VOLUME II No. 186 F R I D A Y September 29, 2000

TSE SUI LUEN JEWELLERY (INTERNATIONAL) LTD : WITH THE CHAIRMAN, A BANKRUPT, WHO IS MINDING THE STORES ?

Investors, holding on to scrip in the Issued and Fully Paid-Up Share Capital of Tse Sui Luen Jewellery (International) Ltd, might like to consider using the scrip for wall paper -- because that will be, just about, the only value for the paper within the next few years, if not sooner.

TARGET makes this statement, following the determination of the High Court to declare Tse Sui Luen's Chairman, Mr Tse Sui Luen, a bankrupt.

That leaves just Mr Tse's son, Tommy Tse Tat Fung, in charge of the publicly listed company -- and it is unlikely that he could run the Company for very long because, in TARGET's opinion, he is inept.

The Annual Report of Tse Sui Luen for the Financial Year, ended February 29, 2000, already paints a gloomy picture of this once giant among jewellery companies, operating in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), but the bankruptcy of Mr Tse Sui Luen puts another wrinkle in the material of Tse Sui Luen.

Mr Tse, as Chairman of the Company, was drawing about $HK1.54 million per month as his remuneration.

This annual emolument of $HK18.50 million may be measured against the Net Loss for the 2000 Financial Year of about $HK285.56 million.

Mr Tse, actually, did a favour for his Company in the 2000 Year because, in the 1999 Year, when the Company lost about $HK608.63 million, he took total emoluments of about $HK22 million -- about $HK1.83 million per month.

In the 1999 Year, the total amount of money, paid to the Company's Executive Directors as fees and other emoluments, amounted to about $HK36.54 million.

Of this figure of $HK36.54 million, $HK2.30 million was the 1999 *'Performance related incentive payments',* according to Page 50 of the 2000 Annual Report.

In the 2000 Financial Year, the total amount of money, paid to the Company's Executive Directors as fees and other emoluments amounted to about $HK17.79 million.

However, a payment of $HK17.15 million was paid as *'Compensation in lieu of notice for early termination of directors' service contracts'*.

Since the wording of this $HK17.15-million payment was in the plural -- '*Directors' service contracts*' -- TARGET assumes that it relates to moneys, paid to Mr Cheung Hung Piu (he was appointed an Executive Director on March 1, 1999 and resigned on August 9, 1999), Mr Lau Chuk Kin (he was appointed an Executive Director on December 30, 1999 and resigned on February 18, 2000), Ms Winnie Tse Wing Yee (the daughter of Mr Tse, who resigned as an Executive Director on February 28, 2000) and Ms Anita Wong Wai Kwan (who resigned as an Executive Director on February 28, 2000).

Mr Tse Sui Luen has a service contract with a subsidiary of Tse Sui Luen for a fixed term of 2 years, starting from March 25, 1999.

That being the case, the creditors of Mr Tse will, without question, seek an Order from the Court to attach most of that $HK18.50 million, which should be due to Mr Tse for the Current Financial Year, ending February 28, 2001 -- provided that he performs his duties.

And this may be said to have been questionable, in the past, in view of the sad state of affairs at Tse Sui Luen, today.

In view of the fact that Tse Sui Luen has been on the bones of its financial arse for the past few Financial Years, one must wonder as to the reason that nothing was said about the fact that Mr Tse and other members of his family and some special friends were *'milking'* the Company at a time when to pay creditors was an impossible task.

<u>The Auditor's Absolute Disclaimer</u>

The Auditors of Tse Sui Luen, Deloitte Touche Tohmatsu, have qualified its opinion with regard to the Company's accounts for the past Financial Year in such a manner as to obviate any possibility of misunderstanding as to this firm's opinion of the state of affairs at Tse Sui Luen as at the Balance Sheet Date:

> *'We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as explained below.*
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> *'As explained in note 27 to the financial statements, included in the Group's balance sheet as at 28th February, 1999 was an amount of HK$51,150,000 described as a deposit paid to a potential business partner in the People's Republic of China (the "PRC Company"). This deposit was paid through a minority shareholder acting as agent for the PRC Company. However, during the year, it was confirmed orally by the minority shareholder to the directors that although the deposit was received by the PRC Company, it was applied in part satisfaction of the personal obligations of a director of the Company to a senior official of the PRC Company, such obligations having been incurred in June 1998. This matter is currently under investigation by the directors.*
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> *'Against this background, we were unable to satisfy ourselves as to whether the deposit was fairly stated as at 28th February, 1999 and, accordingly, whether the provision for the deposit made in the year ended 29th February, 2000 is appropriate. Any adjustment found to be necessary would affect the loss of the Group for the year ended 29th February, 2000 and opening reserves of the Group as at 1st March, 1999.*
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> *'In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.*
>
> ***Fundamental uncertainty relating to the going concern basis***
>
> *'In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain that following negotiations with the Group's bankers, restructuring terms have been finalised with the coordinating bank and are set out in a restructuring agreement under which certain of the Group's assets will be disposed of and the proceeds applied to reduce the Group's bank borrowings. The restructuring agreement has been signed by the Company and will be recommended by the coordinating bank to the Group's bankers for consideration. Provided that the restructuring agreement is duly signed by the Group's bankers, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall*

due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Qualified opinion arising from limitation of scope

'In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 29th February, 2000. Except for any adjustments which might have been found necessary had we been able to obtain sufficient evidence concerning the deposit paid to the PRC Company, in our opinion the financial statements give a true and fair view of the loss and cash flows of the Group for the year ended 29th February, 2000 and have been properly prepared in accordance with the disclosure requirements of the Hongkong Companies Ordinance.

'In respect alone of the limitation on our work relating to the deposit paid to the PRC Company:

- *We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and*

- *We were unable to determine whether proper books of account had been kept.'*

In respect of the above Auditor's disclaimer (TARGET's opinion), TARGET cannot ... **CLICK TO ORDER FULL ARTICLE**

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