KIN DON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Annual Report 2001

Contents

Corporate Information

Board of Directors

Executive Directors
Yeung Kwok Kwong *(Chairman)*
Au-Yeung Chi Hung, Alex
Wong Yuk Ching

Non-Executive Directors
Conway Anthony Francis Martin#
Siu Leung Yau#
Liu Kwong Sang#
Lai Ka Fai

independent non-executive Directors

Company Secretary

Wong Kai Cheong

Authorised Representatives

Yeung Kwok Kwong
Lai Ka Fai

Auditors

Ernst & Young

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
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 Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

Financial and Operation Highlights

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

	2001	2000	1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating results					
Turnover	**1,681**	17,375	325,521	401,742	312,544
Increase/(decrease) (%)	**(90)**	(95)	(19)	29	39
Net profit/(loss) from ordinary activities attributable to shareholders	**(8,767)**	(155,792)	(299,245)	111,480	93,140
Increase (%)	**N/A**	N/A	N/A	20	42
Financial position					
Shareholders' fund/ (deficiency in assets)	**14,960**	(153,189)	(83,921)	195,087	58,249
Total assets	**86,102**	25,941	78,096	389,736	256,125
Net assets/(liabilities) value per share (HK cents)*	**0.25**	(16)	(14)	39	14
Financial statistics					
Current ratio**	**1.02**	0.02	0.07	1.75	1.10
Bank borrowings to equity ratio	**0.73**	N/A	N/A	0.29	0.75
Total debts to equity ratio	**0.8**	N/A	N/A	1.0	3.4
Inventory turnover on sales (days)	**545**	77	145	106	128
Return on sales (%)	**N/A**	N/A	N/A	27.7	29.8
Return on total assets (%)	**N/A**	N/A	N/A	28.6	36.4
Basic earnings/(loss) per share (HK cents)*	**(0.4)**	(18.5)	(59.1)	25.8	22.6

* 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 2002 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 Monday, 18 February 2002 at 10:00 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 2001;

2. To re-elect retiring Directors and to authorise the Board of Directors to fix Directors' remuneration;

3. To re-appoint Messrs. Ernst & Young as Auditors and to authorise the Board of Directors to fix their remuneration;

4. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "THAT

   (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase its shares, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;

   (b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing this Resolution, and the said approval shall be limited accordingly; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

      (i) the conclusion of the next Annual General Meeting of the Company;

      (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting; and

      (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or the laws of the Cayman Islands to be held.";

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

(a) the exercise by the Directors during the Relevant Period of all the powers of the Company to issue, allot and otherwise deal with additional shares of the Company and to make or grant offers, agreements and options which would or might require shares to be allotted, issued or otherwise dealt with during or after the end of the Relevant Period, be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or any allotment of shares in lieu of the whole or part of the dividend on Shares in accordance with the Articles of Association of the Company or any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, the total nominal amount of additional shares issued, allotted or otherwise dealt with or agreed conditionally or unconditionally to be issued, allotted or otherwise dealt with (whether pursuant to an option or otherwise) shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of passing this Resolution and the said approval shall be limited accordingly; and

(b) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting; and

(iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or the laws of the Cayman Islands to be held.” and

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

   "**THAT** the general mandate granted to the Directors of the Company pursuant to Resolution 5 above and for the time being in force to exercise the powers of the Company to issue, allot or otherwise deal with additional shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the total nominal amount of shares in the capital of the Company repurchased by the Company since the granting of such general mandate referred to in the above Resolution 4 pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing this Resolution."

By Order of the Board
Yeung Kwok Kwong
Chairman
Hong Kong, 7 January 2002

Notes:

1. The register of members of the Company will be closed from Friday, 15 February 2002 to Monday, 18 February 2002 (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 Monday, 11 February 2002.

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 needs 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.

4. A circular containing further details regarding Resolutions Nos. 4 to 6 above will be despatched to shareholders together with the 2001 Annual Report.

Chairman's Statement

I am pleased to report that all our tasks set out in my last chairman's statement were satisfactorily completed.

As stated in our annual reports of the last two years of 1999 and 2000, the Group operated under extreme financial difficulties and reported huge losses which in total amounted to HK$455 million with the result that the Group had to undergo a debts restructuring scheme with all its major creditors. After a year of our tremendous effort in fiscal 2001, the Group finally succeeded in entering into debt compromising agreements with all its major creditors and a subscription agreement in respect of the allotment of new ordinary shares and convertible preference shares with Marble King International Limited. This together with a rights issue of new ordinary shares raised cash of approximately HK$93.5 million for the Group. In the year ended 30 November 2001, loss of the Group was significantly reduced to about HK$8.8 million.

In the year ahead, the Group will primarily focus on the development of a new corporate image, new corporate structure and business strategies. On the structural side, consideration will be given in disposing certain non-contributing subsidiaries which are not in line with our new development and strategies. On the business side, management will adopt a careful and prudent approach in the activation of our business. Whilst the Group will continue to focus on developing and expanding its garments and related business, we shall consider opportunities in diversifying into other businesses to strengthen our earning base. Our short term objective is to develop a new group with clear vision and strategies so that our Group's profitability and share price will gradually improve reflecting our business reactivation and new development.

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

Yeung Kwok Kwong
Chairman
Hong Kong, 7 January 2002

Management Discussion and Analysis

Business review

For the year ended 30 November 2001, the Group recorded a turnover of about HK$1.7 million, representing a drop of 90% from last year, and a net loss of about HK$8.8 million representing mainly the administrative expenses incurred. During the year, substantially all of the management time and resources had been devoted to the Group's restructuring work, and accordingly, the operating result of the Group was adversely affected.

With the tremendous effort made by all the management and staff members, the Group finally succeeded in compromising its debts with major creditors including its debentures holder and banks by means of a combination of cash payment and issuance of new shares. To improve the working capital of the Group, the Company had completed a placement of shares to its single largest shareholder, Marble King International Limited, in September 2001 and undertook a successful one to one rights issue in October 2001 which in aggregate has raised cash of approximately HK$93.5 million for the Group.

Liquidity and resources

After completion of the fund raising work as mentioned in the section of "Business review" above and payments to major creditors, the Group had net current assets of about HK$1.4 million with cash and bank balances of about HK$67 million as at 30 November 2001.

The Group's gearing ratio as at 30 November 2001 was significantly improved to 87% with total borrowings of about HK$13 million over shareholders' fund of about HK$15 million.

After completion of the restructuring, the remaining outstanding liabilities of the Group are mostly at subsidiary level and are not guaranteed by the Company. Management intends to handle these liabilities in fiscal 2002 through negotiation and/or other restructuring means. Upon completion of these procedures, the Group will be in a clean and tidy status to confront the beginning of a new era.

Pledge of assets

As at 30 November 2001, certain assets of the Group with an aggregate net book value of approximately HK$11,838,000 were pledged to secure credit facilities granted to the Group.

