KIN DON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Annual Report 2000

Content

Corporate Information

Board of Directors

Executive Directors
Yeung Kwok Kwong *(Chairman)*
Au Tung Chi
Wei Cheng Wen
Au-Yeung Chi Hung, Alex
Lai Ka Fai

Non-Executive Directors
Conway Anthony Francis Martin#
Siu Leung Yau#
Liu Kwong Sang#
Ho Ping

independent non-executive Directors

Company Secretary

Wong Kai Cheong

Authorised Representatives

Yeung Kwok Kwong
Lai Ka Fai

Auditors

Ernst & Young

Registered Office

P.O. Box 2681
Zephyr House
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business

5605-5606, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

The Harbour Trust Co., Ltd.
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
4th Floor
Hutchison House
10 Harcourt Road, Central
Hong Kong

Solicitors

Robert C. C. Ip & Co.

Principal Bankers

The China State Bank, Ltd.
Sin Hua Bank Ltd.

Financial and Operation Highlights

(All amounts are expressed in HK$'000 unless otherwise stated and except for financial ratios)

	2000	1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Operating results				
Turnover	**17,375**	325,521	401,742	312,544
Increase/(decrease)(%)	**(95)**	(19)	29	39
Net profit/(loss) from ordinary activities attributable to shareholders	**(155,792)**	(299,245)	111,480	93,140
Increase (%)	**N/A**	N/A	20	42
Financial position				
Shareholders' fund/(deficiency in assets)	**(153,189)**	(83,921)	195,087	58,249
Total assets	**25,941**	78,096	389,736	256,125
Net assets/(liabilities) value per share (HK cents)*	**(16)**	(14)	39	14
Financial statistics				
Current ratio**	**0.02**	0.07	1.75	1.10
Bank borrowings to equity ratio	**N/A**	N/A	0.29	0.75
Total debts to equity ratio	**N/A**	N/A	1.0	3.4
Inventory turnover on sales (days)	**77**	145	106	128
Return on sales (%)	**N/A**	N/A	27.7	29.8
Return on total assets (%)	**N/A**	N/A	28.6	36.4
Basic earnings/(loss) per share (HK cents)*	**(18.5)**	(59.1)	25.8	22.6
Franchisee network in the PRC				
Number of franchised shops	**15**	123	154	112
Number of cities/counties covered	**10**	110	112	73
Number of provinces/direct administrative cities covered	**6**	27	27	22

* The 1997 figures are calculated based on the assumption that 412,500,000 shares were in issue during the year.

** The current ratios for 1997, 1998 and 1999 have been restated to conform with the current year presentation.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2001 Annual General Meeting of the Company will be held at basement Function Room I of Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 5 July 2001 at 9:00 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 30 November 2000;

2. To elect Directors and to authorise the Board to fix Directors' remuneration;

3. To appoint Messrs. Ernst & Young as Auditors and to authorise the Board to fix their remuneration.

By Order of the Board
Yeung Kwok Kwong
Chairman
Hong Kong, 31 May 2001

Notes:

1. The register of members of the Company will be closed from Tuesday, 3 July 2001 to Thursday, 5 July 2001 (both days inclusive) during which period no transfer of shares will be registered. In order to attend the Annual General Meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Friday, 29 June 2001.

2. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy so appointed.

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting.

Chairman's Statement

The Group operated under extreme difficult conditions in fiscal 2000 and reported a net loss of about HK$156 million. In August 2000, Marble King International Limited ("Marble King") became the single largest shareholder of the Company and composition of the Board of directors had also undergone some changes.

For the past six months, the Board has been working very diligently towards restructuring the Group both financially and operationally. Tremendous management time and effort were spent in the discussions with the banks and the debentures holder, Stone Church LLC which had served a winding up petition against the Company in December 2000. The Board succeeded in compromising with Stone Church LLC and the winding up petition was dismissed by the Court in early May 2001.

To complete the debts restructuring work, the Board continued to enter into discussions with the banks and endeavor to secure Marble King's support and commitment in their possible capital injection and fund raising scheme for the Company. We are reasonably confident that the Company's major creditors will adopt an accommodating and sympathetic attitude towards the Company and that debts compromising agreements can be reached satisfactorily and on time with them. With that the restructuring scheme can hopefully be implemented successfully and business of the Group can be revived and re-activated in the not so distant future.

On behalf of the Board, I would like to thank all our staff members and directors for their hard work and dedication.

Yeung Kwok Kwong
Chairman
Hong Kong, 31 May 2001

Management Discussion and Analysis

Business review

Due to the limitation of available financial resources for the Group's business, the Group has scaled down significantly its level of core business of the manufacturing, marketing and distribution of men's apparel. Accordingly, turnover for the year ended 30 November 2000 dropped by 95% to about HK$17 million from 1999. Net loss from ordinary activities attributable to shareholders was recorded at approximately HK$156 million, due mainly to the negative gross margin on sales, expenses and costs incurred, provisions for permanent diminution in interest in and against shareholder's loan advanced to the Group's jointly-controlled entity, Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang") of approximately HK$5 million and HK$26 million respectively, premium on redemption of convertible debentures of approximately HK$4 million and share of loss of Li Yang of approximately HK$45 million during the year.

Liquidity and financial resources

As a result of the continued loss operation of the Group, working capital and net liabilities positions further deteriorated. As at 30 November 2000, the Group had net current liabilities of approximately HK$168 million and deficiency in assets of approximately HK$153 million. Consequently, the Group has been in default in the repayment of debts owing to banks and other creditors. In December 2000, a winding up petition against the Company was served by one of its major creditors, Stone Church LLC ("SC") for a debt of US$4,418,125 (approximately HK$34,373,000). After prolonged discussions with SC, a conditional compromise agreement (the "Agreement") was finally reached with SC in the settlement of the above debt by the Company. Details of the Agreement have been set out in our announcement dated 9 May 2001. In order to complete the Agreement within the stipulated time, the Group is now in active negotiations with its other major creditors for compromises of indebtedness settlement and in discussion with its single largest shareholder, Marble King International Limited, for capital injection. Further announcements in relation to the progress of the above discussions will be made as and when appropriate.

Charges on group assets

As at 30 November 2000, certain assets of the Group with an aggregate carrying value of HK$18,619,000 were pledged to secure credit facilities granted to the Group.

Significant investment

As at 30 November 2000, the Group's major investment is its 48% equity interest in Li Yang. Since the commencement of its business, advertising revenue derived by Li Yang has been behind management expectation despite substantial costs having been incurred in the preparatory work and business operations. Based on the limited financial information from Li Yang, the Group recorded its share of loss and determined provisions for diminution in value in and against shareholder's loan advanced to Li Yang as discussed above. At present, the Board is still evaluating the future prospect of this project based on its business performance to date and the Group's current financial position.

Management Discussion and Analysis

Employees

As at 30 November 2000, the total number of employees of the Group was about 40. The Group remunerates its employees based on their performance, working experience and degree of hardship of work. Staff benefits include a share option scheme and bonus.

Prospects

Under this adverse financial position, the Directors consider that it is crucial for the Company to implement measures as soon as possible in obtaining new capital as discussed above to revive its business operation and to arrange settlement of its debts. With an improvement in working capital, the Directors plan to reactivate its core garments business and to look for other business opportunities. Since a number of unfavourable comments were received regarding the "Kin Don" brand name as reflected in its negative gross margin on sales, considerations are seriously made to the introduction of new local and foreign brand names and other types of garments business by the Group for diversification in future.

ON BEHALF OF THE BOARD
Yeung Kwok Kwong
Chairman
Hong Kong, 31 May 2001

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 30 November 2000.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the Group have not changed during the year and consisted of the manufacturing, marketing and distribution of men's apparel, including leather goods and accessories, under the Group's Kin Don brand name in the People's Republic of China (the "PRC"). However, the sale of such operations was significantly scaled down in light of the Group's financial difficulties which are further elaborated in note 2(i) to the financial statements. During the year, the Group invested in a jointly-controlled entity to carry out the businesses of television advertisement design and production, and the provision of advertising agency and advertisement publication services, including the import and export of advertising and related products.

Segmental information

Details of the Group's segmental information relating to its turnover and contribution to loss from operating activities for the year ended 30 November 2000 are set out in notes 5 and 6 to the financial statements.

Results

The Group's loss for the year ended 30 November 2000 and the state of affairs of the Company and the Group as at that date are set out in the accompanying financial statements on pages 24 to 68.

Report of the Directors

Summary of financial information

The following is a summary of the published combined/consolidated results of the Group for the last five years and net assets/liabilities of the Group for the last four years.

	Year ended 30 November				
	2000	1999	1998	1997	1996
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**17,375**	325,521	401,742	312,544	225,568
Profit/(loss) from operating activities	**(91,556)**	(292,363)	139,833	115,569	80,698
Finance costs	**(20,623)**	(9,324)	(7,177)	(3,461)	(1,425)
Share of results:					
An associate	**–**	–	–	–	(689)
A jointly-controlled entity	**(44,690)**	–	–	–	–
Profit/(loss) before tax	**(156,869)**	(301,687)	132,656	112,108	78,584
Tax	**38**	683	(21,634)	(19,220)	(13,383)
Profit/(loss) before minority interests	**(156,831)**	(301,004)	111,022	92,888	65,201
Minority interests	**1,039**	1,759	458	252	227
Net profit/(loss) from ordinary activities attributable to shareholders	**(155,792)**	(299,245)	111,480	93,140	65,428

	30 November			
	2000	1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**25,941**	78,096	389,736	256,125
Total liabilities	**(172,794)**	(153,446)	(184,465)	(189,675)
Minority interests	**(6,336)**	(8,571)	(10,184)	(8,201)
Net assets/(liabilities)	**(153,189)**	(83,921)	195,087	58,249

Report of the Directors

Summary of financial information (continued)

Notes:

1. The summary of the combined results of each of the two years ended 30 November 1997 has been extracted from the Company's prospectus dated 1 September 1998. This two-year summary was prepared from the audited financial statements of the companies now comprising the Group as if the structure of the Group had been in existence throughout these financial years. The results of the Group for each of the two years ended 30 November 2000 are set out in the consolidated profit and loss account on page 24 of the financial statements.

2. The summary of the net assets of the Group as at 30 November 1997 has been extracted from the Company's prospectus dated 1 September 1998. The summary of net liabilities of the Group as at 30 November 1999 and 30 November 2000 has been extracted from the audited consolidated balance sheet of the Group set out on pages 26 and 27 of the financial statements.

Major customers and suppliers

Sales to the five largest customers of the Group accounted for approximately 57% of the Group's total turnover for the year. In particular, sales to the Group's largest customer accounted for approximately 31% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 88% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 59% of the Group's total purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital had any beneficial interest in the Group's five largest customers and/or five largest suppliers mentioned in the preceding paragraphs.

Fixed assets

Details of the movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

Jointly-controlled entity

Particulars of the Group's interest in its jointly-controlled entity are set out in note 15 to the financial statements.

Borrowings

Details of the Group's borrowings at the balance sheet date are set out in notes 20 to 23 to the financial statements.

