TSE SUI LUEN JEWELLERY (INTERNATIONAL) LIMITED

謝 瑞 麟 珠 寶 (國 際) 有 限 公 司

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2004/2005

TSL 謝瑞麟

HONG KONG

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 2004. The interim results for the six months ended 31 August 2004 have been reviewed by the Company's audit committee.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31 AUGUST 2004 – UNAUDITED

(Expressed in Hong Kong dollars)

	Note	Six months ended 31 August 2004 $'000	2003 $'000
Turnover	3	**573,753**	356,377
Cost of sales		**(324,160)**	(249,052)
		249,593	107,325
Other revenue	3	**4,601**	6,013
Selling expenses		**(188,753)**	(96,430)
Administrative expenses		**(37,899)**	(29,760)
Other operating expenses		**(238)**	(250)
Profit/(loss) from operations		**27,304**	(13,102)
Finance costs	4	**(2,705)**	(4,296)
Cost of financial restructuring		**(618)**	(2,202)
Gain/(loss) on disposal and revaluation of properties		**853**	(343)
Provision for termination of overseas business		**–**	(1,334)
Profit/(loss) from ordinary activities before taxation	4	**24,834**	(21,277)
Income tax	5	**(6,909)**	3,626
Profit/(loss) from ordinary activities after taxation		**17,925**	(17,651)
Minority interests		**(3,317)**	(4,998)
Profit/(loss) for the period		**14,608**	(22,649)
Earnings/(loss) per share			
Basic	7	**4 cents**	(6) cents

The notes on pages 6 to 13 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 AUGUST 2004 – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 31 August	
	2004	2003
	$'000	$'000
Shareholders' equity at beginning of the year	**40,530**	33,222
Surplus/(Deficit) on revaluation of land and buildings	**473**	(62)
Exchange difference on translation of financial statements of subsidiaries	**1,393**	460
Net gains not recognised in the profit and loss account	**1,866**	398
Net profit/(loss) for the period	**14,608**	(22,649)
Shareholders' equity at end of the year	**57,004**	10,971

The notes on pages 6 to 13 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
AT 31 AUGUST 2004 – UNAUDITED
(Expressed in Hong Kong dollars)

	Note	**At 31 August 2004** $'000	**At 31 August 2004** $'000	At 29 February 2004 $'000	At 29 February 2004 $'000
Non-current assets					
Fixed assets					
– Investment properties			**540**		530
– Other property, plant and equipment			**67,284**		62,515
			67,824		63,045
Other financial asset			**500**		500
Club debenture			**100**		97
Deferred tax assets			**3,095**		3,143
			71,519		66,785
Current assets					
Properties held for sale	8	**20,698**		21,738	
Investments in securities		**74**		77	
Inventories	9	**507,073**		409,996	
Trade and other receivables	10	**77,327**		79,142	
Tax recoverable		**2,258**		144	
Pledged bank deposit		**–**		792	
Cash at bank and in hand		**53,778**		39,277	
		661,208		551,166	
Current liabilities					
Trade and other payables	11	**380,801**		285,868	
Current portion of finance lease		**165**		–	
Bank loans and overdrafts		**30,108**		51,677	
Other loans		**209,731**		195,731	
Taxation		**26,003**		20,177	
		646,808		553,453	
Net current assets/(liabilities)			**14,400**		(2,287)
Total assets less current liabilities carried forward			**85,919**		64,498

CONSOLIDATED BALANCE SHEET *(Continued)*
AT 31 AUGUST 2004 – UNAUDITED
(Expressed in Hong Kong dollars)

	Note	**At 31 August 2004**		At 29 February 2004	
		$'000	**$'000**	$'000	$'000
Total assets less current liabilities brought forward			**85,919**		64,498
Non-current liabilities					
Non current portion of finance lease		**(443)**		–	
Employee benefit obligations		**(9,520)**		(9,570)	
Amounts due to minority shareholders		**(1,497)**		(1,497)	
Deferred tax liabilities		**(462)**		(300)	
			(11,922)		(11,367)
Minority interests			**(16,993)**		(12,601)
NET ASSETS			**57,004**		40,530
CAPITAL AND RESERVES					
Share capital	12		**97,972**		97,972
Reserves	13		**(40,968)**		(57,442)
			57,004		40,530