Employees

As at 30 November 2001, the total number of employees of the Group was about 30. The Group continues to adopt the same remuneration policy as last year with reference to prevailing market practice and basing on the individual performance, working experience and degree of hardship of each of the employees.

Prospects

With the improvement in working capital after completion of the restructuring, the Group will be able to reactivate its garments and related business whilst it will explore opportunities for diversifying into new business with growth potential in order to restore the Group's profitability and strengthen the shareholders' value of investment.

ON BEHALF OF THE BOARD
Yeung Kwok Kwong
Chairman
Hong Kong, 7 January 2002

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 2001.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries and a jointly-controlled entity are set out in notes 14 and 15, respectively, to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

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 2001 are set out in notes 5 and 6 to the financial statements.

Results

The Group's loss for the year ended 30 November 2001 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 21 to 60.

Report of the Directors

Summary of financial information

The following is a summary of the published combined/consolidated results and net assets/ liabilities of the Group for the last five years prepared on the basis set out in notes 1 and 2 below.

	Year ended 30 November				
	2001	2000	1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**1,681**	17,375	325,521	401,742	312,544
Profit/(loss) from operating activities	**(20,805)**	(91,556)	(292,363)	139,833	115,569
Finance costs	**(12,249)**	(20,623)	(9,324)	(7,177)	(3,461)
Gain on a debt restructuring	**18,114**	–	–	–	–
Share of results of a jointly-controlled entity	**–**	(44,690)	–	–	–
Profit/(loss) before tax	**(14,940)**	(156,869)	(301,687)	132,656	112,108
Tax	**–**	38	683	(21,634)	(19,220)
Profit/(loss) before minority interests	**(14,940)**	(156,831)	(301,004)	111,022	92,888
Minority interests	**6,173**	1,039	1,759	458	252
Net profit/(loss) from ordinary activities attributable to shareholders	**(8,767)**	(155,792)	(299,245)	111,480	93,140

	30 November				
	2001	2000	1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**86,102**	25,941	78,096	389,736	256,125
Total liabilities	**(70,979)**	(172,794)	(153,446)	(184,465)	(189,675)
Minority interests	**(163)**	(6,336)	(8,571)	(10,184)	(8,201)
Net assets/(liabilities)	**14,960**	(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 for the year ended 30 November 1997 has been extracted from the Company's prospectus dated 1 September 1998. This 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 that financial year. The results of the Group for each of the two years ended 30 November 2001 are set out in the audited consolidated profit and loss account of the Group set out on page 21 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 assets and net liabilities of the Group as at 30 November 2001 and 30 November 2000, respectively, has been extracted from the audited consolidated balance sheet of the Group set out on pages 23 and 24 of the financial statements.

Major customers and suppliers

Sales to the five largest customers of the Group accounted for approximately 88% of the Group's total turnover for the year. In particular, sales to the Group's largest customer accounted for approximately 28% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for all of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 94% 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 19 to 22 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 23 to the financial statements.

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 24 to the financial statements.

Report of the Directors

Distributable reserves

As at 30 November 2001, the Company had no reserves available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands. However, the capital reserve and share premium of the Company may be distributed in the form of fully paid bonus shares. As at 30 November 2001, the Company's capital reserve and share premium account amounted to approximately HK$182,607,000 in aggregate.

Directors

The directors of the Company during the year were as follows:

Executive directors

Mr. Yeung Kwok Kwong *(Chairman)*	
Mr. Au-Yeung Chi Hung, Alex	
Mr. Lai Ka Fai	
Mr. Au Tung Chi	(resigned on 12 September 2001)
Mr. Wei Cheng Wen	(resigned on 12 September 2001)

Non-executive director

Mr. Ho Ping

Independent non-executive directors

Mr. Conway Anthony Francis Martin	
Mr. Siu Leung Yau	
Mr. Liu Kwong Sang	(appointed on 1 December 2000)

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Au-Yeung Chi Hung, Alex and Mr. Lai Ka Fai 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

Mr. Au Tung Chi entered into a service contract with the Company for a term of three years commencing on 1 September 1998, which provided that either party to the service contract might terminate the contract by serving to the other party a written notice not less than six months prior to the effective date of termination. Upon termination of the service contract on 31 August 2001, Mr. Au Tung Chi did not renew his service contract with the Company. Mr. Au Tung Chi resigned as an executive director of the Company on 12 September 2001.

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, subject to the provision that either party to the service contract may terminate the contract by serving to the other party a written notice not less than six months prior to the effective date of termination.

Directors' service contracts (continued)

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 2001, no director or their associates have interests 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.

Mr. Au Tung Chi, an ex-director of the Company, holds 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.

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.

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 23 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 (the "Stock Exchange") on 9 September 1998.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), which came into effect on 1 September 2001. Under the transitional arrangements stipulated in the amended Chapter 17 of the Listing Rules, options already granted before 1 September 2001 are not affected by the amended rules. The Group may permit to grant options under the existing share option scheme up to 1 September 2001. Otherwise, the Group may have to alter the terms of the existing share option scheme, or to adopt a new share option scheme before further options are granted. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors intend to terminate the existing share option scheme, which had no options outstanding as at 30 November 2001, and to adopt a new share option scheme.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the 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.

Report of the Directors

Financial assistance to an affiliated company

Pursuant to a shareholder's 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") (a then unrelated party), the Group advanced an interest-free shareholder's loan to Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang"), a jointly-controlled entity of the Group. The shareholder's loan of HK$25,750,000 as at 30 November 2001 was not repayable by Li Yang without the approval of both City Power and LY Advertising. As at 30 November 2001, full provision has been made against the shareholder's loan by the Group.

Directors' and five highest paid individuals' remuneration

Details of remuneration of the directors of the Company and of the five highest paid individuals of the Group are set out in note 7 to the financial statements.

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 Group to which the Company or any of its subsidiaries was a party during the year.

Retirement benefits scheme

Details of the retirement benefits scheme and the related contributions of the Group for the year are set out in notes 3 and 6 to the financial statements, respectively.

Substantial shareholders

As at 30 November 2001, 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 ordinary shares held**	**Percentage of holding**
Marble King International Limited	3,338,460,250	56.1%

In addition, Marble King International Limited held the entire 4,000,000,000 convertible preference shares in the Company issued partly paid as to 10% of the subscription price of HK$0.02 per share as at 30 November 2001.

Marble King International Limited, a company incorporated in the British Virgin Islands, is beneficially and wholly owned by Mr. 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, aged 43, 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 20 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-Yeung Chi Hung, Alex, aged 42, 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 involved in infrastructure work and power projects. He has over 19 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 37, 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 15 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. Au Tung Chi, aged 47, is the founder of the Group. Mr. Au has some 16 years' experience in the garment and textile trading industry. He was responsible for the development of corporate strategies, corporate planning and day-to-day management of the Group. Mr. Au resigned on 12 September 2001.