Share capital and share options

Details of the movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

Report of the Directors

Share premium and reserves

Details of the movements in the share premium account and reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

Distributable reserves

As at 30 November 2000, the Company had no reserves available for cash distribution and/or distribution in specie. Under Chapter 22 of the Companies Law (1998 Revision) of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business, which provisions the Company is unable to meet at present. In accordance with the Company's articles of association, no dividend shall be paid otherwise than out of the profit of the Company or any amounts held in the share premium account. As at 30 November 2000, the Company's share premium account amounted to approximately HK$134,604,000.

Directors

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors

Mr. Yeung Kwok Kwong *	(appointed on 1 September 2000)
Mr. Au Tung Chi	
Mr. Wei Cheng Wen	
Mr. Au-Yeung Chi Hung, Alex	(appointed on 1 September 2000)
Mr. Lai Ka Fai	(appointed on 1 September 2000)
Mr. Ou Tong De	(resigned on 1 September 2000)
Mr. Lam Kwing Sun, Philip	(resigned on 1 September 2000)

Non-executive director

Mr. Ho Ping

Independent non-executive directors

Mr. Conway Anthony Francis Martin	(appointed on 1 September 2000)
Mr. Siu Leung Yau	(appointed on 1 September 2000)
Mr. Liu Kwong Sang	(appointed on 24 July 2000 and resigned on 1 September 2000, and reappointed on 1 December 2000)
Ms. Man, Margaret	(resigned on 1 March 2000)
Mr. Fan Jia Yan	(resigned on 1 March 2000)
Mr. Poon Chi Fai, J.P.	(resigned on 1 September 2000)
Mr. Ip Chun Chung, Robert	(appointed on 1 March 2000 and resigned on 24 July 2000)

* Mr. Yeung Kwok Kwong was appointed the Chairman of the Company's board of directors on 1 September 2000 to replace Mr. Au Tung Chi.

Directors (continued)

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Au Tung Chi, Mr. Ho Ping and Mr. Liu Kwong Sang will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive director and independent non-executive directors, but excluding the Chairman, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

Directors' service contracts

Each of Mr. Au Tung Chi and Mr. Ou Tong De entered into a service contract with the Company for a term of three years commencing on 1 September 1998, provided that either party to the service contract might terminate the contract by serving to the other party a written notice of not less than six months prior to the effective date of termination.

Each of Mr. Yeung Kwok Kwong, Mr. Au-Yeung Chi Hung, Alex and Mr. Lai Ka Fai entered into a service contract with the Company for a term of three years commencing on 1 September 2000, provided that either party to the service contract might terminate the contract by serving to the other party a written notice of not less than six months prior to the effective date of termination.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

Directors' interests in shares

At 30 November 2000, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name	**Number of shares**	**Type of interests**
Au Tung Chi	13,750,000	Corporate *(Note)*

Note: Mr. Au Tung Chi is the sole beneficial shareholder of Glowing Bless Corporation, a company incorporated in the British Virgin Islands, which owned 13,750,000 shares of the Company.

In addition to the above, Mr. Au Tung Chi is holding shares in certain subsidiaries of the Company in a non-beneficial capacity which is solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the share capital of the Company or any of its associated corporations which were recorded in the Register as defined in the SDI Ordinance.

Report of the Directors

Directors' rights to acquire shares

Under the terms of a share option scheme adopted by the Company on 19 August 1998, the directors may, at their absolute discretion, grant options to employees and directors of the Company or any of its subsidiaries to subscribe for shares in the Company. Details of the share option scheme are set out in note 24 to the financial statements. The share option scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 9 September 1998.

Details of movements in the number of share options granted to the directors of the Company during the year are summarised as follows:

	Number of share options (in thousands)			
Name of directors	At 1 December 1999	Granted during the year	Exercised during the year	**At 30 November 2000**
Mr. Au Tung Chi	14,000*	3,750#	(17,750)	–
Mr. Ou Tong De	14,000*	–	(14,000)	–
Mr. Wei Cheng Wen	8,000*	–	(8,000)	–
Mr. Lam Kwing Sun, Philip	8,000*	–	(8,000)	–
	44,000	3,750	(47,750)	–

Note:

* The share options granted were exercised at a price of HK$0.255 per share.

\# The share options granted during the year were exercised at a price of HK$0.235 per share.

No consideration was payable by each of the grantees upon acceptance of the grant of an option.

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 Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Pledge of shares by controlling shareholder

On 12 October 1999, Keen Intelligence Corporation ("KIC"), a company incorporated in the British Virgin Islands, pledged 250,500,000 ordinary shares of HK$0.10 each in the Company (the "Pledged Shares") to Magical Eyes Limited ("MEL"), an independent third party, to secure loan facilities granted by MEL for its own financial use. KIC is beneficially owned by Mr. Au Tung Chi and Mr. Ou Tong De, a director and an ex-director of the Company, as to 92% and 8%, respectively.

Pledge of shares by controlling shareholder (continued)

In August 2000, all the Pledged Shares were disposed of on the open market by MEL pursuant to the power of sale given under a deed of charge dated 12 October 1999. At the date of this report and 30 November 2000, KIC did not hold any shares in the Company.

Financial assistance to an affiliated company

Pursuant to a shareholders' agreement dated 20 December 1999 entered into among the Company, City Power Services Limited ("City Power") (a subsidiary of the Company) and Li Yang Advertising Public Relations (HK) Limited ("LY Advertising") (an unrelated party), the Group advanced an interest-free shareholder's loan of HK$30,000,000 to Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang"), a jointly-controlled entity of the Group. The shareholder's loan was not repayable by Li Yang without the approval of both City Power and LY Advertising. During the year, Li Yang repaid HK$4,250,000 to the Group. Further details of the shareholders' agreement are set out in note 4(iii) to the financial statements.

Directors' and employees' remuneration

Details of remuneration of the directors and emoluments of the five highest paid individuals of the Group are set out in notes 7 and 8 to the financial statements, respectively.

Directors' interests in contracts

Save as disclosed in note 4 to the financial statements, no director had a significant interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

Substantial shareholders

As 30 November 2000, the following interests of 10% or more in the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Marble King International Limited	245,328,000	26%

Marble King International Limited, a company incorporated in the British Virgin Islands, is beneficially and wholly owned by Mr. Johnny Or Wai Sheun.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Report of the Directors

Biographical details in respect of directors

Executive directors

Mr. Yeung Kwok Kwong, Rodney, aged 42, joined the Company in September 2000 as the Chairman and managing director of the Company. Prior to joining the Company, he worked for a large international accountancy firm and also held managerial and director positions in a number of large companies. He has over 19 years of experience in finance, accounting, financial management and corporate planning. He is currently responsible for the development of corporate strategies, corporate planning and day-to-day management of the Group. Mr. Yeung is a fellow member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants in the United Kingdom.

Mr. Au Tung Chi, aged 46, is the founder of the Group. Mr. Au has some 15 years' experience in the garment and textile trading industry. He is currently responsible for the development of corporate strategies, corporate planning and day-to-day management of the Group. Mr. Au is a brother of Mr. Ou Tong De.

Mr. Wei Cheng Wen, aged 45, joined the Company in August 1999 as an executive director of the Company. Prior to joining the Company, he worked for the Sunny Group. Mr. Wei has over 10 years' experience in finance and management. He is currently responsible for the finance, marketing, investments and day-to-day management of the Group.

Mr. Au-Yeung Chi Hung, Alex, aged 41, joined the Company in September 2000 as an executive director of the Company. Prior to joining the Company, he held managerial and director positions in large property development and manufacturing companies and worked for various international consultancy firms involving in infrastructure work and power projects. He has over 18 years of experience in project management, finance, operational management, and production planning and development. He is currently responsible for the development of corporate strategies and day-to-day management of the Group. Mr. Au-Yeung is a fellow member of the Hong Kong Institution of Engineers.

Mr. Lai Ka Fai, aged 36, joined the Company in September 2000 as an executive director of the Company. Prior to joining the Company, he worked for a large international accountancy firm and also held managerial and director positions in a number of large companies. He has over 14 years of experience in finance, accounting, financial and operational management, and corporate planning. He is currently responsible for the corporate planning, and day-to-day financial and operational management of the Group. Mr. Lai graduated from the University of East Anglia in the United Kingdom with a bachelor's degree in science. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

Mr. Ou Tong De, aged 34, was responsible for the sales and marketing activities of the Group and the management of the Group's sales outlets in the PRC until 1 September 2000 when he resigned. Mr. Ou joined the Group in 1990. Mr. Ou has 10 years' experience in the garment trading industry. He is a brother of Mr. Au Tung Chi.

Report of the Directors

Biographical details in respect of directors (continued)

Executive directors (continued)
Mr. Lam Kwing Sun, Philip, aged 35, joined the Company in November 1999. He was responsible for the overall management of the Group's PRC operation until 1 September 2000 when he resigned. Mr. Lam has over ten years' experience in the garment trading.

Non-executive director
Mr. Ho Ping, aged 44, is an investment consultant of King Pacific International Holdings Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr. Ho graduated from the Construction Engineering Department of Qinghua University in 1979. Mr. Ho has over 12 years' working experience in the PRC. Mr. Ho was a manager of China International Trust & Investment Corporation for ten years.

Independent non-executive directors
Mr. Conway Anthony Francis Martin, aged 60, joined the Company in September 2000 as an independent non-executive director. Mr. Conway has over 36 years' experience in information technology, and telecommunication, having held director and senior management positions in Hongkong Telecom, New World Telephone, Unysis, and NCR, etc. He is currently the chairman of I. Tel Holdings Ltd., an investment holding company for I.T.-related activities and the Hong Kong Management Association Information Technology Committee. Mr. Conway is a fellow of the Hong Kong Institute of Directors, Institute of Management, British Computer Society and the Hong Kong Institution of Engineers.

Mr. Siu Leung Yau, aged 47, joined the Company in September 2000 as an independent non-executive director, Mr. Yau has over 20 years' experience in property agency, investment and development. He is currently the managing director of Pan Win Holdings Limited. Mr. Siu is a member and councillor of the Hong Kong Association for the Advancement of Real Estate and Construction Technology Limited, and a member of the Hong Kong Institute of Real Estate Administration.

Mr. Liu Kwong Sang, aged 38, joined the Company in July 2000. He is a practising accountant in Hong Kong with more than 10 years' experience. He is also a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Society of Accountants.

Ms. Man, Margaret, aged 46, joined the Company in September 1998. She is a senior vice-president of CITIC Ka Wah Bank Limited. Ms. Man graduated from the College of Finance and Economy of Shanxi Province with a bachelor's degree in finance. She also obtained a master's degree in banking and finance from the Graduate School of the People's Bank of China and a certificate of American Law from the Law School, Columbia University in the United States. Ms. Man resigned on 1 March 2000.

Report of the Directors

Biographical details in respect of directors (continued)

Independent non-executive directors (continued)
Mr. Fan Jia Yan, aged 54, joined the Company in September 1998. He is an executive director of the Hongkong Chinese Bank, Ltd. Before joining the Hongkong Chinese Bank, Ltd., he was with CITIC Industrial Bank in Beijing for more than 10 years and has experience in the banking industry in the PRC. Mr. Fan is also a financial advisor to China Resources (Holdings) Co., Ltd. and a director of Hong Kong Building and Loan Agency Ltd. Mr. Fan resigned on 1 March 2000.