The notes on pages 6 to 13 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31 AUGUST 2004 – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 31 August	
	2004	2003
	$'000	$'000
Net cash inflow/(outflow) from operating activities	**27,405**	(27,769)
Net cash outflow from investing activities	**(7,624)**	(1,171)
Net cash (outflow)/inflow from financing	**(7,702)**	8,183
Increase/(Decrease) in cash and cash equivalents	**12,079**	(20,757)
Effect of foreign exchange rates	**2,422**	(228)
Cash and cash equivalents at 1 March	**39,277**	48,941
Cash and cash equivalents at 31 August	**53,778**	27,956
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**53,778**	32,409
Secured bank overdrafts	**–**	(4,453)
	53,778	27,956

The notes on pages 6 to 13 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 Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 29 February 2004 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 23 June 2004 as they were unable to carry out auditing procedures necessary to obtain adequate assurance regarding to the level of income tax provision which is explained in note 5(a)(ii) on the financial statements for the year ended 29 February 2004. 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 29 February 2004 are available from the Company's registered office.

The accounting policies and method of computation used in the preparation of these interim financial report are the same with those used in the Group's audited financial statements for the year ended 29 February 2004.

2. Going concern

On 3 August 2000, the Company and all the then bank lenders of the Group entered into a restructuring agreement ("the Restructuring Agreement") regarding the payment of all Hong Kong bank borrowings, totalling approximately $399 million ("the Bank Borrowings"). 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. The Group has met this requirement and has paid $159 million to its bank lenders since the date of the Restructuring Agreement, except that certain quarterly payments were agreed to be postponed since May 2003. As part of the Restructuring Agreement, the majority participating lenders may give 14 days' notice to terminate the Restructuring Agreement.

As set out in the announcement dated 14 May 2004 and further details in the circular to the shareholders of the Company dated 27 October, 2004 ("the Circular"), Partner Logistics Limited ("Partner Logistics"), a company controlled by Mr. Tse Tat Fung, Tommy, the substantial shareholder and a director of the Company purchased from certain of the bank lenders Bank Borrowings to the amount of $210 million ("Acquired TSL Debt"). Pursuant to the Subscription Agreement (as defined therein), Partner Logistics will conditionally convert approximately $137 million of the Acquired TSL Debt into Adjusted Shares (as defined therein) of the Company. A revised debt restructuring agreement ("Revised DRA") has also been conditionally agreed for the outstanding borrowings owed to the bank lenders and Partner Logistics. The outstanding borrowings due to the bank lenders are to be repaid over a two to three year period. The Group will not commence to repay the outstanding debt due to Partner Logistics until the borrowings due to the bank lenders are reduced to a total of $15.9 million.

Both the Subscription Agreement and the Revised DRA are conditional, among other things, the shareholders' approval which has been obtained on 18 November, 2004. The Subscription Agreement is expected to become effective on 13 December, 2004 and the Revised DRA is expected to become effective, after fulfillment of certain conditions, before 31 December, 2004.

