

RESULTS

The board of directors of Tse Sui Luen Jewellery (International) Limited ("the Company") announces the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 31 August 2003. The interim results for the six months ended 31 August 2003 have been reviewed by the Company's audit committee.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31 AUGUST 2003 – UNAUDITED (Expressed in Hong Kong dollars)

	Note	Six months ended 31 August	
		2003 \$'000	2002 \$'000 (restated)
Turnover	4	356,377	469,990
Cost of sales		(249,052)	(292,244)
		<u>107,325</u>	<u>177,746</u>
Other revenue	4	6,013	8,109
Selling expenses		(96,430)	(150,582)
Administrative expenses		(29,760)	(36,429)
Other operating expenses		(250)	(1,196)
		<u>(13,102)</u>	<u>(2,352)</u>
Loss from operations			
Finance costs	5	(4,296)	(7,406)
Cost of financial restructuring		(2,202)	(1,205)
Write back of default interest for unpaid dividend of preference shares		–	6,576
Loss on disposal and revaluation of properties		(343)	(1,806)
Gain on disposal of associate and investment		–	414
Provision for diminution in value of investments in securities		–	(1,052)
Provision for other receivables		–	(3,276)
Provision for termination of overseas business		(1,334)	–
		<u>(21,277)</u>	<u>(10,107)</u>
Loss from ordinary activities before taxation	5		
Taxation	6	3,626	(723)
		<u>(17,651)</u>	<u>(10,830)</u>
Loss from ordinary activities after taxation			
Minority interests		(4,998)	(3,849)
		<u>(22,649)</u>	<u>(14,679)</u>
Loss for the period			
Dividends	7	–	(5,665)
		<u>–</u>	<u>(5,665)</u>
Loss per share			
Basic	8	(6) cents	(5) cents

The notes on pages 6 to 16 form part of this interim financial report.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 AUGUST 2003 – UNAUDITED**
(Expressed in Hong Kong dollars)

	Six months ended 31 August	
	2003	2002
	\$'000	\$'000
		<i>(restated)</i>
Balance at 1 March		
As previously reported	33,222	62,895
Prior year adjustments arising from change of accounting policy for deferred taxation	2,981	1,019
	<hr/>	<hr/>
As restated	36,203	63,914
	<hr/>	<hr/>
Deficit on revaluation of land and buildings	(62)	(531)
Exchange differences on translation of financial statements of subsidiaries	460	1,222
Exchange reserve realised on deemed disposal of subsidiaries	–	(44)
Increase in share of minority interests in net tangible assets of subsidiaries	–	(3,097)
Expenses for redemption of preference shares	–	(11,066)
Write back of accrued dividend of preference shares	–	39,374
	<hr/>	<hr/>
Net gains not recognised in the profit and loss account	398	25,858
	<hr/>	<hr/>
Net loss for the period	(22,649)	(14,679)
	<hr/>	<hr/>
Dividends	–	(5,665)
	<hr/>	<hr/>
Balance at 31 August	13,952	69,428
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The notes on pages 6 to 16 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
AT 31 AUGUST 2003 – UNAUDITED
(Expressed in Hong Kong dollars)

	Note	At 31 August 2003 \$'000	\$'000	At 28 February 2003 \$'000 (restated)	\$'000 (restated)
Non-current assets					
Fixed assets					
– Investment properties			465		475
– Other property, plant and equipment			61,222		65,178
			<u>61,687</u>		<u>65,653</u>
Other financial asset			500		500
Other asset			97		97
Deferred tax assets			<u>13,623</u>		<u>11,278</u>
			<u>75,907</u>		<u>77,528</u>
Current assets					
Properties held for sale	9	20,609		21,826	
Investments in securities		13		14	
Inventories	10	384,720		290,519	
Trade and other receivables	11	76,347		83,530	
Tax recoverable		318		264	
Pledged bank deposit		792		792	
Cash at bank and in hand		<u>32,409</u>		<u>53,200</u>	
		<u>515,208</u>		<u>450,145</u>	
Current liabilities					
Bank loans and overdrafts		252,186		253,738	
Trade and other payables	12	277,145		208,656	
Taxation		<u>2,490</u>		<u>5,127</u>	
		<u>531,821</u>		<u>467,521</u>	
Net current liabilities			<u>(16,613)</u>		<u>(17,376)</u>
Total assets less current liabilities carried forward			<u>59,294</u>		<u>60,152</u>