Mr. Poon Chi Fai, J.P., aged 50, joined the Company in September 1999. He is an executive director and general manager of another listed company in Hong Kong. Mr. Poon holds a bachelor's degree in economics and he was a former member of the Hong Kong Legislative Council. Mr. Poon resigned on 1 September 2000.

Mr. Ip Chun Chung, Robert, aged 44, joined the Company in March 2000. He is a practising lawyer in Hong Kong with more than 10 years' experience. Mr. Ip resigned on 24 July 2000.

Purchase, redemption or sale of listed securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Director's interests in competing business

During the year and up to the date of this report, no directors are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that (1) the non-executive director and independent non-executive directors are not appointed for any specific term of office, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company; (2) an audit committee was not established until 1 March 2000; and (3) the audit committee comprised only one member who was an independent non-executive director during the period from 1 September 2000 to 30 November 2000.

Report of the Directors

Audit committee

The Company has established an audit committee in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. On 1 March 2000, Mr. Poon Chi Fai, J.P. ("Mr. Poon") and Mr. Ip Chun Chung, Robert ("Mr. Ip") were appointed the members of the audit committee. Mr. Liu Kwong Sang ("Mr. Liu") and Mr. Siu Leung Yau ("Mr. Siu") were appointed the members of the audit committee upon Mr. Ip's and Mr. Poon's resignation as the independent non-executive directors on 24 July 2000 and 1 September 2000, respectively. Mr. Liu resigned as an independent non-executive director and a member of the audit committee on 1 September 2000, and was reappointed on 1 December 2000. The present members of the audit committee are Mr. Liu and Mr. Siu.

Year 2000 compliance

In the Company's 1998 annual report, the Group disclosed information relating to its definition on Year 2000 compliance, the risks and uncertainties associated with the Year 2000 issue, the structure of the Year 2000 compliance project, and the work done to reduce the Group's potential exposure to the Year 2000 problem arising from disruptions to its business and operations. These details are, therefore, not repeated here.

The Group successfully passed through the transition to the Year 2000 with all its systems functioning smoothly. Up to the date of this report, the Group had not encountered any problem relating to the Year 2000 issue.

The compliance project cost, which mainly included the upgrading of hardware and equipment of the Group, amounted to approximately HK$450,000 in total.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Yeung Kwok Kwong
Chairman
Hong Kong, 31 May 2001

Report of the Auditors

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Kin Don Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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 follows:

SCOPE LIMITATIONS ARISING FROM THE PRIOR YEAR'S AUDIT SCOPE LIMITATIONS AFFECTING OPENING BALANCES

1. Our opinion on the financial statements of the Group and the Company for the year ended 30 November 1999 was disclaimed for reasons which included the significance of the possible effects of several limitations on the scope of our audit which are further detailed in our report dated 23 November 2000.

Report of the Auditors

Basis of opinion (continued)

SCOPE LIMITATIONS ARISING FROM THE PRIOR YEAR'S AUDIT SCOPE LIMITATIONS AFFECTING OPENING BALANCES (continued)

In summary those scope limitations included:

(i) Incomplete books and records of certain subsidiaries;

(ii) Matters which prevented us from satisfying ourselves concerning closing inventories at 30 November 1999 aggregating HK$47,369,000 and accounts receivable of a similar account; and

(iii) Our inability to perform proper subsequent events review procedures because the books and records of the Group had not been properly updated for our review.

Accordingly, we were then unable to form an opinion as to whether the 1999 financial statements gave a true and fair view of the state of affairs of the Group and the Company as at 30 November 1999 and of the loss and cash flows of the Group for the year then ended. Any adjustment found to be necessary to the opening net liabilities of the Group and the Company would have a consequential effect on the loss of the Group and the Company for the current year ended 30 November 2000.

SCOPE LIMITATIONS ARISING FROM CURRENT YEAR AUDIT

2. Scope limitation – completeness of books and records

As explained in note 2(ii) to the financial statements, due to the significant staff and management turnover within the Group, particularly that in the accounting and finance department, and due to the relocation of the Group's office in the People's Republic of China (the "PRC"), certain underlying books and records of the Group were either lost, or could not be located. Accordingly, we have not been provided with adequate information and documents to satisfy ourselves as to the completeness, appropriateness, classification and disclosures in respect of either the transactions undertaken during the year ended 30 November 2000 or the related balances further detailed in note 2(ii) to the financial statements.

Any adjustments found to be necessary in respect of the matters set out in the above would have a consequential impact on the Group's net loss from ordinary activities attributable to shareholders for the year ended 30 November 2000, the Group's net liability position as at 30 November 2000 and the related disclosures in the financial statements.

Report of the Auditors

Basis of opinion (continued)

3. **Scope limitation – accounts receivable and inventories**

   As explained in note 6(i) to the financial statements, as part of the Group's initiatives to collect amounts owing to it, the Group repossessed certain inventories aggregating HK$47,369,000 during May 2000. We have not been able to satisfy ourselves as to the nature, existence and custody of the repossessed inventories because we have not attended the Group's physical inventory count during and subsequent to the repossession thereof and because of the absence of proper books and records documenting such. In addition, we have not been able to satisfy ourselves that the amount and disclosures concerning cash received, accounts receivable, inventories and the related provisions and recoveries therefrom have been properly reflected and disclosed in the financial statements at 30 November 2000.

   Any adjustments that might have been found necessary would have a consequential impact on the Group's net liability position at 30 November 2000, the inventory provision, bad debts written off/provision and the net loss from ordinary activities attributable to shareholders for the year then ended.

4. **Scope limitation – investment in a jointly-controlled entity**

   During the year, the Group acquired the entire issued share capital of City Power Services Limited ("City Power") which held a 40% equity interest in a jointly-controlled entity, Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang"), at the date of the Group's acquisition. Pursuant to a shareholders' agreement, as further detailed in notes 4(iii) to the financial statements, the Group subsequently made an additional capital injection of HK$50,000,000 and advanced a shareholder's loan of HK$30,000,000 to Li Yang. As a result, the Group's equity interest in Li Yang increased to 48% as at 30 November 2000.

   Limited financial information is available in respect of Li Yang at the dates City Power was acquired and when the subsequent additional capital injection to Li Yang was made by the Group. Accordingly, the Group was not able to determine the goodwill, if any, arising from either the acquisition of City Power or as a result of the additional capital injection to Li Yang. In addition, the scope of our work was further limited in respect of auditing the Group's share of net assets of Li Yang and loan to Li Yang as at 30 November 2000 as disclosed in note 15 to the financial statements and of the Group's share of Li Yang's post-acquisition loss for the period then ended in the amount of HK$44,690,000 for which both amounts were derived from unaudited management accounts of Li Yang. Although full provision against the Group's interests in City Power and Li Yang had been made for the year, we have been unable to determine whether goodwill in respect of City Power and Li Yang has been properly quantified and accounted for and whether the provisions made in the financial statements regarding the recoverability of the loan to Li Yang and any impairment, permanent or otherwise, in the carrying value of the Group's interests in City Power and Li Yang is adequate but not excessive, and that the Group's share of the post-acquisition loss in Li Yang for the period ended 30 November 2000 is fairly stated.

Report of the Auditors

Basis of opinion (continued)

4. Scope limitation – investment in a jointly-controlled entity (continued)

Because of limited financial information available, we have not been able to satisfy ourselves as to the completeness, appropriateness, classification and disclosures in respect of the Group's interest in Li Yang further detailed in note 15 to the financial statements. In particular, no disclosures have been made in respect of (i) current assets, long term assets, current liabilities and long term liabilities as at 30 November 2000, income and profits or losses for the year then ended of the jointly-controlled entity in accordance with Statements of Standard Accounting Practice ("SSAP") 21, "Accounting for interests in joint ventures"; and (ii) a note to the consolidated cash flow statement showing a summary of the effects of the acquisition and material effects on amounts reported under each of the standard cash flow statement headings regarding the acquisition of City Power and Li Yang as required by SSAP 15, "Cash flow statements".

Any adjustments found to be necessary in respect of the matters set out above would have a consequential impact on the Group's net liability position at 30 November 2000 and the Group's net loss from ordinary activity attributable to shareholders for the year then ended and the related disclosures in the financial statements.

5. Scope limitation – fixed assets

As explained in note 2(i) to the financial statements, as a result of the constraints imposed by the Group's liquidity problems, the Group's production facilities in the PRC operated substantially below capacity during the year. Against this background, we were unable to assess whether any provision is required for permanent diminution in value regarding the leasehold land and buildings, leasehold improvements, plant and machinery, furniture and equipment of the production facilities in the PRC with an aggregate net book value of HK$13,492,000 as at 30 November 2000.

6. Scope limitation – fundamental uncertainty – going concern of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(i) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As further explained in note 2(i) to the financial statements, the directors are currently undertaking various measures to relieve the Group from its current profitability and liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the ongoing support of the Group's bankers and/or other financial institutions, and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful.

Report of the Auditors

Basis of opinion (continued)

6. **Scope limitation – fundamental uncertainty – going concern of the Group (continued)**
   We have been unable to obtain from the directors all the information, explanations or other evidence we consider necessary to satisfy ourselves that the directors' plans were based on the full facts of the Group's circumstances and that appropriate disclosures have been made in respect of this issue. Furthermore, because of the significant uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

Disclaimer of opinion

Because of the significance of each of (1) the fundamental uncertainty relating to the going concern basis; and (2) the possible effects of the limitations in evidence available to us as set out in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 30 November 2000 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

(i) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and

(ii) proper books of accounts have not been kept.