Mr. Wei Cheng Wen, aged 46, 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 11 years' experience in finance and management. He was responsible for the finance, marketing, investments and day-to-day management of the Group. Mr. Wei resigned on 12 September 2001.

Non-executive director

Mr. Ho Ping, aged 45, 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 13 years' working experience in the PRC. Mr. Ho was a manager of China International Trust & Investment Corporation for eleven years.

Report of the Directors

Biographical details in respect of directors (continued)

Independent non-executive directors

Mr. Conway Anthony Francis Martin, aged 61, joined the Company in September 2000 as an independent non-executive director. Mr. Conway has over 37 years' experience in information technology and telecommunications, having held director and senior management positions in Hongkong Telecom, New World Telephone, Unysis, and NCR. He is currently the chairman of both 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 member of the Hong Kong Institute of Directors, the Institute of Management, the British Computer Society and the Hong Kong Institution of Engineers.

Mr. Siu Leung Yau, aged 48, joined the Company in September 2000 as an independent non-executive director. Mr. Yau has over 21 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 39, re-joined the Company in December 2000. He is a practising accountant in Hong Kong with more than 11 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.

Connected transactions

Details of connected transactions entered into by the Group during the year that are required to be disclosed are set out in note 4 to the financial statements. Save as disclosed therein, there were no other transactions which are required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The independent non-executive directors are of the opinion that the terms of the abovementioned connected transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions entered into by the Group are in the interests of the Company and were carried out in accordance with the terms of the agreements governing such transactions.

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.

Report of the Directors

Director's interests in competing businesses

During the year and up to the date of this report, no directors are considered to have interests in 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 Listing Rules.

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 Listing Rules throughout the accounting period covered by the annual report, except that 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.

Audit committee

The Company established an audit committee in March 2000 in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The present members of the audit committee are two of the independent non-executive directors of the Company, namely Mr. Liu Kwong Sang and Mr. Siu Leung Yau.

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
7 January 2002

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 21 to 60 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

Our opinion on the financial statements of the Group and the Company for the year ended 30 November 2000 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 31 May 2001.

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, with an ongoing impact on the current year, include:

(i) incomplete books and records of the Group;

(ii) matters which prevented us from satisfying ourselves concerning inventories repossessed by the Group during May 2000, aggregating HK$47,369,000, and accounts receivable of a similar account; and

(iii) matters which prevented us from satisfying ourselves concerning the accounting and provisions of the Group's investments in City Power Services Limited (a wholly-owned subsidiary of the Company) and Li Yang Broadcasting Advertising (HK) Limited ("Li Yang") (a jointly-controlled entity of the Company) amounting to HK$50,000,000, a loan of HK$25,750,000 advanced to Li Yang by the Group and the Group's share of the post-acquisition loss of Li Yang for the period ended 30 November 2000 in the amount of HK$44,690,000.

Accordingly, we were then unable to form an opinion as to whether the 2000 financial statements gave a true and fair view of the state of affairs of the Group and the Company as at 30 November 2000 and of the loss and cash flows of the Group for the year then ended. Any adjustments in respect of these matters found to be necessary to the opening net liabilities of the Group and the Company would have a consequential effect on the results of the Group and the Company for the current year ended 30 November 2001.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Report of the Auditors

Qualified opinion arising from limitations of audit scope

In our opinion the financial statements give a true and fair view, in all material respect, of the state of affair of the Group and the Company at 30 November 2001, and except for any adjustments that might have been found to be necessary in respect of the foregoing scope limitations, in our opinion the financial statements give a true and fair view, in all material respects, of the loss and cash flows of the Group for the year then ended and 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, we have not obtained all the information and explanations that we consider necessary for the purpose of our audit.

Without further qualifying our opinion, we draw attention to the fact that because our opinion on the financial statements of the Group and the Company for the year ended 30 November 2000, dated 31 May 2001, was disclaimed for the scope limitation reasons summarised in the basis of opinion section 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
7 January 2002

Consolidated Profit and Loss Account

Year ended 30 November 2001

	Notes	2001 *HK$'000*	2000 *HK$'000*
TURNOVER	5	**1,681**	17,375
Cost of sales		**(2,533)**	(17,600)
Gross loss		**(852)**	(225)
Other revenue	5	**565**	1,536
Selling and distribution costs		**(183)**	(9,331)
Administrative expenses		**(14,010)**	(29,668)
Debt collection charges		**–**	(473)
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		**(6,325)**	(22,335)
LOSS FROM OPERATING ACTIVITIES	6	**(20,805)**	(91,556)
Finance costs	8	**(12,249)**	(20,623)
Gain on a debt restructuring	9	**18,114**	–
Share of results of a jointly-controlled entity		**–**	(44,690)
LOSS BEFORE TAX		**(14,940)**	(156,869)
Tax	10	**–**	38
LOSS BEFORE MINORITY INTERESTS		**(14,940)**	(156,831)
Minority interests		**6,173**	1,039
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(8,767)**	(155,792)
LOSS PER SHARE – Basic	12	**HK0.44 cents**	HK15.00 cents

Consolidated Statement of Recognised Gains and Losses

Year ended 30 November 2001

	Note	**2001** **HK$'000**	2000 HK$'000
Deficit on revaluation of leasehold land and buildings, net of deferred tax	24	–	(5,077)
Net loss not recognised in the profit and loss account		–	(5,077)
Net loss for the year attributable to shareholders		**(8,767)**	(155,792)
Total recognised gains and losses		**(8,767)**	(160,869)

Consolidated Balance Sheet

30 November 2001

	Notes	**2001** **HK$'000**	2000 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**14,934**	22,302
Interests in a jointly-controlled entity	15	**–**	–
		14,934	22,302
CURRENT ASSETS			
Inventories	16	**2,922**	2,106
Prepayments, deposits and other receivables		**1,203**	1,296
Cash and cash equivalents		**67,043**	237
		71,168	3,639
CURRENT LIABILITIES			
Accounts payable	17	**2,594**	4,088
Accrued liabilities and other payables		**18,598**	20,108
Deposits received		**2,244**	2,244
Tax payable		**33,376**	33,376
Due to a director	18	**–**	1,139
Interest-bearing bank and other borrowings	19, 20	**12,561**	75,508
Current portion of finance lease payables	21	**378**	330
Convertible debentures, including redemption premium and interest	22	**–**	34,373
		69,751	171,166
NET CURRENT ASSETS/(LIABILITIES)		**1,417**	(167,527)
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,351**	(145,225)

Consolidated Balance Sheet

30 November 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	19, 20	**–**	22
Non-current portion of finance lease payables	21	**68**	446
Deferred tax	10	**1,160**	1,160
		1,228	1,628
MINORITY INTERESTS	25(c)	**163**	6,336
		14,960	(153,189)
CAPITAL AND RESERVES			
Issued capital	23	**63,504**	94,066
Reserves	24	**(48,544)**	(247,255)
		14,960	(153,189)