2. Going concern *(Continued)*

The directors believe that the ongoing support of the bank lenders and Partner Logistics will continue and the proposed debt restructuring and debt conversion will become unconditional. This 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 financial statements on a going concern, notwithstanding the Group's financial position as at 31 August 2004. 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. 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) Six months ended 31 August		**Others Six months ended 31 August**		**Inter-segment elimination Six months ended 31 August**		**Consolidated Six months ended 31 August**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**560,525**	321,209	**13,228**	35,168	**-**	–	**573,753**	356,377
Inter-segment revenue	**4,144**	(1,067)	**-**	–	**(4,144)**	1,067	**-**	–
Other revenue from external customers	**3,875**	3,490	**726**	2,523	**-**	–	**4,601**	6,013
Total	**568,544**	323,632	**13,954**	37,691	**(4,144)**	1,067	**578,354**	362,390
Segment results	**26,464**	(11,032)	**840**	(2,070)			**27,304**	(13,102)
Finance costs							**(2,705)**	(4,296)
Cost of financial restructuring							**(618)**	(2,202)
Gain/(Loss) on disposal and revaluation of properties							**853**	(343)
Provision for termination of overseas business							**-**	(1,334)
Taxation							**(6,909)**	3,626
Minority interests							**(3,317)**	(4,998)
Profit/(Loss) for the period							**14,608**	(22,649)
Depreciation for the year	**5,751**	5,008	**451**	711				
Impairment loss for the year	**-**	256	**-**	–				
Significant non cash expenses/ (income)	**-**	1,678	**-**	(7)				

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.

4. Profit/(loss) from ordinary activities before taxation

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

	Six months ended 31 August	
	2004	2003
	$'000	$'000
Interest on borrowings	**2,705**	4,296
Depreciation	**6,202**	5,719
Loss on disposal of properties held on sale	**29**	49
(Write back of provision)/Provision for diminution in value of properties held for sales	**(265)**	256
Provision for inventory	**4,400**	1,066

5. Income Tax

Income Tax in the consolidated profit and loss account represents:

	Six months ended 31 August	
	2004	2003
	$'000	$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	**4,553**	235
Current tax – Overseas		
Tax for the period	**2,149**	–
Over-provision in respect of prior years	**–**	(1,817)
	2,149	(1,817)
Deferred tax		
Origination and reversal of temporary differences	**207**	(1,753)
Effect of increase in tax rate on deferred tax balance	**–**	(291)
	207	(2,044)
	6,909	(3,626)

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2003: 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Tax on the assessable profits of subsidiary companies operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

Deferred tax has been calculated by applying the rate that is expected to apply in the period when the asset is realized or the liability is settled.

6. Dividends

The directors have resolved not to declare the payment of any interim dividend for the six months ended 31 August 2004 (2003: Nil).

7. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit for the period of $14,608,000 (2003: loss $22,649,000) and on the weighted average of 391,889,263 ordinary shares (2003: 391,889,263 ordinary shares) in issue during the period.

(b) Diluted earnings/(loss) per share

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

8. Properties held for sales

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

9. Inventories

	At 31 August 2004 $'000	At 29 February 2004 $'000
Raw material	**66,097**	49,952
Work in progress	**68,997**	67,380
Finished goods	**291,139**	183,161
Finished goods – consigned outward	**80,840**	109,503
	507,073	409,996

As at 31 August 2004, the Group had consigned finished goods to licensee, 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 $70,880,000 and $9,960,000 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 2004, the Group had amounts due from Hua Long amounting to $20,094,000. 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 $10,285,000 (at 29 February 2004: $12,870,000) and $106,243,000 (at 29 February 2004: 77,682,000) 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.

10. 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 2004 $'000	At 29 February 2004 $'000
0 to 30 days	**29,370**	30,779
31 to 60 days	**10,283**	6,370
61 to 90 days	**477**	8,336
Over 90 days	**2,180**	902
Total debtors	**42,310**	46,387
Other receivables, deposits and prepayments	**35,017**	32,755
	77,327	79,142

Apart from retail customers, the Group allows an average credit period of 50 days to other customers.

11. Trade and other payables

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

	At 31 August 2004 $'000	At 29 February 2004 $'000
0 to 30 days	**57,298**	67,737
31 to 60 days	**22,033**	17,814
61 to 90 days	**25,647**	27,997
Over 90 days	**149,503**	58,912
Total creditors	**254,481**	172,460
Other payables and accruals	**126,320**	113,408
	380,801	285,868

12. Share capital

Issued and fully paid:

	No. of shares '000	**Amount** $'000
At 29 February 2004 and 31 August 2004 – Ordinary shares of $0.25 each	391,889	97,972

At 31 August 2004, the Company has no outstanding options.