CONSOLIDATED BALANCE SHEET *(Continued)*
AT 31 AUGUST 2003 – UNAUDITED
(Expressed in Hong Kong dollars)

	Note	At 31 August 2003 \$'000	At 28 February 2003 \$'000 (restated)
Total assets less current liabilities brought forward		59,294	60,152
Non-current liabilities			
Employee benefit obligations	(11,134)		(11,192)
Amounts due to minority shareholders	(19,600)		(3,199)
Deferred tax liabilities	(8,598)		(8,297)
		(39,332)	(22,688)
Minority interests		(6,010)	(1,261)
NET ASSETS		<u>13,952</u>	<u>36,203</u>
CAPITAL AND RESERVES			
Share capital	13	97,972	97,972
Reserves	14	(84,020)	(61,769)
		<u>13,952</u>	<u>36,203</u>

The notes on pages 6 to 16 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 AUGUST 2003 – UNAUDITED
(Expressed in Hong Kong dollars)

	Six months ended	
	31 August	
	2003	2002
	\$'000	\$'000
		<i>(restated)</i>
Net cash outflow from operating activities	(27,769)	(13,920)
Net cash outflow from investing activities	(1,171)	(1,138)
Net cash inflow/(outflow) from financing	8,183	(16,291)
Decrease in cash and cash equivalents	(20,757)	(31,349)
Effect of foreign exchange rates	(228)	163
Cash and cash equivalents at 1 March	48,941	47,291
Cash and cash equivalents at 31 August	27,956	16,105
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	32,409	20,351
Secured bank overdrafts	(4,453)	(4,246)
	27,956	16,105

The notes on pages 6 to 16 form part of this interim financial report.



NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Expressed in Hong Kong dollars)

1. Basis of preparation

The interim financial report is unaudited but has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited ("the Listing Rules"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information relating to the financial year ended 28 February 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed a qualified opinion on those financial statements in their report dated 29 July 2003 relating to insufficient audit evidence as to the nature of \$22 million selling expenses payable to business promoter. In addition, they have drawn the attention of the Company's shareholders to the fundamental uncertainty relating to the going concern. Statutory financial statements for the year ended 28 February 2003 are available from the Company's registered office.

The accounting policies and method of computation used in the preparation of the interim financial report are consistent with those used in the annual financial statements for the year ended 28 February 2003 except for the adoption of revised accounting standards in Hong Kong as described in note 3.

2. Going concern

On 3 August 2000, the Company entered into a restructuring agreement with the Group's bankers ("the Restructuring Agreement") regarding the repayment of all bank borrowings in Hong Kong, totalling approximately \$399 million ("the Bank Borrowing"). The Restructuring Agreement applies for a period of five years and three months or up to an earlier date when the Bank Borrowings are reduced to \$150 million. The Group is required to make minimum fixed repayments of \$24 million on an annual basis. Furthermore, the Group is required to dispose of its non-core assets to reduce the Bank Borrowings. The Group has paid \$151 million to its bank creditors since the date of the Restructuring Agreement. As at 31 August 2003, the Bank Borrowings amounted to \$248 million. As part of the Restructuring Agreement, the majority participating lenders may give 14 day's notice to terminate the Restructuring Agreement.

The directors continue to seek to dispose of certain of the Group's property interests. The directors believe that the ongoing support of the Group's bankers will continue and the measures to be taken under the Restructuring Agreement will enable the Group to continue in operational existence in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the interim financial report on a going concern basis, notwithstanding the Group's financial position as at 31 August 2003. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments have not been reflected in the interim financial report.



3. Change in accounting policy

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) "Income Taxes" issued by the HKSA, the Group adopted a new policy for deferred tax as set out below.