Yeung Kwok Kwong
Director

Lai Ka Fai
Director

Consolidated Cash Flow Statement

Year ended 30 November 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	25(a)	**(15,351)**	(57,465)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**15**	1,536
Interest paid		**(595)**	(10,576)
Interest element on finance lease payments		**(93)**	(144)
Dividends received from listed securities		**256**	–
Net cash outflow from returns on investments and servicing of finance		**(417)**	(9,184)
TAX			
Hong Kong profits tax refunded		**–**	421
INVESTING ACTIVITIES			
Purchases of fixed assets		**–**	(530)
Proceeds from disposal of fixed assets		**6,238**	229
Disposal of a subsidiary	25(b)	**(1)**	–
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
Net cash inflow/(outflow) from investing activities		**6,237**	(76,051)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(9,531)**	(142,279)
FINANCING ACTIVITIES	25(c)		
New bank loans		**–**	15,000
Repayment of bank loans		**(1,094)**	(2,634)
Drawdown of other loans		**–**	72,000
Repayment of other loans		**(2,173)**	(30,504)
Capital element of finance lease obligations		**(330)**	(486)
Issue of shares for cash consideration		**93,504**	61,804
Share issue expenses		**(3,507)**	(1,506)
Issue of convertible debentures		**–**	38,902
Repayment of convertible debentures		**(3,020)**	–
Release of pledged bank deposits		**–**	34,137
Net cash inflow from financing activities		**83,380**	186,713

Consolidated Cash Flow Statement

Year ended 30 November 2001

	Note	**2001**	2000
		HK$'000	*HK$'000*
INCREASE IN CASH AND CASH EQUIVALENTS		**73,849**	44,434
Discharge of bank overdrafts under a debt restructuring	25(d)	**17,079**	–
Cash and cash equivalents at beginning of year		**(23,885)**	(68,319)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**67,043**	(23,885)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**67,043**	237
Bank overdrafts		**–**	(24,122)
		67,043	(23,885)

Balance Sheet

30 November 2001

	Notes	2001 *HK$'000*	2000 *HK$'000*
NON-CURRENT ASSETS			
Interests in subsidiaries	14	**4,969**	(99,381)
CURRENT ASSETS			
Prepayments, deposits and other receivables		**–**	34
Cash and cash equivalents		**61,235**	34
		61,235	68
CURRENT LIABILITIES			
Accrued liabilities and other payables		**5,503**	40,306
Due to a director	18	**–**	1,139
Interest-bearing bank and other borrowings	19	**–**	25,000
Convertible debentures, including redemption premium and interest	22	**–**	34,373
		5,503	100,818
NET CURRENT ASSETS/(LIABILITIES)		**55,732**	(100,750)
		60,701	(200,131)
CAPITAL AND RESERVES			
Issued capital	23	**63,504**	94,066
Reserves	24	**(2,803)**	(294,197)
		60,701	(200,131)

Yeung Kwok Kwong
Director

Lai Ka Fai
Director

Notes to Financial Statements

30 November 2001

1. CORPORATE INFORMATION

The principal place of business of the Company is located at 5605-5606, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's subsidiaries and a jointly-controlled entity are set out in notes 14 and 15, respectively. There were no changes in the nature of the Group's principal activities during the year.

The Company is a subsidiary of Marble King International Limited ("Marble King"), a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company as at the balance sheet date.

2. RESTRUCTURING, RIGHTS ISSUE AND CAPITAL REORGANISATION

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flow and otherwise to sustain the Group as a going concern, during the year, the Group (a) implemented a restructuring, involving a subscription of new shares of the Company and the entering into of various compromise agreements with a debenture holder and with creditors; (b) effected a rights issue; and (c) undertook a capital reorganisation, as further detailed below:

(a) Restructuring

During the year, the Group entered into a subscription agreement with Marble King and various compromise agreements with Stone Church LLC (the holder of the Company's debentures) and with the principal creditors of the Group which related to a restructuring plan (the "Restructuring"). Particulars of the Restructuring are set out below:

(i) Subscription agreement with Marble King

On 31 July 2001, the Company entered into a subscription agreement in relation to the subscription of 1,300,000,000 ordinary shares of HK$0.01 each and 4,000,000,000 convertible preference shares of HK$0.01 each at the same subscription price of HK$0.02 per share with Marble King (the "Subscription Agreement"). The convertible preference shares were issued partly paid as to 10% of the subscription price on completion of the Subscription Agreement. Proceeds of HK$34,000,000, before related expenses, were received by the Company for the issuance of the new ordinary shares and convertible preference shares. Further details of the terms and conditions of the Subscription Agreement are set out in the Company's circular dated 20 August 2001.

Marble King has undertaken to the Company that, within one year from the date of the issue of the convertible preference shares under the Subscription Agreement (the "Undertaking Period"), it will not redeem the whole or any part of the paid up amount on the convertible preference shares and will further pay up the unpaid amount on the partly-paid convertible preference shares to such an extent that the Group would have adequate working capital for its normal business operations. Subsequent to the balance sheet date, on 1 December 2001, Marble King extended the Undertaking Period to 30 November 2002.

A summary of the terms of the convertible preference shares is set out in note 23.

Notes to Financial Statements

30 November 2001

2. RESTRUCTURING, RIGHTS ISSUE AND CAPITAL REORGANISATION (continued)

(a) Restructuring (continued)

(ii) Compromise agreement with Stone Church LLC

On 8 December 2000, the Company received a winding-up petition from Stone Church LLC ("Stone Church"). The petition involved 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.

The Company entered into a conditional compromise agreement with Stone Church on 6 May 2001 (the "Stone Church Compromise Agreement"). Under the terms of the Stone Church Compromise Agreement, Stone Church agreed to accept in full and final settlement of all liabilities due to it and its claims against the Company, of approximately HK$34,373,000 in aggregate, the allotment of 271,471,023 shares of HK$0.01 each of the Company at an issue price of HK$0.1155 per share, amounting to approximately HK$31,353,000, and a cash payment of HK$3,020,000.

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 Stone Church had entered into the Stone Church Compromise Agreement in settlement of the above indebtedness.

Further details of the terms and conditions of the Stone Church Compromise Agreement are set out in a Company's announcement dated 9 May 2001 and a circular dated 20 August 2001.

(iii) Compromise agreement with principal creditors

On 31 July 2001, the Company, and certain of its subsidiaries and the principal creditors of the Group (the "Principal Creditors") entered into a compromise agreement (the "Principal Creditors Compromise Agreement"). Pursuant to the Principal Creditors Compromise Agreement, the Principal Creditors agreed to settle the indebtedness owed by the Group to each of them in an aggregate amount of HK$60,398,000, excluding amounts owed to the non wholly-owned subsidiaries of the Company, together with interests thereon, subject to and on the terms and conditions stated therein. The indebtedness owed to the Principal Creditors, excluding the non wholly-owned subsidiaries of the Company, was released and discharged upon:

(1) a cash payment by the Company of HK$4,832,000 in aggregate to the Principal Creditors (excluding the cash payments made by the Company to the non wholly-owned subsidiaries of the Company); and

(2) the issue of 463,053,218 new ordinary shares of HK$0.01 each in the Company to the Principal Creditors (excluding the non wholly-owned subsidiaries of the Company) at an issue price of HK$0.12 per share, with an aggregate value of approximately HK$55,566,000.