13. Reserves

	Share premium $'000	Special reserve $'000	Capital reserve $'000	Land and buildings revaluation reserve $'000	Exchange reserve $'000	Capital redemption reserve $'000	Accumu-lated losses $'000	Total $'000
Balance at 1 March 2004	86,037	336,362	97,992	21,412	(7,486)	170,873	(762,632)	(57,442)
Revaluation surplus, net of deferred tax	–	–	–	473	–	–	–	473
Exchange difference on translation of financial statements of subsidiaries	–	–	–	–	1,393	–	–	1,393
Profit for the period	–	–	–	–	–	–	14,608	14,608
Balance at 31 August 2004	86,037	336,362	97,992	21,885	(6,093)	170,873	(748,024)	(40,968)
Balance at 1 March 2003	86,037	336,362	98,141	21,522	(7,034)	170,873	(770,651)	(64,750)
Revaluation surplus, net of deferred tax	–	–	–	416	–	–	–	416
Revaluation reserve realised on disposal of a property	–	–	–	(526)	–	–	526	–
Exchange difference on translation of financial statements of subsidiaries	–	–	–	–	325	–	–	325
Capital reserve realised on liquidation of subsidiaries	–	–	(149)	–	–	–	–	(149)
Exchange reserve realised on disposal of a subsidiary	–	–	–	–	(777)	–	–	(777)
Profit for the year	–	–	–	–	–	–	7,493	7,493
Balance at 29 February 2004	86,037	336,362	97,992	21,412	(7,486)	170,873	(762,632)	(57,442)

14. Pledge of assets

The Group's secured bank loans and secured other loans are secured by (a) all of the undertakings, properties and assets of the Company and 17 of its subsidiaries by way of fixed and floating charges and rental revenue of the Group; (b) the capital contribution to a subsidiary of the Group amounting to US$235,000 and all the benefits accruing to the pledged equity interest of 11.625% and (c) all rights, titles and interests in 56.46% of the entire share capital of two subsidiaries of the Group and all benefits accruing to the pledged equity interest.

15. Connected and material related party transactions

(a) During the period, three subsidiaries of the Company, Tse Sui Luen Jewellery Trading & Distribution Co Ltd ("TSL Trading"), Beijing Tse Sui Luen Jewellery Co Ltd ("BTSL") and Excellent Ford Development Ltd sold and consigned finished goods to Hua Long amounting to $86,384,000 (2003: $43,861,000) and Rui Feng amounting to $17,912,000 (2003: $2,246,000). The transactions were carried out by way of cost-plus pricing arrangement in the normal course of business of the subsidiaries.

Hua Long and Rui Feng were licensees of Tse Sui Luen Jewellery (China) Limited and distributed the consigned finished goods to shops outlets operating under the trade names of "Tse Sui Luen" in Mainland China. There was no monetary consideration paid by the licensees in respect of using the trademark licenses.

During the period, TSL Trading received commission, depending on the nature of the products, amounting to $6,826,000 (2003: $8,849,000) and $1,225,000 (2003: Nil) from Hua Long and Rui Feng for their respective confirmed purchase from BSTL.

During the period, Shanghai Tse Sui Luen Consultancy Service Limited ("SHTSLCS") provided consultancy services to sales outlets of Hua Long and Rui Feng in return for fees amounting to $147,000 (2003: $535,000) and $110,000 (2003: Nil) respectively. The consultancy fees were charged at 0.4% of turnover of all the relevant retail outlets.

During the period, Tse Sui Luen Jewellery Consultancy Service Limited ("TSLJCS") and BTSL paid Hua Long consultation fee amounting to $279,000 (2003: $275,000) for Hua Long's advice of public relation matters to TSLJCS and BTSL.