Without further qualifying our opinion, we draw attention to the fact that because our opinion on the financial statements in respect of the Group and the Company in the prior year dated 23 November 2000 was disclaimed for the scope limitation reasons summarised in 1 above, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

Ernst & Young
Certified Public Accountants

Hong Kong
31 May 2001

Consolidated Profit and Loss Account

Year ended 30 November 2000

	Notes	**2000** **HK$'000**	1999 HK$'000
TURNOVER	5	**17,375**	325,521
Cost of sales before inventory provision		**(17,600)**	(286,145)
Inventory provision	6	**–**	(57,002)
Cost of sales		**(17,600)**	(343,147)
Gross loss		**(225)**	(17,626)
Other revenue	5	**1,536**	2,361
Selling and distribution costs		**(9,331)**	(41,084)
Administrative expenses		**(29,668)**	(29,901)
Bad debts written off	6	**–**	(157,163)
Debt collection charges	6	**(473)**	(35,395)
Provision against loan advanced to a jointly-controlled entity	15	**(25,750)**	–
Provision for diminution in value of the Group's interest in a jointly-controlled entity	15	**(5,310)**	–
Other operating expenses		**(22,335)**	(13,555)
LOSS FROM OPERATING ACTIVITIES	6	**(91,556)**	(292,363)
Finance costs	9	**(20,623)**	(9,324)
Share of results of a jointly-controlled entity		**(44,690)**	–
LOSS BEFORE TAX		**(156,869)**	(301,687)
Tax	10	**38**	683
LOSS BEFORE MINORITY INTERESTS		**(156,831)**	(301,004)
Minority interests		**1,039**	1,759
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(155,792)**	(299,245)
LOSS PER SHARE – Basic	12	**HK18.46 cents**	HK59.14 cents

Consolidated Statement of Recognised Gains and Losses

Year ended 30 November 2000

	Note	**2000** *HK$'000*	1999 *HK$'000*
Surplus/(deficit) on revaluation of leasehold land and buildings, net of deferred tax	25	**(5,077)**	828
Net gain/(loss) not recognised in the profit and loss account		**(5,077)**	828
Net loss for the year attributable to shareholders		**(155,792)**	(299,245)
Total recognised gains and losses		**(160,869)**	(298,417)

Consolidated Balance Sheet

30 November 2000

	Notes	**2000** **HK$'000**	1999 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**22,302**	32,944
Interests in a jointly-controlled entity	15	**–**	–
Pledged bank deposits	16	**–**	34,137
		22,302	67,081
CURRENT ASSETS			
Inventories	17	**2,106**	5,218
Prepayments, deposits and other receivables		**1,296**	2,101
Tax recoverable		**–**	383
Cash and cash equivalents		**237**	3,313
		3,639	11,015
CURRENT LIABILITIES			
Accounts payable	18	**4,088**	8,624
Accrued liabilities and other payables		**20,108**	15,645
Deposits received		**2,244**	3,785
Tax payable		**33,376**	33,376
Due to a director	19	**1,139**	–
Interest-bearing bank and other borrowings	20, 21	**75,508**	90,611
Current portion of finance lease payables	22	**330**	433
Convertible debentures, include redemption premium and interest	23	**34,373**	–
		171,166	152,474
NET CURRENT LIABILITIES		**(167,527)**	(141,459)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(145,225)**	(74,378)

Consolidated Balance Sheet

30 November 2000

	Notes	**2000** *HK$'000*	1999 *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing other borrowings	20, 21	**22**	143
Non-current portion of finance lease payables	22	**446**	829
Deferred tax	10	**1,160**	–
		1,628	972
MINORITY INTERESTS		**6,336**	8,571
		(153,189)	(83,921)
DEFICIENCY IN ASSETS			
Issued capital	24	**94,066**	60,000
Reserves	25	**(247,255)**	(143,921)
		(153,189)	(83,921)

Au Tung Chi
Director

Wei Cheng Wen
Director

Consolidated Cash Flow Statement

Year ended 30 November 2000

	Notes	2000 HK$'000	1999 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26(a)	**(57,465)**	(92,050)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**1,536**	2,073
Interest paid		**(10,576)**	(9,125)
Interest element on finance lease payments		**(144)**	(199)
Dividend paid		**–**	(17,000)
Net cash outflow from returns on investments and servicing of finance		**(9,184)**	(24,251)
TAX			
Hong Kong profits tax refunded		**421**	677
INVESTING ACTIVITIES			
Purchases of fixed assets		**(530)**	(447)
Proceeds from disposal of fixed assets		**229**	–
Investment in a jointly-controlled entity		**(50,000)**	–
Loan to a jointly-controlled entity		**(30,000)**	–
Repayment of loan to a jointly-controlled entity		**4,250**	–
Proceeds from disposal of a subsidiary	26(b)	**–**	999
Net cash inflow/(outflow) from investing activities		**(76,051)**	552
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(142,279)**	(115,072)
FINANCING ACTIVITIES	26(c)		
New bank loans		**15,000**	–
Repayment of bank loans		**(2,634)**	(972)
Drawdown of other loans		**72,000**	5,000
Repayment of other loans		**(30,504)**	(100)
Capital element of finance lease obligations		**(486)**	(379)
Issue of shares for cash consideration		**61,804**	20,000
Share issue expenses		**(1,506)**	(591)
Issue of convertible debentures		**38,902**	–
Release of pledged bank deposits		**34,137**	1,021
Net cash inflow from financing activities		**186,713**	23,979

Consolidated Cash Flow Statement

Year ended 30 November 2000

	Notes	**2000**	1999
		HK$'000	*HK$'000*
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**44,434**	(91,093)
Cash and cash equivalents at beginning of year		**(68,319)**	22,774
CASH AND CASH EQUIVALENTS AT END OF YEAR		**(23,885)**	(68,319)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**237**	37,450
Less: Pledged bank deposits		**–**	(34,137)
		237	3,313
Bank overdrafts		**(24,122)**	(71,632)
		(23,885)	(68,319)

Balance Sheet

30 November 2000

	Notes	2000 HK$'000	1999 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	**(99,381)**	–
CURRENT ASSETS			
Prepayments, deposits and other receivables		**34**	–
Cash and cash equivalents		**34**	33
		68	33
CURRENT LIABILITIES			
Accrued liabilities and other payables		**40,306**	30,583
Due to a director	19	**1,139**	–
Interest-bearing other borrowings	20	**25,000**	–
Convertible debentures, include redemption premium and interest	23	**34,373**	–
		100,818	30,583
NET CURRENT LIABILITIES		**(100,750)**	(30,550)
		(200,131)	(30,550)
DEFICIENCY IN ASSETS			
Issued capital	24	**94,066**	60,000
Reserves	25	**(294,197)**	(90,550)
		(200,131)	(30,550)

Au Tung Chi
Director

Wei Cheng Wen
Director

Notes to Financial Statements

30 November 2000

1. CORPORATE INFORMATION

During the year, the Company's principal activity was investment holding. The principal activities of the Group during the year consisted of the manufacturing, marketing and distribution of men's garments, leather goods and accessories under the Group's Kin Don brand name in the People's Republic of China (the "PRC"). During the year, the Group invested in a jointly-controlled entity to carry out the businesses of television advertisement design and production, and the provisions of advertising agency and advertisement publication services, including the import and export of advertising and related products.

2. BASIS OF PRESENTATION

The Group's financial statements for the year ended 30 November 2000 have been prepared on the following bases:

(i) Going concern

At 30 November 2000, the Group had net current liabilities and a deficiency in assets of approximately HK$167,527,000 and HK$153,189,000, respectively. The Group also incurred a net loss from ordinary activities attributable to shareholders of approximately HK$155,792,000 and reported a significant cash outflow from operating activities of HK$57,465,000 for the year ended 30 November 2000.

Although the directors subsequently undertook a number of measures with a view to improving the Group's liquidity and restoring its operations to profitability and to be cash positive, the Group continues to experience financial difficulties and currently has no unutilised banking facilities available to support its normal operational requirements. As a result, the Group has had to use its remaining cash reserves to satisfy the working capital requirements for its daily operational activities and has been dependent upon advances from a director for its ongoing working capital requirements.

On 8 August 2000 and 5 October 2000, Stone Church LLC ("SC"), the holder of the Company's convertible debentures (the "Debentures"), demanded the Company to redeem the outstanding Debentures, inclusive of redemption premium and interest, further details are set out in note 23. However, the Company responded that it had insufficient financial resources to redeem the outstanding Debentures from SC.

On 8 December 2000, a winding-up petition against the Company was served by SC. On 7 May 2001, the petition was dismissed by the court on the grounds that the Company and SC had entered into a conditional compromise agreement (the "Conditional Compromise Agreement"). However, the Conditional Compromise Agreement is contingent upon a number of other restructuring measures being successful. Further details of the winding-up petition and the terms and conditions of the Conditional Compromise Agreement are set out in note 28(d).

2. BASIS OF PRESENTATION (continued)

(i) Going concern (continued)

In addition, on 27 March 2001, a bank submitted a writ of summons demanding repayment from the Group for overdue borrowings of approximately HK$28,587,000 and interest thereon. The Company is currently seeking legal advice in respect of the claim.

Having regard to this background, in order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity, cash flows and profitability and otherwise sustain the Group as a going concern, the directors have adopted the following measures:

(a) the directors are in active negotiations with the Group's bankers, the holders of the Debentures and the parties which have provided the Group with the other loans, to reschedule the repayment terms of certain of its outstanding borrowings and to seek their ongoing goodwill and support in respect thereof. The directors are also in active negotiations with the Group's bankers and other financial institutions for the grant of new credit facilities to the Group;

(b) on 6 May 2001, the Company and SC entered into the Conditional Compromise Agreement in the settlement of the outstanding convertible debentures with SC. In this regard, the Court ordered a dismissal of the winding-up petition against the Company served by SC at the hearing on 7 May 2001.

Under the terms of the Conditional Compromise Agreement, SC agreed to accept in full and final settlement of all its liabilities of, and claims against, the Company outstanding at the completion date (including, but not limited to, the above debt of US$4,418,125 plus interest accrued) by the allotment of 271,471,023 new shares of HK$0.01 each of the Company (following the completion of the Company's proposed capital reorganisation as detailed in note 24 below), at a minimum issue price of HK$0.1155 per share, and cash payment of HK$3,020,063. Further details of the terms and conditions of the Conditional Compromise Agreement are set out in note 28(d).

(c) the directors have taken actions to tighten cost controls over factory overheads and various general and administrative expenses and the activities of the Group have been significantly scaled down; and

2. BASIS OF PRESENTATION (continued)

(i) Going concern (continued)

(d) the directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including, but not limited to, private placements and a rights issue of new shares. In this regard, the directors have been in active negotiations with potential investors for the purpose of securing capital injections into the Group. On 17 August 2000, Marble King International Limited ("Marble King"), a then independent third party and investor, acquired an equity interest of approximately 26% in the Company and thereby became the single largest shareholder of the Company. On 1 September 2000, Mr. Yeung Kwok Kwong was appointed as a director and the new chairman of the Group to replace Mr. Au Tung Chi.

In December 2000 and February 2001, the Company received written non-binding proposals (the "Proposals") from Marble King involving the Company's debt restructuring and fund raising arrangements (including shares placement to Marble King and rights issue). The Company is still in the process of discussions with Marble King and its major creditors regarding terms of the Proposals and no agreement has yet been reached or entered into between the Company and any other party except for the Conditional Compromise Agreement.

In the opinion of the directors, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital for its current operational requirements and it is expected that the Group will ultimately return to a commercially viable concern notwithstanding the Group's financial position and tight cash flows as at 30 November 2000 and the date these financial statements were approved although the directors anticipate that it may take some considerable time to successfully implement their plans.

Should the Group be unable to continue 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 effects of these adjustments have not been reflected in the financial statements.

2. BASIS OF PRESENTATION (continued)

(ii) Available books and records

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to significant staff and management turnover within the Group, especially that in the accounting and finance department, and due to the relocation of the Group's office in the PRC during the year, certain underlying books and records of the Group were either lost, or could not be located. As a result of the loss of these books and records, the effects of certain transactions of the Group as reflected in the financial statements cannot be satisfactorily substantiated or otherwise supported, in particular:

(a) Cash receipts of approximately HK$10,284,000 from the Group's customers which were subsequently utilised as to: (1) cash payment to the Group's suppliers and/or subcontractors of approximately HK$386,000; and (2) other expenses settled for cash in the total amount of HK$9,898,000. In addition, certain books and records substantiating payments made by the Group through the Group's bank accounts were either lost, or could not otherwise be accounted for; and

(b) The books and records in respect of the Group's turnover, cost of sales, certain operating expenses and related charges for tax and value added tax were incomplete.