2. RESTRUCTURING, RIGHTS ISSUE AND CAPITAL REORGANISATION (continued)

(a) Restructuring (continued)

(iii) Compromise agreement with principal creditors (continued)

Further details of the terms and conditions of the Principal Creditors Compromise Agreement are set out in a Company's circular dated 20 August 2001.

In addition, The China State Bank, Limited, one of the Principal Creditors, agreed to withdraw its legal proceedings against the Group to demand for immediate repayment of overdue borrowings of approximately HK$28,587,000 and interest thereon, upon the completion of the Principal Creditors Compromise Agreement.

(iv) Compromises with other creditors

Further to the Stone Church Compromise Agreement and the Principal Creditors Compromise Agreement, the Company made compromises with other creditors of the Group, other than Stone Church and the Principal Creditors, in respect of the indebtedness owed by the Group to each of them in an aggregate amount of HK$12,971,000. This indebtedness was released and discharged by a cash payment of HK$5,000,000 in aggregate. This indebtedness included the amounts owed by the Group to certain existing directors and ex-directors of the Company. The Group had received written consent from certain existing directors and ex-directors of the Company to waive their indebtedness amounting to HK$7,971,000 owed by the Group.

On 12 September 2001, the Restructuring was approved by the Company's shareholders at an extraordinary general meeting. The Subscription Agreement, the Stone Church Compromise Agreement and the Principal Creditors Compromise Agreement became unconditional and were completed on 14 September 2001.

(b) Rights Issue

Immediately after the completion of the Restructuring, the Company effected a rights issue (the "Rights Issue") on the basis of one rights share for every share of HK$0.01 each in the Company held by the shareholders whose names appeared on the register of members of the Company on 21 September 2001.

The Rights Issue was completed on 17 October 2001 and resulted in the issue of 2,975,186,217 new ordinary shares of HK$0.01 each in the Company at a price of HK$0.02 per rights share. Proceeds of HK$59,504,000, before related expenses, were received by the Company. Further details of the Rights Issue are set out in note 23.

(c) Capital reorganisation

On 24 November 2000, the Company announced a proposal to effect a capital reorganisation scheme, which involved the reduction of the par value of the ordinary share capital of the Company from shares of HK$0.10 each to HK$0.01 each. The capital reorganisation scheme was approved by the Company's shareholders on 22 January 2001 at an extraordinary general meeting and the Confirmation Order of the Grand Court of the Cayman Islands was received on 7 September 2001.

On 11 September 2001, the capital reorganisation scheme became effective. Further details of the capital reorganisation are set out in note 23(B)(a).

2. RESTRUCTURING, RIGHTS ISSUE AND CAPITAL REORGANISATION (continued)

Upon the completion of the Restructuring and the Rights Issue, total proceeds of HK$93,504,000, before related expenses, were received by the Company pursuant to the Subscription Agreement and the Rights Issue. In addition, an aggregate amount of HK$107,742,000 of the Group's indebtedness, excluding amounts owed to the non wholly-owned subsidiaries of the Company, were settled through the issue of 734,524,241 new ordinary shares of HK$0.01 each in the Company and cash payments aggregating HK$12,852,000 to Stone Church, the Principal Creditors (excluding the non wholly-owned subsidiaries of the Company) and the other creditors of the Group.

Having completed the foregoing measures, the Group has substantially improved its financial position and had net current assets and net assets as at 30 November 2001 including substantial cash resources. In addition, Marble King has undertaken to the Company that, on or before 30 November 2002, Marble King will not redeem the whole or any part of the paid up amount on the convertible preference shares and will further pay up the maximum unpaid amount of HK$72,000,000 on the partly-paid convertible preference shares to such an extent that the Group would have adequate working capital for its normal business operations. Having regard to this background, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future and be a commercially viable concern. Accordingly, these financial statements have been prepared on a going concern basis.

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, 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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;

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

– rental income, on a time proportion basis over the lease terms;

– from the sale of investments, on a trade date basis or on the date on which the relevant sales contracts become or are deemed unconditional, where appropriate; and

– dividends, when the Group's right to receive payment is established.

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 impairments 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 is 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 impairments in value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

If, under the equity method, the Group's share of losses of a jointly-controlled entity equals or exceeds the carrying amount of an investment, the Group ordinarily discontinues including its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the jointly-controlled entity to satisfy obligations of the jointly-controlled entity that the Group has guaranteed or otherwise committed. If the jointly-controlled entity subsequently reports profits, the Group resumes including its share of those profits only after its share of the profits equals the share of net losses not recognised.

Investments made by means of joint venture structures which result in the Group controlling the board of directors or equivalent governing body, rather than having joint control with other venturers, 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.

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 its estimated useful life.

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.

Notes to Financial Statements

30 November 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and 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.

Listed securities

Listed securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of securities are credited or charged to the profit and loss account for the period in which they arise.

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.

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 cash equivalents represent assets which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently-administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year, the Group had the following transactions with related parties:

(i) During the year, as further detailed in note 2(a)(i), the Company entered into the Subscription Agreement with Marble King, the ultimate holding company of the Company, in relation to the subscription of new ordinary shares of HK$0.01 each and convertible preference shares of HK$0.01 each of the Company at the same subscription price of HK$0.02 per share. The Subscription Agreement was approved at an extraordinary general meeting on 12 September 2001.

(ii) As detailed in note 2(a)(iii), the Group entered into the Principal Creditors Compromise Agreement during the year with the Principal Creditors, two of which are non wholly-owned subsidiaries of the Company. Pursuant to the Principal Creditors Compromise Agreement, certain balances of HK$42,164,000 owed by the Company to two non wholly-owned subsidiaries of the Company were waived in full. The amount waived had been credited to the profit and loss account of the Company and eliminated on consolidation.

(iii) As further detailed in note 2(a)(iv), the Group received written consent from certain existing directors and ex-directors of the Company to waive their directors' remuneration owed by the Group, amounting to HK$6,450,000 in aggregate (note 2). In addition, a director waived an amount of HK$1,521,000 in connection with an advance made by the director to the Group.

4. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(iv) On 31 July 2001, the Company, Marble King and Hantec Securities Co., Limited ("Hantec") entered into an underwriting agreement relating to the rights issue as detailed in notes 2(b) and 23. Pursuant to the underwriting agreement, an underwriting commission of 2.5% of the total subscription price of the rights shares underwritten by Hantec was payable to Hantec. Hantec is an associate of Marble King and beneficially and wholly owned by Mr. Or Wai Sheun, the shareholder of Marble King. Upon the completion of the rights issue, an underwriting commission of HK$715,000 was paid to Hantec.