Hua Long and Rui Feng are companies controlled by Mr. Qi Jian Hong ("Mr. Qi") who is a substantial shareholder and a director of the two subsidiaries of the Company, Infinite Assets Corp. ("IAC") and Tse Sui Luen Investment (China) Limited ("TSL China"), and is also a director of a subsidiary of TSL China, BSTSL. The licensing, sales, consignment commission and consultancy service arrangements therefore constituted connected transactions under the Listing Rules.

(b) As set out in an announcement of the Company dated 14 May 2004, Partner Logistics acquired all the rights, title and interests in the indebtedness due to certain of the bank lenders of the Bank Borrowings by the Group under the Restructuring Agreement amounting to $195,731,000 and $14,000,000 on 11 February 2004 and 2 April 2004 respectively. Partner Logistics is a company controlled by Mr. Tse Tat Fung, Tommy, a director of the Company. At 31 August 2004, the outstanding loans due to Partner Logistics amounting to $209,731,000. During the period, loan interest amounting to $2,280,000 was paid to Partner Logistics at the rate of one month Hongkong interbank borrowing rate plus a margin of 2 per cent.

16. Contingent liabilities

During the year ended 29 February 2004, certain subsidiaries of the Group have received from the Inland Revenue Department ("IRD") additional assessments amounting to $13 million relating to certain offshore income and agents commission payments and promoter fees arising in prior years in respect of which the IRD have challenged the tax treatment adopted by the subsidiaries. The subsidiaries are in the process of gathering relevant information to support the tax treatments adopted. The directors believe that the information being gathered will provide sufficient grounds to support the tax treatments adopted. However, the directors consider it prudent to establish a provision of $13 million in respect of the above which has been charged to the consolidated profit and loss account in the year ended 29 February 2004.

In the event that the subsidiaries are not successful in defending the tax treatments adopted, the Group may be subject to significant additional tax liabilities and possibly penalties over and above the additional provision of $13 million above. The directors' estimate of potential additional tax liabilities which could arise should the offshore income claims fail is $42 million. The directors consider that it is impractical to estimate the potential amount of additional tax liabilities arising if the IRD's challenge in respect of the agents commission payments and promotor fees is successful. Furthermore, under the provisions of the current tax legislation, the above mentioned penalties may be up to three times any tax under-reported as assessed by the IRD.

17. Post balance sheet event

Subsequent to the balance sheet date, the Circular was despatched to the shareholders proposing, among other things, a Capital Reorganization (as defined therein), Debt Conversion (as defined therein), the Revised DRA and a possible open offer arrangement (collectively the "Proposals"). The Proposals were approved by the shareholders of the Company on 18 November 2004. The Capital Reorganisation came into effect on 19 November 2004. The Debt Conversion and the Revised DRA are expected to become effective in December subject to the fulfillment of certain conditions. The possible open offer will only proceed if the Debt Conversion is implemented and if it is fully underwritten by the Underwriter.

18. Review of unaudited interim financial report

The unaudited interim financial report for the six months ended 31 August 2004 has been reviewed by the audit committee of the Company.

19. Approval of interim financial report

The interim financial report was approved by the board on 24 November 2004.

INTERIM DIVIDEND

The board resolved not to pay an interim dividend for ordinary shares of the Company for the six months ended 31 August 2004 (2003: Nil).

BUSINESS REVIEW AND PROSPECTS

During the period under review, the Group experienced a pleasing increase in its sales and profit as compared to the same period last year which is not really directly comparable as both sales and profit were adversely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong during that time. Consolidated turnover for the six months ended 31 August 2004 increased by 61% to HK$573.8 million (2003: HK$356.4 million) and the Group reported a profit for the period of HK$14.6 million (2003: Loss HK$22.6 million).

Most of the sales growth experienced by the Group during the period under review was driven by our Hong Kong operations with the overall increase in sales being in line with the general uplift in retail sales experienced by the retail sector in Hong Kong which started to see improvements back in August 2003 with the easing of travel restrictions and the introduction of the Individual Visitor Scheme for Mainland Tourists.

