these procedures including consistency of accounting policies adopted by the Group in preparing this interim financial information and the relevant disclosures made in accordance with the requirements of HKAS 34 and Appendix 16 to the Listing Rules.

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 Period.

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

Hong Kong, 20 November 2018

At the date of this announcement, the Board comprises:

Executive Directors:
Ms. YAU On Yee, Annie
Ms. NG Yi Kum, Estella

Non-executive Director:
Mr. Erwin Steve HUANG

Independent Non-executive Directors:
Mr. CHUI Chi Yun, Robert
Mr. CHAN Yue Kwong, Michael
Mr. CHOW Chee Wai, Christopher