Under SSAP 12 (revised), deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet dated. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

As a result of the adoption of this accounting policy, the Group's loss for the period has been decreased by \$2,044,000 (2002: increased by \$267,000) and the Group's net assets as at 31 August 2003 has been increased by \$5,025,000 (at 28 February 2003: \$2,981,000).

The new accounting policy has been adopted retrospectively, with the opening balance of accumulated losses and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.



4. Segmental information

The analysis of the geographical location of the operations of the Group during the financial period is as follows:

	People's Republic of China ("PRC") (including Hong Kong)		Others		Inter-segment elimination		Consolidated	
	Six months ended 31 August		Six months ended 31 August		Six months ended 31 August		Six months ended 31 August	
	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	(restated)		(restated)		(restated)		(restated)	
Revenue from external customers	321,209	412,156	35,168	57,834	-	-	356,377	469,990
Inter-segment revenue	(1,067)	6,196	-	-	1,067	(6,196)	-	-
Other revenue from external customers	3,490	6,431	2,523	1,678	-	-	6,013	8,109
Total	323,632	424,783	37,691	59,512	1,067	(6,196)	362,390	478,099
Segment results	(11,032)	2,698	(2,070)	(5,050)			(13,102)	(2,352)
Finance costs							(4,296)	(7,406)
Cost of financial restructuring	(2,202)	(1,205)	-	-			(2,202)	(1,205)
Write back of default interest for unpaid dividend of preference shares	-	6,576	-	-			-	6,576
Loss on disposal and revaluation of properties	(343)	(1,806)	-	-			(343)	(1,806)
Gain on disposal of associate and investment	-	414	-	-			-	414
Provision for diminution in value of investments in securities	-	(1,052)	-	-			-	(1,052)
Provision for other receivables	-	(3,276)	-	-			-	(3,276)
Provision for termination of overseas business	(1,334)	-	-	-			(1,334)	-
Taxation							3,626	(723)
Minority interests							(4,998)	(3,849)
Loss for the period							(22,649)	(14,679)
Depreciation for the year	5,008	5,697	711	951				
Impairment loss for the year	256	1,085	-	-				
Significant non cash expenses/(income)	1,678	6,037	(7)	2				

In view of the fact that all the Group's turnover and trading results are generated from the manufacture, sale and marketing of jewellery products, no business segments analysis of the Group is presented.



5. Loss from ordinary activities before taxation

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

	Six months ended 31 August	
	2003 \$'000	2002 \$'000
Interest on borrowings	4,296	7,406
Depreciation	5,719	6,648
(Gain)/Loss on sale of fixed assets	(7)	110
Unrealised loss on other securities carried at fair value	–	1,052
Impairment loss on properties held for sales	256	1,085
Provision for other receivables	–	3,276
Loss on disposal and revaluation of properties	343	1,806
Gain on disposal of associate and investment	–	(414)
Provision for termination of overseas business	1,334	–
	<u>1,334</u>	<u>–</u>

6. Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 31 August	
	2003 \$'000	2002 \$'000 (restated)
Current tax – Provision for Hong Kong taxation		
Tax for the period	<u>235</u>	<u>448</u>
Current tax – Overseas		
Tax for the period	–	8
Over-provision in respect of prior years	<u>(1,817)</u>	<u>–</u>
	<u>(1,817)</u>	<u>8</u>
Deferred tax		
Origination and reversal of temporary differences	(1,753)	267
Effect of increase in tax rate on deferred tax balance at 1 March 2003	<u>(291)</u>	<u>–</u>
	<u>(2,044)</u>	<u>267</u>
Total income tax (credit)/expense	<u>(3,626)</u>	<u>723</u>



6. Taxation (continued)

Hong Kong Profits Tax is calculated at 17.5% (six months ended 31 August 2002: 16%) of the estimated assessable profit for the period.

No provision has been made for other overseas profits tax as the Group sustained a loss for taxation purposes during the period.

7. Dividends

The board resolved not to pay an interim dividend for ordinary shares for the six months ended 31 August 2003 (2002: Nil).