Notwithstanding the above, the retail environment in Hong Kong remains very competitive and we expect that the competition for customers will increase in the next few years as the various major jewellery brands in Hong Kong start to reinvest back into their store networks in order to capture the opportunities currently available and also following a number of years of hiatus due to the prolonged recession in Hong Kong which saw retails sales decline.

The Group relocated and refurbished one of its stores in Causeway Bay in June and will be opening a new store in Yau Ma Tei in December 2004 all bearing the Group's new image. The new Causeway Bay store has been well received by customers and we expect a similar response to our new Yau Ma Tei store when it opens.

Sales from the business in Mainland China continue to improve although at a slower pace to that experienced in Hong Kong. About 55% of the mainland outlets have now been upgraded to the new brand image and we expect the balance to be completed within next year. Despite of the established brand equity, more investment has yet to be made in advertising, promotion and store openings to defend and stand against the increasing competition from other Hong Kong and international jewellery brands which are entering the Mainland China market aggressively.

During the period under review, the Group has started a two year project to update its overall IT infrastructure ranging from its office to manufacturing to retail operations. We believe that this project, after completion, will result in cost savings and better information for serving our customers and improving profitability. However it will likely lead to an increase in operational costs during the planning and implementation phases.

In addition, the Group is in the process of reviewing its manufacturing requirements (capacity) going forward and has identified locations for future factories in Southern China that will be able to handle its supply needs for the next few years.

BUSINESS REVIEW AND PROSPECTS *(Continued)*

During the period under review, the Group was successful in negotiating the terms of (i) the Revised DRA with its lenders in respect to its borrowings (which will replace the Restructuring Agreement and (ii) the Debt Conversion by which Partner Logistics will swap about HK$137 million of its debt for shares in the Company. Both agreements were conditional on independent shareholders' approval.

A Special General Meeting ("SGM") of the Company was held on 18 November 2004 to propose an overall financial restructuring of the Group involving a capital reorganisation, Debt Conversion, the Revised DRA, open offer and general mandate. All these proposals were approved at the SGM. The Debt Conversion, the Revised DRA and the open offer are expected to be completed or become effective in December 2004 at which time, based on the Company's balance sheet position as at 31 August 2004, the Company's debt will be reduced from a current HK$241.9 million to about HK$104.5 million and its ratio of borrowings to shareholder funds will be reduced from about 4.2 times to 0.45 times. The effect of the above shareholders' approvals will be to substantially recapitalize the Company, make it more competitive, make it possible to raise or borrow new funds for growth and form a solid basis on which to increase shareholder value going forward.

At 31 August 2004, the Group's total borrowings have been reduced to HK$241.9 million from HK$248.9 million at 29 February 2004. Debt to equity ratio was reduced from 6.1 times to 4.2 times mainly because of the increased net assets value resulting from the profit during the period.

Capital expenditure for store renovation and expansion, information technology investment and machinery made during the period was approximately HK$9.6 million. This was mainly financed by internal resources.

As at 31 August 2004, the total number of employees of the Group was approximately 1,353. The increase in headcount was mainly in sales and marketing and in a factory in Mainland China to cope with the increasing sale and production requirements.

We look forward to the second half of this financial year as regards sales increases and the finalization of the restructure of the Company and the associated fund raising via the open offer.

Subject to the foregoing, during the period under review, human resources policies, capital structure, financial policies, plans for capital expenditure, 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At as 31 August 2004, the interests and short positions of the directors and chief executive and/or their respective associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

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

	Number of ordinary shares held					
Name of director	**Personal interest**	**Family interest**	**Corporate interest**	**Short position**	**Other interest**	**Percentage of total issued share capital**
Tse Tat Fung, Tommy	–	–	195,971,534(i)	–	1(ii)	50.0%

Notes:

(i) These ordinary shares were held through Blink Technology Limited ("Blink Technology"), a company wholly and beneficially owned by Mr. Tse Tat Fung, Tommy. By virtue of the SFO, Mr. Tse Tat Fung, Tommy is deemed to be interested in all the shares in the Company held by Blink Technology.