To the extent possible, the directors have taken such steps as they considered practicable to ascertain the accuracy of the account balances and financial statements. The directors have made provisions and adjustments as they considered appropriate in the preparation of the financial statements on the basis of such records as have been made available to them and their knowledge of the Group's affairs. On this basis, the directors believe that no significant liability has been excluded from the financial statements and that all appropriate disclosures have been made. However, although the directors consider that all reasonable measures have been taken in the preparation of the financial statements to mitigate the effect of the incomplete records, the directors are unable to give assurance that all transactions entered into by the Group have been appropriately and completely reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of fixed assets as further explained below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of new and revised SSAPs

The following new and revised SSAPs have been adopted for the first time in the preparation of the current year's financial statements.

- SSAP 1: Presentation of Financial Statements

- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

The following is a summary of their major effects.

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and balance sheets as set out on pages 24, 26 to 27 and 30, respectively, have been revised in accordance with SSAP 1, and a statement of recognised gains and losses, not previously required, is included on page 25. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of SSAP 2 on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now disclosed by way of note and are no longer specifically referred to as "exceptional".

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

– from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

– interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors. Goodwill arising from the acquisition of jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is written off to the profit and loss account in the case of any permanent diminution in value.

Investments made by means of joint venture structure which do not result in the Group having joint control with other venturers, where the Group controls the board of directors or equivalent governing body, are accounted for as subsidiaries.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land	Over the lease terms
Buildings	20 to 50 years, or over the lease terms, whichever is shorter
Leasehold improvements	3 to 10 years, or over the lease terms, whichever is shorter
Plant and machinery	10 years
Furniture and equipment	5 years
Motor vehicles	4 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, an appropriate proportion of manufacturing overheads, and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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4. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

(i) The Group paid rental expense amounting to HK$960,000 (1999: HK$960,000) to a related company owned by Mr. Au Tung Chi ("Mr. Au"), a director of the Company, and Mr. Ou Tong Shu, an ex-director of the Company, for the leasing of a property in Hong Kong for use as a staff quarter, which was charged on the basis determined between the Group and the related company.

(ii) A related company owned by Mr. Au has pledged certain of its land as security for banking facilities granted to a subsidiary of the Company at nil consideration (note 21).

(iii) On 20 December 1999, the Company acquired the entire issued share capital of City Power Services Limited ("City Power"), a company of which Mr. Au is a director, at a consideration of US$1. At the date of the Group's acquisition, City Power and Li Yang Advertising Public Relations (HK) Limited ("LY Advertising"), an independent third party, owned 40% and 60% equity interests, respectively, in a jointly-controlled entity, Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang"). Li Yang was incorporated in Hong Kong on 21 July 1999. Upon incorporation, City Power and LY Advertising each subscribed for 1 share in Li Yang and then further subscribed for 39 and 59 ordinary shares, respectively, in Li Yang at par value of HK$1 each.

On 20 December 1999, the Company, City Power and LY Advertising entered into a shareholders' agreement (the "Shareholders' Agreement") in respect of the establishment of another joint venture company by Li Yang and Beijing Li Yang Advertising Company Limited, an associate of LY Advertising, in the PRC to carry out the business of television advertisements design and production, and the provisions of advertising agency and advertisement publication services, including the import and export of advertising and related products.

Pursuant to the Shareholders' Agreement, City Power and LY Advertising agreed to further subscribe for 440 and 460 ordinary shares in Li Yang, respectively. Under the Shareholders' Agreement, City Power subscribed for 440 ordinary shares in Li Yang at an aggregate subscription price of HK$50,000,000 and advanced an interest-free shareholder's loan of HK$30,000,000 to Li Yang. The shareholder's loan was not repayable by Li Yang without the approval of both LY Advertising and City Power. Apart from such shareholder's loan of HK$30,000,000, City Power had no commitment to make any further loan to Li Yang. Upon completion of the subscription and as at 30 November 2000, City Power and LY Advertising held 48% and 52% equity interest in Li Yang, respectively. Further details of the transactions are set out in the Company's circular dated 2 February 2000.

4. RELATED PARTY TRANSACTIONS (continued)

(iv) During the year, a director paid expenses on behalf of the Group amounting to HK$1,139,000 in aggregate. The amount due to a director is unsecured, interest-free and has no fixed terms of repayment (note 19).

(v) During the year, the Group paid HK$2,336,000 in aggregate as compensation to a minority equity holder of the Company's PRC subsidiaries in respect of losses in income as a result of the scale down in manufacturing activities of the Company's PRC subsidiaries. The terms of the compensation was determined between the Group and the minority equity holder.

5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of trade discounts and returns. The Group's revenue is derived predominantly from the sale of men's apparel, including leather goods and accessories, under the Group's Kin Don brand name and has been included in the Group's turnover. All the Group's turnover and revenue are principally derived in the PRC.

An analysis of the Group's turnover and revenue is as follows:

	2000	1999
	HK$'000	*HK$'000*
Turnover – Sale of men's apparel	**17,375**	325,521
Bank interest income	**1,536**	2,073
Others	**–**	288
Revenue	**18,911**	327,882

In prior years, the Group's turnover was analysed into three different business segments which consisted of the manufacturing, marketing and distribution of men's garment, leather goods and accessories under the "Kin Don" brand name. In the opinion of the directors, the three business segments are subject to similar risks and returns. Accordingly, it is more proper and meaningful to redefine them under a single business segment of the manufacturing, marketing and distribution of men's apparel under "Kin Don" brand name. As a result, similar analysis on the Group's sales of men's garments, leather goods and accessories of HK$268,769,000, HK$40,545,000 and HK$16,207,000, respectively, for the year ended 30 November 1999 is not presented in the current year.

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Notes	**2000** **HK$'000**	1999 HK$'000
Staff costs, including directors' remuneration		**22,273**	12,998
Depreciation:			
Owned fixed assets		**2,615**	2,767
Leased fixed assets		**672**	803
Inventory provision		**–**	57,002
Bad debts written off	(i)	**–**	157,163
Debt collection charges	(ii)	**473**	35,395
Operating lease rentals in respect of land and buildings		**4,056**	6,848
Auditors' remuneration		**700**	1,500
Fixed assets written off		**755**	7
Loss on disposal of a subsidiary		**–**	100
Provision for doubtful debts		**2,990**	3,397
Deficit/(surplus) on revaluation		**2,017**	(10)
Gain on disposal of fixed assets		**(229)**	–

Notes:

(i) In order to preserve the Group's franchise network from being fragmented as a result of the significant downturn of sales and to ensure the continuation of the Group's core business via its franchisees, the Group entered into agreements with certain customers during the year ended 30 November 1999 to offer cash discounts to these customers in respect of the Group's sales made during that year and repossessed the inventories owned by the customers for the settlement of their overdue balances owed to the Group.

The Group's accounts receivable as at 30 November 1999 were adjusted by writing off the overdue balances of approximately HK$157,163,000 owed by the customers in respect of the cash discounts and repossessed inventories, respectively. The inventories repossessed by the Group amounting to HK$47,369,000 were fully provided for by the Group for the year ended 30 November 1999.

(ii) During the year ended 30 November 1999, due to the slow and limited settlements by many of the Group's customers resulting from the significant downturn of sales in the declining and competitive retail market in the PRC, the Group entered into an agreement with a debt collection agent (the "Agent") in the PRC to collect the debts from the Group's customers on behalf of the Group. Remuneration aggregating HK$473,000 (1999: HK$35,395,000) was paid to the Agent in respect of the debt balances collected by the Agent on behalf of the Group during the year ended 30 November 2000.

For the same reason stated in note 5, an analysis of the Group's loss from operating activities contributed from sales of men's garment, leather good and accessories has not been presented as in prior years.

7. DIRECTORS' REMUNERATION

	2000	1999
	HK$'000	*HK$'000*
Fees for a non-executive director	**460**	475
Fees for independent non-executive directors	**338**	338
Basic salaries, housing, other allowances and benefits in kind for executive directors	**9,965**	5,120
	10,763	5,933

The above amount included HK$600,000 paid by the Group during the year to an executive director as a compensation for the loss of office.

The directors' remuneration shown above does not include the estimated monetary value of premises owned by the Group and provided rent-free to a director. The estimated rental value of such accommodation was HK$312,000 (1999: HK$312,000) for the year ended 30 November 2000.

The number of directors whose remuneration fell within the bands set out below is as follows:

	2000 Number of directors	1999 Number of directors
Nil to HK$1,000,000	**11**	11
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**2**	–
HK$2,500,001 to HK$3,000,000	**1**	–
	15	12

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in the directors' remuneration in respect of share options granted during the year ended 30 November 2000 because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included five (1999: three) directors, details of whose remuneration are set out in note 7 above. The two non-director, highest paid individuals' remuneration in 1999 comprised solely of basic salaries, housing, other allowances and benefits in kind, aggregating HK$1,662,000.

Save as disclosed in note 7, during the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join, or upon joining, the Group, or as compensation for loss of office.

The Group does not have a pension scheme for either its employees or its directors. In the opinion of the directors of the Company, the Group had no significant obligations in respect of the retirement of its employees at 30 November 2000.

Commencing from 1 December 2000, the Mandatory Provident Fund Schemes Ordinance took effect in respect of the provision of employee retirement benefits. A Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's contributions are made under the scheme. Future provision for all the Group's employees in Hong Kong eligible for participation will be made under the MPF Scheme. Any forfeited amount shall be refunded to the Group when the member leave employment prior to vesting fully of the employer's contribution.

9. FINANCE COSTS

	Group	
	2000	1999
	HK$'000	*HK$'000*
Interest expenses on:		
Bank interest expense on loans and overdrafts wholly repayable within five years	**8,852**	8,970
Other loans wholly repayable within five years	**6,429**	155
Convertible debentures	**822**	–
Finance leases	**144**	199
Premium on redemption of convertible debentures (note 23)	**4,376**	–
	20,623	9,324

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10. TAX

	Group	
	2000	1999
	HK$'000	*HK$'000*
Tax rebate relating to the prior year	**–**	121
Overprovision in the prior year	**38**	417
Deferred tax	**–**	145
Tax credit for the year	**38**	683

Tax has not been provided as the Group did not generate any assessable profits during the year (1999: Nil).

Movements in the provision for deferred tax liabilities are as follows:

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of year	**–**	145	**–**	–
Credit for the year	**–**	(145)	**–**	–
At 30 November	**–**	–	**–**	–

The principal components of the Group's and the Company's deferred tax liabilities/(assets) provided/(not provided) for in the financial statements at the balance sheet date were as follows:

	Group				Company			
	Provided		Not Provided		Provided		Not provided	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**–**	–	**(10)**	65	**–**	–	**–**	–
Tax losses carried forward	**–**	–	**(36,218)**	(27,885)	**–**	–	**(1,229)**	(6)
Other timing differences	**1,160**	–	**–**	–	**–**	–	**–**	–
At 30 November	**1,160**	–	**(36,228)**	(27,820)	**–**	–	**(1,229)**	(6)

10. TAX (continued)

The revaluations of the Group's leasehold land and buildings in Hong Kong do not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

The liability for deferred tax, as provided in the balance sheet, relates to timing differences arising from the different basis of recognition for accounting and tax purposes on the land appreciation tax and business tax in the PRC in respect of the accumulated valuation surplus of the Group's leasehold land and buildings in the PRC. The fixed assets revaluation reserve had been debited to account for the deferred tax liability arisen therefrom (note 25).