(v) A company owned by Mr. Au Tung Chi ("Mr. Au"), an ex-director of the Company, has pledged certain of its land as security for banking facilities granted to a subsidiary of the Company at nil consideration (note 20).

(vi) During the year ended 30 November 2000, the Group paid rental expenses amounting to HK$960,000 to a company owned by Mr. Au for the leasing of a property in Hong Kong for use as guest quarters. The rental expenses were charged on the basis determined between the Group and the related company.

(vii) 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 a further joint venture company by Li Yang and Beijing Li Yang Advertising Company Limited, an associate of LY Advertising, in the People's Republic of China (the "PRC") to carry out the business 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.

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 2001, City Power and LY Advertising held 48% and 52% equity interests 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 AND CONNECTED TRANSACTIONS (continued)

(viii) During the year ended 30 November 2000, a director paid expenses on behalf of the Group amounting to HK$1,139,000 in aggregate. The amount due to the director was unsecured, interest-free and had no fixed terms of repayment (note 18).

(ix) During the year ended 30 November 2000, 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 the manufacturing activities of the Company's PRC subsidiaries. The terms of the compensation were 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 principally derived 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. The Group's turnover is principally derived in the PRC.

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

	2001	2000
	HK$'000	*HK$'000*
Turnover – sale of men's apparel	**1,681**	17,375
Dividend income	**256**	–
Bank interest income	**15**	1,536
Rental income	**294**	–
	565	1,536
Total revenue	**2,246**	18,911

6. LOSS FROM OPERATING ACTIVITIES

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

	2001	2000
	HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration, note 7):		
Wages and salaries	**2,260**	11,510
Retirement scheme contributions	**62**	–
	2,322	11,510
Depreciation:		
Owned fixed assets	**906**	2,615
Leased fixed assets	**224**	672
Debt collection charges	**–**	473
Operating lease rentals in respect of land and buildings	**1,863**	4,056
Auditors' remuneration:		
Current year provision	**400**	700
Overprovision in prior years	**(80)**	–
	320	700
Fixed assets written off	**–**	755
Provision for doubtful debts	**111**	2,990
Deficit on revaluation	**–**	2,017
Gain on disposal of a subsidiary	**(252)**	–
Gain on disposal of listed securities	**(138)**	–
Gain on disposal of fixed assets	**–**	(229)

The Group's loss from operating activities principally arose from the sale of men's apparel, including leather goods and accessories, under the Group's Kin Don brand name in the PRC.

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Details of the remuneration of the directors of the Company disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2001	2000
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**10**	460
Independent non-executive directors	**60**	338
	70	798
Other emoluments to executive directors:		
Basic salaries, housing, allowances and benefits in kind	**6,450**	9,965
Retirement scheme contributions	**54**	–
	6,504	9,965
	6,574	10,763

During the current year, no emoluments were paid by the Group to the directors (including five highest paid individuals) as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office.

The above amount for the year ended 30 November 2000 includes HK$600,000 paid by the Group during that year to an executive director as compensation for loss of office. During the year ended 30 November 2001, no emoluments were paid to the directors as an inducement to join the Group.

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

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION (continued)

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

	2001 Number of directors	2000 Number of directors
Nil to HK$1,000,000	**5**	11
HK$1,000,001 to HK$1,500,000	**3**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**–**	1
	9	15

During the year, the Group received written consent from certain existing directors and ex-directors of the Company to waive aggregate remuneration of HK$6,450,000 payable to the directors (note 2(a)(iv)). Save as foregoing, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals during the two years presented were all directors, details of whose remuneration are set out above.

8. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	**5,691**	8,852
Other loans wholly repayable within five years	**4,038**	6,429
Convertible debentures	**2,427**	822
Finance leases	**93**	144
Premium on redemption of convertible debentures (note 22)	**–**	4,376
	12,249	20,623

9. GAIN ON A DEBT RESTRUCTURING

The gain of HK$18,114,000 represented the indebtedness of the Group waived by certain existing directors and ex-directors of the Company amounting to HK$7,971,000 in aggregate as set out in notes 2(a)(iv) and 4(iii), and the write back of interest previously accrued by the Group of HK$10,143,000 in respect of the Group's indebtedness owed to Stone Church and the Principal Creditors following the completion of the Stone Church Compromise Agreement and the Principal Creditors Compromise Agreement and had been credited to the profit and loss account of the Group.

10. TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Hong Kong profits tax:		
Overprovision in the prior year	**–**	38
Tax credit for the year	**–**	38

Tax has not been provided as the Group did not generate any assessable profits during the year (2000: Nil).

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	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**–**	–	**(10)**	(10)	**–**	–	**–**	–
Tax losses carried forward	**–**	–	**(37,100)**	(36,218)	**–**	–	**(6)**	(1,229)
Other timing differences	**1,160**	1,160	**–**	–	**–**	–	**–**	–
At 30 November	**1,160**	1,160	**(37,110)**	(36,228)	**–**	–	**(6)**	(1,229)

10. TAX (continued)

The liability for deferred tax of the Group, 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 was debited to account for the deferred tax liability arising therefrom (note 24).

No deferred tax with regard to 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 PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 November 2001 was HK$83,916,000 (2000: Loss of HK$261,182,000).

12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 30 November 2001 is based on the net loss from ordinary activities attributable to shareholders for the year of HK$8,767,000 (2000: HK$155,792,000) and the weighted average of 1,974,226,444 (2000: 1,038,682,789) ordinary shares in issue during the year. The comparative amount of loss per share has been adjusted for the Rights Issue of 2,975,186,217 shares of the Company during the year.

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

The diluted loss per share for the year 2001 is not shown because the Company's outstanding convertible preference shares were anti-dilutive.

Notes to Financial Statements
30 November 2001

13. FIXED ASSETS

Group

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'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	17,789	2,321	8,820	1,453	2,240	32,623
Disposals	(6,238)	(185)	–	(123)	–	(6,546)
At 30 November 2001	11,551	2,136	8,820	1,330	2,240	26,077
Accumulated depreciation:						
At beginning of year	–	1,400	5,812	1,093	2,016	10,321
Provided during the year	265	228	262	151	224	1,130
Disposals	–	(185)	–	(123)	–	(308)
At 30 November 2001	265	1,443	6,074	1,121	2,240	11,143
Net book value:						
At 30 November 2001	11,286	693	2,746	209	–	14,934
At 30 November 2000	17,789	921	3,008	360	224	22,302
Analysis of cost or valuation of fixed assets held by the Group at 30 November 2001:						
At cost	–	2,136	8,820	1,330	2,240	14,526
At 2000 valuation	11,551	–	–	–	–	11,551
	11,551	2,136	8,820	1,330	2,240	26,077

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:

	2001	2000
	HK$'000	*HK$'000*
Held under medium term leases in Hong Kong	**–**	6,238
Held under medium term leases outside Hong Kong	**11,551**	11,551
	11,551	17,789

The medium term leasehold land and buildings situated outside Hong Kong, held for office purposes, 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, held for production facilities, were revalued by Castores Magi Surveyors Limited at 30 November 2000 at HK$9,685,000 on a depreciated replacement cost basis.