(ii) Blink Technology acquired the rights, title and interest pursuant to various financing documents under which this ordinary 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 ordinary share.

(ii) Interests in underlying shares

As at 31 August 2004, none of the directors and employees of the Company had interests in any option to subscribe for shares of the Company.

Apart from the foregoing and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, its subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY *(Continued)*

(iii) Interests in the Company's share options

On 26 November 2003, the shareholders of the Company adopted the new share option scheme ("2003 Share Option Scheme").

During the six months ended 31 August 2004, no option was granted, exercised, lapsed or cancelled under the 2003 Share Option Scheme.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age 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 the Model Code contained in the Listing Rules, to be notified to the Company or the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 August 2004, the interests and short positions of any substantial shareholders (not being directors or chief executive of the Company) in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

		Number of ordinary shares held					
Name	**Capacity**	**Direct interest**	**Percentage of total issued shares**	**Short position**	**Percentage of total issued shares**	**Other interest**	**Percentage of total issued shares**
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 ordinary 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 ordinary share.

(ii) Suez Asia Holdings Pte Ltd is the trustee of certain discretionary trusts.

(iii) The two references to 37,304,000 ordinary shares relate to the same block of ordinary 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.

SHARE OPTION SCHEME

The share option scheme adopted by the Company on 20 August 1993 ("1993 Share Option Scheme") expired and the 2003 Share Option Scheme was adopted by the shareholders of the Company on 26 November 2003.

Under the 2003 Share Option Scheme, the Directors are authorized, at their discretion, at any time following the date of the adoption of the 2003 Share Option Scheme but before the tenth anniversary of that date, offer options to any full time or part time employees and directors (including executive directors and independent non-executive directors) of, any suppliers, customers, persons that provide research, development or technological support or other services and shareholder or member of holder of any securities issued by any member of any securities, the Company, any of its subsidiaries or any entity in which the Group holds any equity interest, to subscribe for the shares of the Company subject to the terms and conditions stipulated therein at an exercisable price at the highest of the nominal value of the shares, the closing price of the shares of the Company on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. An offer of an option shall be deemed to have been accepted within 28 days from the date of offer upon acceptance of the option duly signed by the grantee together with a remittance of HK$1. The maximum number of securities available for issue under the 2003 Share Option Scheme shall not exceed 10% of the issued share capital of the Company. The maximum entitlement of each grantee in any 12-month period is limited to 1% of the ordinary shares in issue of the Company.

No share option had been granted, exercised, lapsed or cancelled under the 2003 Share Option Scheme since its adoption.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 August 2004.

DISCLOSURE PURSUANT TO THE RULES 13.09 AND 13.20 OF THE LISTING RULES ON THE STOCK EXCHANGE

Advance to an entity

In accordance with the requirement of Rules 13.09 and 13.20 of the Listing Rules, the directors of the Company report that as at 31 August 2004, a subsidiary had an advance to its customer, Hua Long, amounting to HK$20,094,000. This advance is trade receivable arising from the Group's normal and ordinary course of business and is unsecured, interest free with credit term of 75 days.

Hua Long is a company 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 which created the trade receivable, 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 audit 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.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period under review, in compliance with 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.

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors regarding any noncompliance with the Model Code during the six months ended 31 August 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Messrs. Tse Tat Fung, Tommy, Peter Gerardus Van Weerdenburg, Leung Yit Kuen, Raymond and Chan Alex, and the independent non-executive directors of the Company are Messrs. Hong Po Kui, Martin, Chui Chi Yun, Robert, Gerald Clive Dobby and Lui Pui Kee, Francis.

By Order of the Board
Tse Tat Fung, Tommy
Chairman

Hong Kong, 24 November 2004