Dividend for the period ended 31 August 2002 represents accrued dividends on 22,220 6.5% convertible non-voting redeemable preference shares of US\$1,000 each.

8. Loss per share*(a) Basic of loss per share*

The calculation of loss per share is based on the loss for the period of \$22,649,000 (Restated 2002: \$14,679,000) adjusting for the dividend for preference share of \$Nil (2002: \$5,665,000) and 391,889,263 ordinary shares (2002: 391,889,263 ordinary shares) in issue during the period.

(b) Diluted loss per share

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

9. Properties held for sales

Properties held for sale are stated at the estimated net realisable value.

10. Inventories

	At 31 August 2003 \$'000	At 28 February 2003 \$'000
Raw materials	58,761	43,754
Work in progress	66,145	21,794
Finished goods	145,252	147,428
Finished goods – consigned outward	114,562	77,543
	<u>384,720</u>	<u>290,519</u>



10. Inventories (continued)

As at 31 August 2003, the Group had consigned finished goods to licensees, Beijing Hua Long Rui Lin Economic and Trading Company Limited ("Hua Long") and Beijing Rui Feng Da Lin Jewellery Company Limited ("Rui Feng"), established in the PRC, amounting to \$106,255,000 and \$8,307,000 respectively. The licensees are responsible for distributing the consigned finished goods to the shop outlets operating under the trade names of "Tse Sui Luen" in the PRC. As at 31 August 2003, the Group had amounts due from Hua Long and Rui Feng amounting to \$25,572,000 and \$1,228,000. Since the Group cannot supervise the activities of the licensees, the directors consider that it is possible that the Group may not be able to recover possession of all or certain of these consigned finished goods in the event that the licensees are unable to meet its financial obligations. The directors are not aware of any circumstances that lead the Group to believe that the licensees are unable to meet its financial obligations.

Included in raw materials and finished goods are inventories of \$23,277,000 (at 28 February 2003: \$12,517,000) and \$68,560,000 (at 28 February 2003: \$89,031,000) respectively, stated net of a general provision made in order to state these inventories at the lower of their cost and estimated net realisable value.

11. Trade and other receivables

Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 31 August 2003 \$'000	At 28 February 2003 \$'000
0 to 30 days	22,542	17,690
31 to 60 days	11,909	25,321
61 to 90 days	2,212	4,684
Over 90 days	3,587	2,360
	<hr/>	<hr/>
Total debtors	40,250	50,055
Other receivables, deposits and prepayments	36,097	33,475
	<hr/>	<hr/>
	76,347	83,530
	<hr/>	<hr/>

Apart from retail customers, the Group allows an average credit period of 75 days to other customers.



12. Trade and other payables

Included in trade and other payables are creditors with the following ageing analysis:

	At 31 August 2003 \$'000	At 28 February 2003 \$'000
0 to 30 days	67,248	28,447
31 to 60 days	14,522	16,498
61 to 90 days	19,745	9,330
Over 90 days	59,356	52,705
Total creditors	160,871	106,980
Other payables and accruals	116,274	101,676
	<u>277,145</u>	<u>208,656</u>

13. Share capital

Issued and fully paid:

	No. of shares '000	Amount \$'000
At 28 February 2003 and 31 August 2003 – Ordinary shares of \$0.25 each	<u>391,889</u>	<u>97,972</u>

At 31 August 2003, the Company has no outstanding options. The details of movement of share options of the Company during the period were as follows:

Date of option granted	Period during which options exercisable	Exercise price	Number of options outstanding	
			At 31 August 2003	At 28 February 2003
15 September 1999	15 March 2000 to 19 August 2003	\$0.25	–	26,590,000