In the opinion of the directors, the fair values of the above revalued land and buildings at 30 November 2001 would not be significantly different from their carrying values. Accordingly, these assets continue to be stated at their valuation in November 2000 less depreciation.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 30 November 2001 would be restated at approximately HK$7,342,000 (2000: HK$15,987,000).

All of the Group's medium term leasehold land and buildings situated outside Hong Kong are pledged to secure banking facilities granted to the Group (note 20).

Certain of the Group's plant and machinery, with an aggregate net book value of approximately HK$552,000 (2000: HK$830,000) at 30 November 2001, are pledged to secure banking facilities granted to the Group (note 20).

The net book value of assets held under finance leases included in the total amount of fixed assets at 30 November 2001 amounted to nil (2000: HK$224,000).

14. INTERESTS IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted investments, at cost	**101,039**	101,039
Due from subsidiaries	**319,836**	325,608
Due to subsidiaries – Note	**–**	(99,381)
Provisions for diminutions in values	**(415,906)**	(426,647)
	4,969	(99,381)

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

Note: Pursuant to the Principal Creditors Compromise Agreement, balances of HK$49,605,000 in aggregate due to the non wholly-owned subsidiaries of the Company were settled through cash payment and waiver (note 2(a)(iii)). The remaining balance of HK$49,776,000 brought forward from 30 November 2000 was settled in full by the Company during the year via the assignment of intra-group current account balances.

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
Noble Prime International Limited	British Virgin Islands	US$1	100%	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:				
Kin Don (Group) Limited	Hong Kong	HK$1,000,001	100%	Sourcing of materials and accessories and investment holding
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
Glentech International Company Limited	Hong Kong	HK$2	100%	Business not yet commenced

Notes:

(i) KD Garment is a subsidiary established by the Group and a PRC partner for a period of 50 years commencing 25 May 1992. The registered capital of KD Garment was US$7,200,000 as at 30 November 2001.

(ii) Bai Li Shi is a subsidiary established by the Group and a PRC partner for a period of 50 years commencing 6 April 1994. The registered capital of Bai Li Shi was US$1,200,000 as at 30 November 2001.

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**–**	5,310
Loan to a jointly-controlled entity	**25,750**	25,750
	25,750	31,060
Provision against loan	**(25,750)**	(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 of 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 operations	Equity interest attributable to the Group	Principal activities
Li Yang Broadcasting & Advertising (HK) Limited	Corporate	Hong Kong	48%	Television advertisement design and production, and provision 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. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Finished goods	**2,922**	2,106

No inventories were stated at net realisable value at 30 November 2001 (2000: HK$2,106,000).

17. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Outstanding balances aged:		
91 days to 180 days	**–**	678
181 days to 365 days	**–**	58
Over 365 days	**2,594**	3,352
	2,594	4,088

18. DUE TO A DIRECTOR

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

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts, secured	**–**	24,122	**–**	–
Bank loans, secured	**10,879**	24,553	**–**	–
Other loans:				
Secured	**1,682**	1,855	**–**	–
Unsecured	**–**	25,000	**–**	25,000
	12,561	75,530	**–**	25,000

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts repayable within one year or on demand	**–**	24,122	**–**	–
Bank loans repayable within one year or on demand	**10,879**	24,553	**–**	–
Other loans repayable:				
Within one year	**1,682**	26,833	**–**	25,000
In the second year	**–**	22	**–**	–
	1,682	26,855	**–**	25,000
	12,561	75,530	**–**	25,000
Portion classified as current liabilities	**(12,561)**	(75,508)	**–**	(25,000)
Non-current portion	**–**	22	**–**	–

20. PLEDGE OF ASSETS

As at 30 November 2001, 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 outside Hong Kong with an aggregate net book value of approximately HK$11,286,000 (note 13);

(b) the pledge of certain plant and machinery of the Group with an aggregate net book value of approximately HK$552,000 (note 13);

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

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

(e) legal charges on certain land owned by a company owned by Mr. Au (note 4).

21. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles. The lease is classified as finance leases and has remaining lease term of two years.

At 30 November 2001, the future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**416**	416	**378**	330
In the second year	**70**	416	**68**	378
In the third to fifth years, inclusive	**–**	70	**–**	68
Total minimum finance lease payments	**486**	902	**446**	776
Future finance charges	**(40)**	(126)		
Total net finance lease payables	**446**	776		
Portion classified as current liabilities	**(378)**	(330)		
Non-current portion	**68**	446		

22. CONVERTIBLE DEBENTURES, INCLUDING REDEMPTION PREMIUM AND INTEREST

On 21 January 2000, the Company entered into a subscription agreement with Stone Church for the issue of convertible debentures to Stone Church. The aggregate principal amount of the convertible debentures was US$5,000,000. Each of the convertible debentures had a denominated face value of US$50,000. The convertible debentures comprised 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.

The convertible debentures were subscribed for on 29 February 2000 and the proceeds of HK$38,902,000, before related expenses, were received by the Company at that time.

Further details regarding Stone Church's legal proceedings against the Company and the final settlement of all of the outstanding convertible debentures during the year are set out in note 2(a)(ii).

23. SHARE CAPITAL

Shares

	2001	2000
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 (2000: 10,000,000,000) ordinary shares of HK$0.01 (2000: HK$0.10) each	**1,000,000**	1,000,000
5,000,000,000 (2000: Nil) convertible preference shares of HK$0.01 each	**50,000**	–
	1,050,000	1,000,000
Issued:		
5,950,372,434 (2000: 940,661,976) fully paid ordinary shares of HK$0.01 (2000: HK$0.10) each	**59,504**	94,066
4,000,000,000 (2000: Nil) partly paid convertible preference shares of HK$0.01 each	**4,000**	–
	63,504	94,066

23. SHARE CAPITAL (continued)

(A) Convertible preference shares

During the year, the Company created authorised convertible preference shares of HK$50,000,000 divided into 5,000,000,000 shares of HK$0.01 each. 4,000,000,000 convertible preference shares were issued partly paid as to 10% of the subscription price of HK$0.02 per share pursuant to the Subscription Agreement (note 2 (a)(i)) and were subscribed by Marble King or its nominees. Proceeds of HK$8,000,000, before related expenses, were received by the Company. There is no time restriction for the unpaid amount of HK$72,000,000 of the convertible preference shares to be fully paid up. The Company has no right to make calls with respect to amounts unpaid on any partly paid convertible preference shares.

The holder may convert fully paid convertible preference shares into new ordinary shares of the Company during the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time at the rate of one ordinary share for every one fully paid convertible preference share (subject to adjustment).