No deferred tax with regard to the PRC corporate income tax has been provided on the accumulated valuation surpluses of the Group's leasehold land and buildings in the PRC because the availability of the tax losses carried forward, in the opinion of the directors, will be sufficient to set off the future tax liability in respect thereof.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 November 2000 was HK$261,182,000 (1999: HK$228,381,000).

12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 30 November 2000 is based on the net loss from ordinary activities attributable to shareholders for the year of HK$155,792,000 (1999: HK$299,245,000) and the weighted average of 843,929,766 (1999: 505,958,904) ordinary shares in issue during the year.

The diluted loss per share for the years 1999 and 2000 is not shown because the Company's outstanding share options and convertible debentures are anti-dilutive.

13. FIXED ASSETS

Group

	Leasehold land and buildings *HK$'000*	Leasehold improve-ments *HK$'000*	Plant and machinery *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost or valuation:						
At beginning of year	25,715	4,000	8,820	1,516	4,130	44,181
Additions	–	400	–	130	–	530
Disposals	–	–	–	–	(1,890)	(1,890)
Written-off	–	(2,079)	–	(193)	–	(2,272)
Revaluation deficit	(7,926)	–	–	–	–	(7,926)
At 30 November 2000	17,789	2,321	8,820	1,453	2,240	32,623
Accumulated depreciation:						
At beginning of year	–	2,049	4,944	1,010	3,234	11,237
Provided during the year	796	684	868	267	672	3,287
Disposals	–	–	–	–	(1,890)	(1,890)
Written-off	–	(1,333)	–	(184)	–	(1,517)
Reversal of accumulated depreciation upon revaluation	(796)	–	–	–	–	(796)
At 30 November 2000	–	1,400	5,812	1,093	2,016	10,321
Net book value:						
At 30 November 2000	17,789	921	3,008	360	224	22,302
At 30 November 1999	25,715	1,951	3,876	506	896	32,944
An analysis of cost or valuation of fixed assets held by the Group at 30 November 2000 is as follows:						
At cost	–	2,321	8,820	1,453	2,240	14,834
At 2000 valuation	17,789	–	–	–	–	17,789
	17,789	2,321	8,820	1,453	2,240	32,623

13. FIXED ASSETS (continued)

An analysis of the valuation of the leasehold land and buildings of the Group at the balance sheet date is as follows:

	2000	1999
	HK$'000	*HK$'000*
Held under medium term leases in Hong Kong (the "Hong Kong Properties")	**6,238**	11,590
Held under medium term leases outside Hong Kong	**11,551**	14,125
	17,789	25,715

The Hong Kong Properties are held for residential and office purpose and are stated at directors' valuation of HK$6,238,000 which are determined based on the net realisable value of the Hong Kong Properties disposed of subsequent to the balance sheet date (note 28). The medium term leasehold land and buildings situated outside Hong Kong for office purpose were revalued by Castores Magi Surveyors Limited, an independent firm of professional valuers, at 30 November 2000 at HK$1,866,000 on an open market, existing use basis. The medium term leasehold land and buildings situated outside Hong Kong for the Group's production facilities were revalued by Castores Magi Surveyors Limited at 30 November 2000 at HK$9,685,000 on a depreciated replacement cost basis.

A total revaluation deficit of HK$5,113,000 arising therefrom and representing the shortfall of the revalued amounts under the then carrying values of the revalued assets, on an individual asset basis, has been debited to the fixed asset revaluation reserve to the extent that the corresponding reserve brought forward is sufficient to cover the deficit (note 25).

A total revaluation deficit of HK$2,017,000 arising therefrom and representing the portion of the shortfall of the revalued amount under the then carrying value of the revalued assets, on an individual asset basis, that is not covered by the corresponding reserve brought forward, has been charged to the profit and loss account.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 30 November 2000 would be restated at approximately HK$15,987,000 (1999: HK$16,579,000).

All of the Group's medium term leasehold land and buildings situated in Hong Kong and outside Hong Kong are pledged to secure banking facilities and an other loan granted to the Group (note 21).

Certain of the Group's plant and machinery with an aggregate net book value of approximately HK$830,000 (1999: HK$1,107,865) at 30 November 2000 are pledged to secure banking facilities granted to the Group (note 21).

13. FIXED ASSETS (continued)

The net book value of assets held under finance leases included in the total amount of fixed assets at 30 November 2000 amounted to HK$224,000 (1999: HK$896,000).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK$'000	*HK$'000*
Unlisted investments, at cost	**101,039**	101,039
Due from subsidiaries	**325,608**	94,700
Due to subsidiaries	**(99,381)**	–
Provisions for diminutions in values	**(426,647)**	(195,739)
	(99,381)	–

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation or establishment/ operations	Nominal value of issued and paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Directly held:				
Newcott Limited	British Virgin Islands	US$1	100%	Investment holding
City Power Services Limited	British Virgin Islands	US$1	100%	Investment holding
Indirectly held:				
Kin Don (Group) Limited	Hong Kong	HK$1,000,001	100%	Sourcing of materials and accessories and investment holding

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation or establishment/ operations	Nominal value of issued and paid-up share/ registered capital	Equity interest attributable to the Company	Principal activities
Indirectly held (continued):				
Trend Call Trading Limited	Hong Kong	HK$10,000	100%	Sourcing of materials and accessories
Sheen Concord Enterprises Limited	Hong Kong	HK$2	100%	Dormant
Joereonics Trading Limited	British Virgin Islands	US$6,250	100%	Manufacture and trading of garments
Smallburgh Limited	British Virgin Islands	US$100	100%	Dormant
Silversheen Limited	British Virgin Islands	US$100	100%	Dormant
金盾服裝(惠州)有限公司 ("KD Garment")	People's Republic of China	US$7,200,000 Note (i)	90%	Manufacture of garments
惠州柏力士服裝工業有限公司 ("Bai Li Shi")	People's Republic of China	US$1,200,000 Note (ii)	55%	Manufacture of garments
Kin Don – North Anhua (China) Group Limited	Hong Kong	HK$1,000,000	100%	Business not yet commenced

City Power Services Limited was acquired by the Company during the year which made no contribution to the Group's turnover and contributed HK$75,750,000 to the consolidated net loss from ordinary activities attributable to shareholders of the Group for the year.

14. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(i) KD Garment is a subsidiary established by the Group and a PRC partner for a period of fifty years commencing 25 May 1992. The registered capital of the KD Garment was US$7,200,000 as at 30 November 2000.

(ii) Bai Li Shi is a subsidiary established by the Group and a PRC partner for a period of fifty years commencing 6 April 1994. The registered capital of Bai Li Shi was US$1,200,000 as at 30 November 2000.

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2000	1999
	HK$'000	*HK$'000*
Share of net assets	**5,310**	–
Loan to a jointly-controlled entity	**25,750**	–
	31,060	–
Provision against loan	**(25,750)**	–
Provision for diminution in value of investment	**(5,310)**	–
	–	–

The loan advanced to a jointly-controlled entity is unsecured, interest-free and will not be repaid until approval from all the shareholders of the jointly-controlled entity is obtained.

Particulars of the jointly-controlled entity are as follows:

Name	**Business structure**	**Place of incorporation and operation**	**Equity interest attributable to the Group**	**Principal activities**
Li Yang Broadcasting & Advertising (HK) Limited	Corporate	Hong Kong	48%	Television advertisement design and production, and provisions of advertising agency and advertisement publication services, including the export and import of advertising and related products

The jointly-controlled entity is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

16. PLEDGED BANK DEPOSITS

The bank deposits were pledged as security for banking facilities granted to the Group as at 30 November 1999.

17. INVENTORIES

	Group	
	2000	1999
	HK$'000	*HK$'000*
Finished goods	**2,106**	5,218

All inventories were carried at net realisable value at 30 November 2000 (1999: HK$3,182,000).

18. ACCOUNTS PAYABLE

The age of accounts payable is analysed as follows:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Outstanding balances with ages:		
Within 90 days or less	**–**	696
91 days to 180 days	**678**	4,958
181 days to 365 days	**58**	2,534
Over 365 days	**3,352**	436
	4,088	8,624

19. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

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20. INTEREST BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts, secured	**24,122**	71,632	**–**	–
Bank loans, secured	**24,553**	12,187	**–**	–
Other loans:				
Secured	**1,855**	6,935	**–**	–
Unsecured	**25,000**	–	**25,000**	–
	75,530	90,754	**25,000**	–

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts repayable within one year or on demand	**24,122**	71,632	**–**	–
Bank loans repayable within one year or on demand	**24,553**	12,187	**–**	–
Other loans repayable:				
Within one year	**26,833**	6,792	**25,000**	–
In the second year	**22**	121	**–**	–
In the third to fifth years, inclusive	**–**	22	**–**	–
	26,855	6,935	**25,000**	–
	75,530	90,754	**25,000**	–
Portion classified as current liabilities	**(75,508)**	(90,611)	**(25,000)**	–
Non-current portion	**22**	143	**–**	–

21. PLEDGE OF ASSETS

As at 30 November 2000, the Group's credit facilities were secured by the following:

(a) Legal charges on all of the Group's medium term leasehold land and buildings situated in Hong Kong and outside Hong Kong with an aggregate net book value of approximately HK$17,789,000 (note 13);

(b) Corporate guarantees executed by the Company up to the extent of HK$43,000,000;

(c) Pledge of certain plant and machinery of the Group with an aggregate net book value of approximately HK$830,000 (note 13);

(d) Guarantees executed by a minority equity holder of one of the Company's subsidiaries to the extent of HK$2,187,000;

(e) Legal charges of certain land and buildings owned by a minority equity holder of one of the Company's subsidiaries; and

(f) Legal charges on certain land owned by a related company (note 4).

In respect of the corporate guarantees provided by the Company in (b) above, provision to the extent it is probable that the liabilities associated with the guarantees provided by the Company may crystallise in the foreseeable future amounting to HK$32,479,000 has been made by the Company as at 30 November 2000 and included in its accrued liabilities and other payables. The amount of the provision represented the aggregate banking facilities of HK$38,379,000 utilised by certain subsidiaries of the Company as at 30 November 2000, after netting off the aggregate carrying values of related pledged properties of the Group of HK$5,900,000.

22. FINANCE LEASE PAYABLES

There were non-cancellable commitments under finance leases at the balance sheet date as set out below:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Amount payable:		
Within one year	**416**	578
In the second to fifth years, inclusive	**486**	956
Total minimum lease payments	**902**	1,534
Future finance charges	**(126)**	(272)
Total net lease payables	**776**	1,262
Portion classified as current liabilities	**(330)**	(433)
Non-current portion	**446**	829

23. CONVERTIBLE DEBENTURES

On 21 January 2000, the Company entered into a subscription agreement (the "Subscription Agreement") with SC for the issue of the Debentures to SC. The Aggregate principal amount of the Debentures was US$5,000,000. Each of the Debentures had a denominated face value of US$50,000. The Debentures comprise unsecured general obligations of the Company and bore interest at 3% per annum payable semi-annually in arrears on 30 June and 31 December each year.