14. Reserves

	Share premium \$'000	Special reserve \$'000	Capital reserve \$'000	Land and buildings revaluation reserve \$'000	Exchange reserve \$'000	Capital redemption reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 March 2003								
– as previously reported	86,037	336,362	98,141	21,522	(7,034)	170,873	(770,651)	(64,750)
– prior period adjustment in respect of deferred taxation (note 3)	–	–	–	–	–	–	2,981	2,981
– as restated	86,037	336,362	98,141	21,522	(7,034)	170,873	(767,670)	(61,769)
Deficit on revaluation of land and buildings	–	–	–	(62)	–	–	–	(62)
Revaluation reserve realised on disposal of property	–	–	–	(526)	–	–	526	–
Exchange differences on translation of financial statements of subsidiaries	–	–	–	–	460	–	–	460
Loss for the period	–	–	–	–	–	–	(22,649)	(22,649)
At 31 August 2003	<u>86,037</u>	<u>336,362</u>	<u>98,141</u>	<u>20,934</u>	<u>(6,574)</u>	<u>170,873</u>	<u>(789,793)</u>	<u>(84,020)</u>
At 1 March 2002								
– as previously reported	86,037	336,362	98,141	22,967	(7,755)	13,119	(755,864)	(206,993)
– prior period adjustment in respect of deferred taxation (note 3)	–	–	–	–	–	–	1,019	1,019
– as restated	86,037	336,362	98,141	22,967	(7,755)	13,119	(754,845)	(205,974)
Deficit on revaluation of land and buildings	–	–	–	(463)	–	–	–	(463)
Revaluation reserve realised on disposal of property	–	–	–	(982)	–	–	982	–
Exchange differences on translation of financial statements of subsidiaries	–	–	–	–	765	–	–	765
Exchange reserve realised on deemed disposal of subsidiaries	–	–	–	–	(44)	–	–	(44)
Loss for the year (as restated)	–	–	–	–	–	–	(47,516)	(47,516)
Dividends (note 7)	–	–	–	–	–	–	(5,665)	(5,665)
Redemption of preference shares	–	–	–	–	–	171,916	–	171,916
Increase in share of minority interests in net tangible assets of subsidiaries	–	–	–	–	–	(3,096)	–	(3,096)
Expenses for redemption of preference shares	–	–	–	–	–	(11,066)	–	(11,066)
Write back of accrued dividend of preference shares	–	–	–	–	–	–	39,374	39,374
At 28 February 2003	<u>86,037</u>	<u>336,362</u>	<u>98,141</u>	<u>21,522</u>	<u>(7,034)</u>	<u>170,873</u>	<u>(767,670)</u>	<u>(61,769)</u>



15. Pledge of assets

Under the Restructuring Agreement as disclosed in note 2, debentures have been executed by the Group in favour of its bankers charging, by way of fixed and floating charges, (i) all of the undertakings, properties and assets of the Company and 28 of its subsidiaries; (ii) the capital contribution to a subsidiary of the Group and all the benefits accruing of the pledged equity interest of 11.625% of the subsidiary to the Group's bankers; and (iii) all rights, titles and interests in 56.46% of the entire share capital of Infinite Assets Corp. ("IAC") and Tse Sui Luen Investment (China) Limited ("TSL China") and all benefits accruing to the pledged equity interest to the Group's bankers as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers. Rental revenue of the Group is also charged in favour of the Group's bankers.

16. Connected and material related party transactions

During the period, Beijing Tse Sui Luen Jewellery Company Limited ("BTSL"), sold and consigned finished goods amounting to \$43,861,000 (2002: Nil) to Hua Long and \$2,246,000 (2002: Nil) to Rui Feng. During the period, Tse Sui Luen Jewellery Trading & Distribution Company Limited ("TSL Trading") sold and consigned finished goods amounting to \$51,936,000 (2002: Nil) to Hua Long and \$1,827,000 (2002: Nil) to Rui Feng. For the six month ended 31 August 2002, TSL Trading also sold and consigned finished goods to Beijing Zhong Shang Tse Sui Luen Economic and Trading Company Limited ("Zhong Shang") amounting to \$94,274,000. The transactions were carried out by way of a cost-plus pricing arrangement in the normal course of business of these subsidiaries. Hua Long, Rui Feng and Zhong Shang were licensees distributing the consigned finished goods to shop outlets operating under the trade names of "Tse Sui Luen" in the PRC. There was no monetary consideration paid by either the Group or the licensees in respect of using the trademark licensees.