Subject to the terms of the Subscription Agreement, the Debentures were convertible into ordinary shares of the Company from 15 April 2000 up to 31 December 2003.

The Debentures were exchangeable for ordinary shares in the Company at a conversion price of HK$0.5047 per ordinary share of the Company. However, if the average of the lowest five days' (not necessarily consecutive days) closing price per ordinary share of the Company quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") over the 20 consecutive trading days immediately prior to the date of a conversion notice served on the Company by SC in accordance with Subscription Agreement (the "Lowest Average Price") was less than HK$0.5047, then the conversion price was determinable based on 88% of the Lowest Average Price or HK$0.1892 per ordinary share of the Company, whichever was the higher.

23. CONVERTIBLE DEBENTURES (continued)

At the maturity date of 31 December 2003, any outstanding Debentures would be mandatorily converted into ordinary shares in the Company provided that the maximum outstanding principal amount of the Debentures that could be mandatorily converted would not exceed the amount such that the ordinary shares to be converted therefrom together with the ordinary shares of the Company that were held by the Debentures holder would trigger the mandatory general offer obligation for the Debentures holder and parties acting in concert with it under the Hong Kong Code on Takeovers and Mergers. Any outstanding Debentures that could not be so mandatorily converted into ordinary shares in the Company would be redeemed by the Company at a redemption amount equal to 130% of the face amount of such outstanding Debentures together with accrued interest thereon.

In the event that the closing price of the ordinary shares of the Company fell to HK$0.1892 or less for a period of ten consecutive business days (being any days, excluding Saturday, on which banks in Hong Kong and New York are open for business throughout their normal business hours), the Company had the right, by notice, to redeem the whole or part of any of the Debentures. If the redemption notice was served during the period from day 1 to day 120 after the issue of the Debentures, or from day 121 to day 240 after such issue date or from day 241 to day 360 after such issue date or from day 361 to day 480 after such issue date or from day 481 and thereafter, the redemption amount would be 110%, 115%, 120%, 125% and 130%, respectively, of the principal face amount of the Debentures to be so redeemed in cash together with accrued interest thereon.

In the event that the closing price of the ordinary shares of the Company fell to HK$0.1892 (the "Stipulated Price") or less for a period of ten consecutive trading days (being days on which the Stock Exchange is open throughout its usual trading hours for the trading of listed shares), the Debentures holder may require the Company to redeem in cash the Debentures (or part thereof) at 115% of the face value together with accrued interest thereon. Further details of the terms of the Debentures are set out in the Company's circular dated 2 February 2000.

The Debentures were subscribed on 29 February 2000 and the proceeds of HK$38,902,000, before related expenses, were received by the Company.

On 16 May 2000 and 24 May 2000, SC converted part of the Debentures for an aggregate amount of US$1,250,000 (approximately HK$9,727,000) at a price of HK$0.189 per share into 51,469,576 ordinary shares of HK$0.10 each of the Company (note 24).

On 8 August 2000, the Company received a redemption notice from SC demanding the redemption of the outstanding Debentures at 115% of the face value for an aggregate amount of US$4,380,000, inclusive of interest, calculated in accordance with the conditions of the debenture instrument pursuant to the Subscription Agreement since the closing price of the ordinary shares of the Company fell below the Stipulated Price. However, the Company responded that it had inadequate resources to redeem the Debentures.

23. CONVERTIBLE DEBENTURES (continued)

On 5 October 2000, a Statutory Demand was served by the lawyer of SC requiring payment of the outstanding amount of the Debentures detailed above by the Group within 21 days or otherwise, a winding-up petition might be presented against the Company.

On 8 December 2000, a winding-up petition against the Company was served by SC. At the hearing on 7 May 2000, the Court ordered a dismissal of the petition on the grounds that the Company and SC had entered into the Conditional Compromise Agreement on 6 May 2001 in the settlement of the above debt owed to SC. Summary details of the winding-up petition and the terms and conditions of the Conditional Compromise Agreement are set out in note 28(d).

The redemption premium and interest have been charged to the current year's profit and loss account.

24. SHARE CAPITAL

Shares

	2000	1999
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issue and fully paid:		
940,661,976 (1999: 600,000,000) ordinary shares of HK$0.10 each	**94,066**	60,000

The following changes in the Company's issued share capital took place during the year:

(i) On 14 January 2000, the Company entered into two placing agreements with Hantec Securities Co., Ltd. and Ever-Long Securities Co., Ltd., respectively, in respect of the placing of an aggregate of 150,000,000 ordinary shares in the Company of HK$0.10 each at a price of HK$0.280 per share to independent investors (the "Placement"). The Placement was completed on 29 February 2000 and proceeds of approximately HK$40,555,000, net of related expense, were received by the Company. The excess of the share issue proceeds over the nominal value of the shares issued, amounted to approximately HK$25,555,000, net of related expenses, was credited to the share premium account (note 25).

24. SHARE CAPITAL (continued)

(ii) On 31 March 2000, 59,192,400 ordinary shares of HK$0.10 each of the Company were issued at a price of HK$0.3645 per share and the proceeds of HK$21,576,000 thereof were to repay 50% of the principal amount of a loan of HK$42,000,000 advanced from Silver Galaxy Investment Limited (the "SG Loan"), an independent third party, and the accrued interest thereon. The excess of the share issue proceeds over the nominal value of the shares issued, amounted to approximately HK$15,595,000, net of related expenses, was credited to the share premium account (note 25).

(iii) On 16 May 2000 and 24 May 2000, SC converted part of the Debentures with an aggregate amount of US$1,250,000 (approximately HK$9,727,000) at a conversion price of HK$0.189 per share into 51,469,576 ordinary shares of HK$0.10 each of the Company. The excess of the share issue proceeds over the nominal value of the shares issued, amounted to approximately HK$4,581,000, was credited to the share premium account (note 25).

(iv) During the year, 80,000,000 share options granted by the Company which entitled the holders to subscribe for ordinary shares in the Company at any time up to 18 August 2008 were exercised, and proceeds of approximately HK$19,804,000 were received by the Company.

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

	Notes	**Number of ordinary shares of HK$0.10 each** *'000*	**Par value** *HK$'000*
Issued and fully paid:			
At beginning of year		600,000	60,000
Issue of shares for cash consideration			
Shares issued on the Placement	(i)	150,000	15,000
Shares issued on settlement of the SG Loan and accrued interests	(ii)	59,192	5,919
Shares issued on conversion of part of the Debentures	(iii)	51,470	5,147
Shares issued on exercise of share options	(iv)	80,000	8,000
At 30 November 2000		940,662	94,066

24. SHARE CAPITAL (continued)

Share options

Pursuant to a share option scheme adopted on 19 August 1998, the board of directors may, on or before 18 August 2008, at its discretion invite employees, including directors, of the Company or any of its subsidiaries to take up options to subscribe for shares in the Company. The subscription price is the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options and the nominal value of the shares. No consideration is payable by the grantee of an option upon acceptance of the grant of the option.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed in nominal amount 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the share option scheme.

Details of movements in the number of share options of the Company during the year are summarised as follows:

	Number of share options (in thousands)			
Exercise price per share	**At 1 December 1999**	**Granted during the year**	**Exercised during the year**	**At 30 November 2000**
HK$0.255	56,500	–	(55,600)	900
HK$0.190	–	5,900	(5,900)	–
HK$0.235	–	15,000	(15,000)	–
HK$0.280	–	3,500	(3,500)	–
	56,500	24,400	(80,000)	900

Proceeds of approximately HK$19,804,000 were received by the Company in respect of the exercise of the share option by the subscribers. The excess of the share issue proceeds over the nominal value of the shares issued, amounted to approximately HK$11,804,000 was credited to the share premium account (note 25).

The exercise in full of the remaining 900,000 share options would, under the present capital structure of the Company, result in the issue of 900,000 additional ordinary shares in the Company at a total consideration, before issue expenses, of approximately HK$230,000.

24. SHARE CAPITAL (continued)

Proposed capital reorganisation

On 24 November 2000, the Company announced its proposal to effect a capital reorganisation scheme under which:

i. the paid-up capital and par value of the issued share capital of the Company will be reduced from HK$0.10 to HK$0.01 each by the cancellation of HK$0.09 paid-up capital on each issued share;

ii. each share in the authorised but unissued capital of the Company upon completion of the capital reduction will be subdivided into 10 new ordinary shares of HK$0.01 each; and

iii. the entire credit of approximately HK$84.6 million, under the present capital structure, arising from the capital reduction will be utilised to eliminate part of the accumulated losses of the Company as at 30 November 1999.

The capital reorganisation is conditional upon:

i. the passing by the shareholders of the Company of a special resolution at the extraordinary general meeting ("EGM") of the Company to be convened to consider and if thought fit, to approve the capital reorganisation;

ii. that on the date the capital reduction becoming effective, the board of directors of the Company considers that there are no reasonable grounds for believing that the Company is, and after the capital reduction would be, unable to pay its liabilities as they become due;

iii. obtaining the Confirmation Order of the Grand Court of the Cayman Islands; and

iv. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new shares resulting from the capital reorganisation.

Further details of the proposed capital reorganisation are set out in the Company's circular dated 8 December 2000.

Subsequent to the balance sheet date, on 22 January 2001, the special resolution approving the capital reorganisation scheme was passed by the shareholders of the Company in an EGM.

25. RESERVES

	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Capital reserve# HK$'000	Statutory reserve* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Group							
At 1 December 1998	67,660	5,948	–	35	(1,043)	72,487	145,087
Issue of shares	10,000	–	–	–	–	–	10,000
Share issue expenses	(591)	–	–	–	–	–	(591)
Surplus on revaluation	–	974	–	–	–	–	974
Minority interests thereon – note 26(c)	–	(146)	–	–	–	–	(146)
Net loss for the year	–	–	–	–	–	(299,245)	(299,245)
At 30 November 1999 and 1 December 1999	77,069	6,776	–	35	(1,043)	(226,758)	(143,921)
Issue of shares	59,041	–	–	–	–	–	59,041
Share issue expenses	(1,506)	–	–	–	–	–	(1,506)
Deficit on revaluation – note 13	–	(5,113)	–	–	–	–	(5,113)
Deferred tax effect on the valuation surplus of the Group's properties situated in the PRC – note 10	–	(1,160)	–	–	–	–	(1,160)
Minority interests thereon – note 26(c)	–	1,196	–	–	–	–	1,196
Net loss for the year	–	–	–	–	–	(155,792)	(155,792)
At 30 November 2000	134,604	1,699	–	35	(1,043)	(382,550)	(247,255)
**Reserves retained at 30 November 2000 by:							
Company and subsidiaries	134,604	1,699	–	35	(1,043)	(337,860)	(202,565)
A jointly-controlled entity	–	–	–	–	–	(44,690)	(44,690)
	134,604	1,699	–	35	(1,043)	(382,550)	(247,255)

25. RESERVES (continued)

	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Capital reserve# HK$'000	Statutory reserve* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Company							
At 1 December 1998	67,660	–	59,789	–	–	973	128,422
Issue of shares	10,000	–	–	–	–	–	10,000
Share issue expenses	(591)	–	–	–	–	–	(591)
Net loss for the year	–	–	–	–	–	(228,381)	(228,381)
At 30 November 1999 and 1 December 1999	77,069	–	59,789	–	–	(227,408)	(90,550)
Issue of shares	59,041	–	–	–	–	–	59,041
Share issue expenses	(1,506)	–	–	–	–	–	(1,506)
Net loss for the year	–	–	–	–	–	(261,182)	(261,182)
At 30 November 2000	134,604	–	59,789	–	–	(488,590)	(294,197)

The capital reserve of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation completed on 15 August 1998, over the nominal value of the Company's shares issued in exchange therefor.

* In accordance with the relevant PRC regulations, KD Garment and Bai Li Shi, subsidiaries of the Company established in the PRC, are required to transfer a certain percentage of their respective profit after tax, if any, to the statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against the respective accumulated losses, if any, of the subsidiaries.

** All reserves at 30 November 1999 were retained by the Company and its subsidiaries.

Notes to Financial Statements

30 November 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	2000	1999
	HK$'000	*HK$'000*
Loss from operating activities	**(91,556)**	(292,363)
Depreciation	**3,287**	3,570
Interest income	**(1,536)**	(2,073)
Loss on disposal of a subsidiary	**–**	100
Fixed assets written off	**755**	7
Gain on disposal of fixed assets	**(229)**	–
Provision against loan advanced to a jointly-controlled entity	**25,750**	–
Provision for diminution in value of the Group's interests in a jointly-controlled entity	**5,310**	–
Provisions against inventories	**–**	104,371
Bad debts written off	**–**	157,163
Deficit/(surplus) on revaluation	**2,017**	(10)
Provision for doubtful debts	**2,990**	3,397
Increase in accounts receivable	**(2,990)**	(36,438)
Decrease in inventories	**3,112**	2,669
Decrease in prepayments, deposits and other receivables	**805**	1,999
Decrease in trust receipt loans	**–**	(18,199)
Decrease in accounts payable	**(4,536)**	(16,324)
Increase/(decrease) in accrued liabilities and other payables	**(242)**	3,913
Decrease in deposits received	**(1,541)**	(3,832)
Increase in due to a director	**1,139**	–
Net cash outflow from operating activities	**(57,465)**	(92,050)

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of a subsidiary

	2000	1999
	HK$'000	*HK$'000*
Net assets disposed of:		
Cash balance	–	1
Inventories	–	4,830
Accounts receivable	–	26,556
Accrued liabilities and other payables	–	(1,353)
Tax payable	–	(27,205)
Deposits received	–	(1,729)
	–	1,100
Loss on disposal of a subsidiary	–	(100)
	–	1,000
Satisfied by:		
Cash consideration	–	1,000

The analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2000	1999
	HK$'000	*HK$'000*
Cash consideration	–	1,000
Cash balance disposed of	–	(1)
	–	999

The subsidiary disposed of during the year ended 30 November 1999 contributed approximately HK$44,141,000 to the Group's net operating cash outflows. There were no significant cash flows in respect of returns on investments and servicing of finance, tax, investing activities or financing activities.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing during the years

	Share capital and share premium HK$'000	Bank loans HK$'000	Other loans HK$'000	Minority interests HK$'000	Finance lease obligations HK$'000	Convertible debentures HK$'000	Pledged bank deposits HK$'000
At 1 December 1998	117,660	13,159	2,035	10,184	1,641	–	(35,158)
Issue of shares for cash consideration	20,000	–	–	–	–	–	–
Share issue expenses	(591)	–	–	–	–	–	–
Net cash inflow/ (outflow) from financing	–	(972)	4,900	–	(379)	–	1,021
Minority shareholders' share of:							
Fixed asset revaluation reserve	–	–	–	146	–	–	–
Net loss for the year	–	–	–	(1,759)	–	–	–
At 30 November 1999 and 1 December 1999	137,069	12,187	6,935	8,571	1,262	–	(34,137)
Issue of convertible debentures	–	–	–	–	–	38,902	–
Issue of shares for cash consideration	61,804	–	–	–	–	–	–
Reschedule of overdrafts to being a fixed instalment loan	–	15,000	–	–	–	–	–
Net cash inflow/(outflow) from financing	–	(2,634)	41,496	–	(486)	–	34,137
Issue of shares to settle other loans and convertible debentures	31,303	–	(21,576)	–	–	(9,727)	–
Redemption premium on convertible debentures	–	–	–	–	–	4,376	–
Accretion of interest on convertible debentures	–	–	–	–	–	822	–
Share issue expenses	(1,506)	–	–	–	–	–	–
Minority shareholders' share of:							
Fixed asset revaluation reserve – note 25	–	–	–	(1,196)	–	–	–
Net loss for the year	–	–	–	(1,039)	–	–	–
At 30 November 2000	228,670	24,553	26,855	6,336	776	34,373	–

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Major non-cash transactions

(i) During the year, shares in the Company of HK$0.10 each were issued for a consideration of HK$31,303,000 in aggregate to settle convertible debentures and other loans of HK$9,727,000 and HK$21,576,000, respectively, owed by the Group and did not result in any cash flow.

(ii) During the year, the Group succeeded in negotiating with a bank to reschedule the repayment of part of the Group's overdrafts balance amounting to HK$15,000,000 to being a fixed instalment loan repayable over a period of five years (the "Loan Rescheduling"). The Loan Rescheduling did not result in any cash flow.

27. COMMITMENTS

As at the balance sheet date, the Group had the following commitments:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Payments in respect of non-cancellable operating leases committed to be made during the next year by the Group for land and buildings expiring:		
Within one year	**167**	359
In the second to fifth years, inclusive	**1,668**	1,524
After five years	**–**	372
	1,835	2,255

The Company did not have any significant capital commitments at 30 November 2000.

28. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Hong Kong Properties of the Group were disposed of for an aggregate consideration of HK$6,238,000. No material gain or loss on disposal of the Hong Kong Properties is expected.

(b) In December 2000 and February 2001, the Company received the Proposals from Marble King involving the Company's debt restructuring and fund raising arrangements (including a share placement to Marble King and rights issue). The Company is still in the process of discussions with Marble King and its major creditors regarding terms of the Proposals and no agreement has yet been reached or entered into between the Company and any other party except for the Conditional Compromise Agreement.

(c) On 24 November 2000, the Company announced its proposal to effect a capital reorganisation scheme. Further details of which are set out in note 24 and the Company's circular dated 8 December 2000. Subsequent to the balance sheet date, on 22 January 2001, the special resolution approving the capital reorganisation scheme was passed by the shareholders of the Company in an EGM. The principal effects of the scheme are summarised in note 24.

(d) On 8 December 2000, a winding-up petition against the Company was served by SC. The petition involving a debt totalling US$4,418,125 (approximately HK$34,373,000), inclusive of the outstanding convertible debentures of US$3,750,000 (approximately HK$29,175,000), and a 15% redemption premium and interest thereon.

At a hearing on 7 May 2001, the Court ordered a dismissal of the winding-up petition mentioned above on the grounds that the Company and SC had entered into the Conditional Compromise Agreement on 6 May 2001 in settlement of the above indebtedness.

Under the terms of the Conditional Compromise Agreement, SC agreed to accept in full and final settlement of all liabilities due to it and claims against the Company outstanding at the completion date (including, but not limited to, the above noted debt of US$4,418,125 plus interest accrued) the allotment of 271,471,023 new shares of HK$0.01 each of the Company (the "New Shares"), at a minimum issue price of HK$0.1155 per share, and a cash payment of HK$3,020,063 which will be financed by means of the Subscription as summarised below. The New Shares will be allotted and issued as fully paid up upon completion of the Conditional Compromise Agreement, free from any security interest and will enjoy the same status and rights as all other shares of the Company in issue at that date. The issue and allotment of the New Shares and the cash payment will be made on completion of the Conditional Compromise Agreement which will take place within five banking days after the fulfilment of certain conditions precedent (either be satisfied by the Company, or waived by SC) on or before 31 August 2001.

28. POST BALANCE SHEET EVENTS (continued)

The conditions precedent of the Conditional Compromise Agreement amongst others include: (1) compromises of indebtedness settlements with all the Company's creditors apart from SC, but including and not limited to Asian Growth Fund Limited and Broadway Industries Limited (which are the creditors arising from the provision of other loans to the Group), the China State Bank, Ltd. and Sin Hua Bank Ltd. (the Group's bankers), Bai Li Shi and KD Garment (subsidiaries of the Company) (collectively referred to as "Other Creditors"); (2) the entering into an agreement for the subscription of new shares of the Company by the Company's single largest shareholder, Marble King, on terms no more favourable to the proposed terms of the subscription agreement that need to be negotiated as further explained below; (3) obtaining approval from the Stock Exchange with respect to listing of any new shares to be allotted; (4) obtaining approval from shareholders of the Company at an extraordinary general meeting and other regulatory authorities with respect to the Conditional Compromise Agreement, the successful compromises with Other Creditors and the Subscription; and (5) a reduction of the par value of shares of the Company from HK$0.10 to HK$0.01 each, as set out in the Company's announcement dated 24 November 2000 and its circular dated 28 December 2000. Conditions (1) and (2) are required to be fulfilled on or before 30 June 2001 (or such later dates as may be approved by SC in writing).

For the purpose of the above conditions precedent in the Conditional Compromise Agreement, the proposed major terms of the subscription agreement that need to be negotiated and entered into with Marble King include: (1) the subscription of between 1,000 million and 1,300 million new ordinary shares ("Subscription Shares") by Marble King and not more than 4,000 million transferable convertible 10% fully paid preference shares ("Preference Shares") depending on the number of shares to be taken up by SC and Other Creditors upon their compromises in the debts settlement. The overall objective of the subscription is to enable Marble King to obtain control of not less than 51% of the total issued enlarged share capital of the Company; (2) subscription price of HK$0.02 per share for both Subscription Shares and Preference Shares; and (3) the fulfilment of conditions precedent of the subscription – obtaining approval from the Court of Cayman Islands in the capital reduction in (5) above, approval from shareholders of the Company at an extraordinary general meeting of the Subscription, the Stock Exchange approval for the listing of the Company's new shares, and the granting of white-wash waiver by the Securities and Futures Commission of Hong Kong, and where such waiver is granted with any conditions attached, the satisfaction of those conditions.

As the Agreement contains various conditions precedent which fulfilment depends principally on (a) the successful negotiations and agreements with Other Creditors; and (b) the successful negotiations on terms of the Subscription and the entering into an agreement with Marble King on the Subscription, the board of directors of the Company considers that the Conditional Compromise Agreement may or may not be proceeded with.

29. PENDING LITIGATION

(a) On 22 January 2001, two creditors of the Group claimed against the Company for an aggregate amount of HK$747,301 in respect of type-setting, printing, and translation services rendered to the Company. The directors consider that adequate provision has been made against the amount claimed at 30 November 2000 and no additional provision is required.

(b) On 27 March 2001, the bank submitted a writ of summons in Hong Kong demanding repayment from the Group for the settlement of overdue bank borrowings of approximately HK$28,587,000 and interest thereon. The directors consider that adequate provision has been made against the amount claimed at 30 November 2000 and no additional provision is required.

30. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of new and revised SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new SSAP's requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 31 May 2001.