During the period, Shanghai Tse Sui Luen Consultancy Service Limited ("SHTSLCS") received consultancy fee amounting to \$535,000 (2002: \$488,000) from Hua Long. This consultancy fee is charged at a progressive percentage of turnover of the relevant retail outlets if the turnover of the retail outlets to which the consultancy services are rendered exceeds certain thresholds.

During the period, TSL Trading received commission income amounting to \$8,849,000 (2002: Nil) from Hua Long. The commission income is calculated as a percentage of the listed price of merchandise supplied by BTSL depending on the nature of products.



16. Connected and material related party transactions (continued)

During the period, Tse Sui Luen Jewellery Company Limited ("TSLJ") received management and service fee and royalty fee amounting to \$1,170,000 (2002: Nil) and \$1,170,000 (2002: Nil) respectively from IAC and TSL China and their respective subsidiaries ("the IAC Group" and "TSL China Group"). The management and service fee was received in return for production support, the procurement of raw materials and products and product design and development services provided to the IAC Group and TSL China Group and is calculated at 1% of their turnover. The royalty fee was received in return for non-exclusive use of certain trademarks in Mainland China by the IAC Group and TSL China Group and is calculated at 1% of their turnover.

During the period, TSLJ sold raw material and finished goods to BTSL and TSL Trading amounting to \$100,095,000 (2002: \$75,948,000). The selling price of the raw material and finished goods sold were determined by cost-plus pricing method.

Hua Long, Rui Feng and Zhong Shang are companies controlled by Mr. Qi Jian Hong who is a director and substantial shareholder of two subsidiaries of the Company, IAC and TSL China and is also a director of a subsidiary of TSL China, BTSL. The licensing, consultancy service arrangement, commission, management fee and royalty fee service arrangement, sales and consignment, between the subsidiaries, Hua Long, Rui Feng and Zhong Shang, therefore, also constitute connected transactions under the Listing Rules.

The trade receivables arising from the above-mentioned transactions were:

	At 31 August 2003 \$'000	At 28 February 2003 \$'000
Due from Hua Long	25,572	42,134
Due from Rui Feng	1,228	—
	<u>26,800</u>	<u>42,134</u>



17. Contingent liabilities

At 31 August 2003, the Group has disputes with the Inland Revenue Department ("IRD") over the taxability of certain income and deductibility of certain expenses. No provision has been made in respect of the amounts of tax in disputes, except for the provision of \$2,475,000 made in the year ended 28 February 2003. The disputes have yet to be determined by the IRD and the directors of the Company consider that there are reasonable grounds in defending the disputes. However, should the Group not be successful in defending the disputes, there would be additional exposures to the Hong Kong Profits Tax and the amounts will be subject to the additional assessments raised by the IRD.

18. Post balance sheet event

Subsequent to the balance sheet date, a subsidiary of the Group has been disposed of in September 2003 and the gain on disposal of the subsidiary approximately amounting to \$6 million would be credited to the Group's profit and loss account for the year ended 29 February 2004.

19. Comparative figures

Certain comparative figures in the interim financial report have been restated to reflect the adoption of revised accounting standards in Hong Kong as set out in note 3.

Certain comparative figures in the interim financial report have been reclassified to conform to the current period's presentation.

20. Review of unaudited interim financial report

The unaudited interim financial report for the six months ended 31 August 2003 has been reviewed by the audit committee of the Company.

21. Approval of interim financial report

The interim financial report was approved by the board on 21 November 2003.



INTERIM DIVIDEND

The board resolved not to pay an interim dividend for ordinary shares of the Company for the six months ended 31 August 2003 (2002: Nil).

BUSINESS REVIEW AND PROSPECTS

During the period under review, the retail markets of Hong Kong, Taiwan and Malaysia in which the Group operates continued to be affected by the uncertain outlook for the global and local economies. This position was made worse by the sudden and unexpected outbreak of Severe Acute Respiratory Syndrome ("SARS") in March 2003 which resulted in a significant fall in Group sales during the months of April to July 2003. Fortunately, notwithstanding the outbreak of SARS in Mainland China, business there was largely unaffected by SARS due to the large geographical spread of outlets.

As a result of the rapid response by the Group to SARS via cost cutting and the redeployment of resources to the businesses that were unaffected by SARS, the Group has overcome this hardship with Group sales returning to normal levels in August 2003 following the return of Mainland Chinese tourists to Hong Kong.

Due to the adverse effect of SARS during the period of April to July 2003, consolidated turnover for the Group for the six months ended 31 August 2003 decreased by 24% to HK\$356.4 million (2002: HK\$467.0 million) and the loss for the period increased to HK\$22.7 million (Restated 2002: HK\$14.7 million).

Operating overheads decreased as a result of the on-going review of cost structures and business processes and there are continuous improvement initiatives in cost control so as to further improve our competitiveness.

The loss incurred for the period resulted in a decrease in the Group's net asset value. Gearing (being ratio of total bank indebtedness less cash and bank balances to net assets value), has therefore increased to 15.7 times from 5.5 times.

Both our retail and showroom operations in Hong Kong are now benefiting from the relaxation of individual travel of tourists from Mainland China and the recent revival of local consumption atmosphere. Inbound tourists from areas other than Mainland China are also returning to normal level albeit at a slower rate than that for Mainland China.



BUSINESS REVIEW AND PROSPECTS (*continued*)

During the period under review, the Group opened a new store at Telford Garden in Hong Kong, bearing the Group's new image. This store has been well received by customers. Another new store will be opened in Tuen Mun Town Plaza in November 2003 to better serve customers in that district.

The business in Mainland China has continued to improve with new image being gradually introduced to all outlets. In a recent national survey of jewellery brand recognition, our brand ranks among the highest compared with numerous local and Hong Kong brands.

In order to focus on our core retail jewellery business in Hong Kong and Mainland China, we ceased the non-profitable operations in Taiwan and Thailand in May 2003 and September 2003 respectively. The Group will continue to assess its non-core operations and the property holdings and, if deemed fit, dispose or close such operations in order to maximize its return on funds invested. The Group is continuing to dispose of surplus property in order to pay down debt.

According to letters dated 21 May 2003, 2 October 2003 and 20 November 2003 issued by the representative of the participating lenders under the Restructuring Agreement, all the lenders conditionally agreed to postpone quarterly repayments due by the Group on 7 May 2003, 7 August 2003 and 7 November 2003 to 27 February 2004. The total bank indebtedness has been reduced to HK\$252.2 million from HK\$253.7 million since 28 February 2003.

As at 31 August 2003, the total number of employees of the Group was approximately 936. Headcount was decreased mainly as a result of the closure of our operations in Taiwan and the sale of our operation in Thailand. The employee share option scheme which was adopted on 20 August 1993 for a period of ten years ("the Share Option Scheme") expired and all the options granted previously under the Share Option Scheme lapsed on 19 August 2003. A new share option scheme for remunerating employees has been proposed for shareholders' approval and the details were contained in the circular to shareholders dated 6 November 2003.

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



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At as 31 August 2003, the interests and short positions of the Directors, chief executive and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive or any associated corporation is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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

Name of Director	Number of ordinary shares held					Percentage of total issued share capital
	Personal interest	Family interest	Corporate interest	Short position	Other interest	
Tse Tat Fung, Tommy	–	–	195,971,534(i)	–	1(ii)	50%

Notes:

- (i) These shares were held through Blink Technology Limited ("Blink Technology"), a company beneficially owned by Mr. Tse Tat Fung, Tommy.
- (ii) Blink Technology acquired the rights, title and interest pursuant to various financing documents under which this share, representing the share of which Mr. Tse Sui Luen has personal interest, was charged. Accordingly, Mr. Tse Tat Fung, Tommy is deemed to be interested in this share.

(ii) Interests in the Company's share options

During the period under review, the Company has a Share Option Scheme. All the options granted previously under the Share Option Scheme have been lapsed on 19 August 2003 and there was no outstanding share option as at 31 August 2003.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY *(continued)***(ii) Interests in the Company's share options** *(continued)*

During the six months ended 31 August 2003, details of the movements of the Company's options were as follows:

Director	No. of options outstanding at 1 March 2003	No. of options lapsed during the period	No. of options outstanding at 31 August 2003	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share at date of grant of options
Leung Yit Kuen, Raymond	6,647,500	(6,647,500)	-	15 September 1999	15 March 2000 to 19 August 2003	HK\$0.25	HK\$0.24
Employees	19,942,500	(19,942,500)	-	15 September 1999	15 March 2000 to 19 August 2003	HK\$0.25	HK\$0.24

Save as disclosed above, during the six months ended 31 August 2003, none of the Directors and Chief Executive of the Company nor any of their spouse or children under 18 was granted or holding options to subscribe for shares in the Company (within the meaning of Part XV of the SFO), nor had exercised such rights.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiary companies a party to any arrangements to enable the Directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Other than as disclosed above, none of the Company's Directors, chief executive and their respective associates, had any other interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or Chief Executive is taken or deemed to have taken under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered into the register maintained by the Company; or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company or the Stock Exchange.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 August 2003, the interests and short positions of any substantial shareholders in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 Part XV of the SFO and have been recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Capacity	Direct Interest	Number of ordinary shares held				Percentage of total issued shares
			Percentage of total issued shares	Short position	Percentage of total issued shares	Other interest	
Blink Technology	Beneficial Owner	195,971,534	50.0%	–	–	1(i)	0%
Suez Asia Holdings Pte Ltd (ii)	Trustee	20,090,000	5.1%	–	–	–	–
Kwong Tai Holdings Limited (iii)	Trustee	37,304,000	9.5%	–	–	–	–
HSBC International Trustee Limited (iii)	Trustee	37,304,000	9.5%	–	–	–	–

Notes:

- (i) Blink Technology acquired the rights, title and interest in various financing documents under which this share, representing the share of which Mr. Tse Sui Luen has personal interest, was charged. Accordingly, Blink Technology is deemed to be interest in this share.
- (ii) Suez Asia Holdings Pte Ltd is the trustee of certain discretionary trusts.
- (iii) The two reference to 37,304,000 shares relate to the same block of shares in the Company. Both Kwong Tai Holdings Limited and HSBC International Trustee Limited are the trustees of certain discretionary trusts.

Other than as disclosed above, the Company had not been notified of any persons who had interests or short positions in the shares or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.



DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED ("THE LISTING RULES")

Advance to an entity

In accordance with the requirement under paragraph 3.2.1 of Practice Note 19 ("PN19") of the Listing Rules, the Directors of the Company report that as at 31 August 2003, a subsidiary had advances (as defined in PN19) to its customers, Hua Long and Rui Feng, amounting to HK\$25,572,000 and HK\$1,228,000 respectively. These advances are trade receivables arising from the Group's normal and ordinary course of business and are unsecured, interest free with credit term of 75 days.

Hua Long and Rui Feng are companies controlled by Mr Qi Jian Hong who is a director and substantial shareholder of IAC and TSL China and also a director of BTSL. The distribution and licensing transactions with Hua Long and Rui Feng which created the trade receivables, therefore, also constitute connected transactions under the Listing Rules.

AUDIT COMMITTEE

The Company has an audit committee comprising Messrs. Chui Chi Yun, Robert, Hong Po Kui, Martin, Gerald Clive Dobby and Lui Pui Kee, Francis (as alternate to Mr. Gerald Clive Dobby), all are independent non-executive directors. The committee reviews the interim and final reports of the Group and meets to review and discuss the internal controls and other relevant matters of the Group from time to time as required.

CORPORATE GOVERNANCE

This interim report has been reviewed by the audit committee of the Company. During the period under review, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except that Messrs. Hong Po Kui, Martin and Chui Chi Yun, Robert, independent non-executive directors of the Company, are not appointed for a specific term as they are subject to retirement in accordance with the Company's Bye-laws.

By Order of the Board
Tse Tat Fung, Tommy
Chairman

Hong Kong, 21 November 2003