During the period commencing on 14 September 2001 and ending on the date five years thereafter, inclusive, at any time, the holders of the convertible preference shares, whether partly paid or fully paid, may require the Company to redeem, to the extent conversion has not been elected by the holders of the convertible preference shares, the outstanding convertible preference shares for the amount paid up. The Company does not have the right to redeem the convertible preference shares.

If the convertible preference shares are still in issue after five years commencing on 14 September 2001, the holders of the convertible preference shares will automatically forfeit all of their redemption/conversion rights under the convertible preference shares and the convertible preference shares will become preference shares without carrying any conversion or redemption features thereafter. However, any paid up capital of the convertible preference shares will continue to be retained in the accounts of the Company.

Notwithstanding the above, Marble King has undertaken to the Company that, on or before 30 November 2002, it will not redeem the whole or any part of the paid up amount on the convertible preference shares and will further pay up the unpaid amount on the partly-paid convertible preference shares to such extent that the Group will have adequate working capital for its normal business operations.

Any convertible preference shares which have been fully paid up will rank pari passu for dividends with the ordinary shares from time to time in issue. Partly paid convertible preference shares are not entitled to any dividends.

The holders of the convertible preference shares are entitled to receive notices of general meetings, but not to attend or vote.

23. SHARE CAPITAL (continued)

(B) Ordinary shares

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

(a) Pursuant to a special resolution passed by the shareholders at an extraordinary general meeting of the Company on 22 January 2001 and the Confirmation Order of the Grand Court of the Cayman Islands dated 7 September 2001, the capital reorganisation of the Company became effective on 11 September 2001. The capital reorganisation involved the following:

(i) the paid-up capital and par value of the issued share capital of the Company was reduced from HK$0.10 per share 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 capital of the Company upon completion of the capital reduction was subdivided into 10 new ordinary shares of HK$0.01 each; and

(iii) the entire credit of approximately HK$84,660,000 arising from the capital reduction was utilised to eliminate part of the accumulated losses of the Company as at 30 November 2000.

(b) Pursuant to the Stone Church Compromise Agreement and the Principal Creditors Compromise Agreement, 271,471,023 and 463,053,218 new ordinary shares of HK$0.01 each were issued to Stone Church and the Principal Creditors at prices of HK$0.1155 and HK$0.12 per share, respectively (note 2). The excess of the consideration for the shares issued over their nominal value, of HK$79,573,000 before related expenses, has been credited to the share premium account (note 24).

(c) Pursuant to the Subscription Agreement as detailed in note 2(a)(i), 1,300,000,000 ordinary shares of HK$0.01 each were issued and subscribed by Marble King at a price of HK$0.02 per share. Proceeds of HK$26,000,000, before related expenses, were received by the Company. The excess of the consideration received for the shares issued over their nominal value of HK$13,000,000 has been credited to the share premium account (note 24).

(d) Pursuant to a special resolution passed by the shareholders at an extraordinary general meeting of the Company on 12 September 2001, the Company applied the sum of approximately HK$134,604,000 standing to the credit of the share premium account of the Company as at 30 November 2000 to reduce part of the accumulated losses of the Company (note 24).

23. SHARE CAPITAL (continued)

(B) Ordinary shares (continued)

(e) On 17 October 2001, the Company issued 2,975,186,217 ordinary shares of HK$0.01 each by way of a rights issue at HK$0.02 per rights share, on the basis of one rights share for every one ordinary shares held by members of the Company on 21 September 2001. The proceeds from the rights issue of HK$59,504,000, before related expenses, were received by the Company and the excess of consideration received for the shares issued over their nominal value of HK$29,752,000 was credited to the share premium account (note 24).

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

	Notes	**Number of ordinary shares of HK$0.10 each** *'000*	**Number of ordinary shares of HK$0.01 each** *'000*	**Amount** *HK$'000*
Authorised:				
At beginning of year		10,000,000	–	1,000,000
Subdivision of existing shares of HK$0.10 each into 10 shares of HK$0.01 each	(a)	(10,000,000)	100,000,000	–
At 30 November 2001		–	100,000,000	1,000,000

	Notes	**Number of ordinary shares of HK$0.10 each** *'000*	**Number of ordinary shares of HK$0.01 each** *'000*	**Amount** *HK$'000*
Issued and fully paid:				
At beginning of year		940,662	–	94,066
Capital reduction	(a)	(940,662)	940,662	(84,660)
		–	940,662	9,406
Shares issued pursuant to the Stone Church Compromise Agreement	(b)	–	271,471	2,715
Shares issued pursuant to the Principal Creditors Compromise Agreement	(b)	–	463,053	4,631
Shares issued pursuant to the Subscription Agreement	(c)	–	1,300,000	13,000
Rights issue	(e)	–	2,975,186	29,752
At 30 November 2001		–	5,950,372	59,504

23. 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.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), which came into effect on 1 September 2001. Under the transitional arrangements stipulated in the amended Chapter 17 of the Listing Rule, options already granted before 1 September 2001 are not affected by the amended rules. The Group was permitted to grant options under the existing share option scheme up to 1 September 2001. Otherwise, the Group may have to alter the terms of the existing share option scheme, or adopt a new share option scheme before further options are granted. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors intend to terminate the existing share option scheme and to adopt a new 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 2000**	**Lapsed during the year**	**At 30 November 2001**
HK$0.255	900	(900)	–

During the year, 550,000 share options lapsed upon the resignation of certain employees and 350,000 share options were surrendered by an employee.

24. 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 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	–	(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 25(c)	–	1,196	–	–	–	–	1,196
Net loss for the year	–	–	–	–	–	(155,792)	(155,792)
At 30 November 2000 and 1 December 2000	134,604	1,699	–	35	(1,043)	(382,550)	(247,255)
Capital reduction – note 23(B)(a)	–	–	–	–	–	84,660	84,660
Share premium cancellation – note 23(B)(d)	(134,604)	–	–	–	–	134,604	–
Issue of shares	126,325	–	–	–	–	–	126,325
Share issue expenses	(3,507)	–	–	–	–	–	(3,507)
Net loss for the year	–	–	–	–	–	(8,767)	(8,767)
At 30 November 2001	122,818	1,699	–	35	(1,043)	(172,053)	(48,544)
# Reserves retained at 30 November 2001 by:							
Company and subsidiaries	122,818	1,699	–	35	(1,043)	(127,363)	(3,854)
A jointly-controlled entity	–	–	–	–	–	(44,690)	(44,690)
	122,818	1,699	–	35	(1,043)	(172,053)	(48,544)

24. RESERVES (continued)

	Share premium account	Fixed asset revaluation reserve	Capital reserve#	Statutory reserve*	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Company							
At 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 and 1 December 2000	134,604	–	59,789	–	–	(488,590)	(294,197)
Capital reduction – note 23(B)(a)	–	–	–	–	–	84,660	84,660
Share premium cancellation – note 23(B)(d)	(134,604)	–	–	–	–	134,604	–
Issue of shares	126,325	–	–	–	–	–	126,325
Share issue expenses	(3,507)	–	–	–	–	–	(3,507)
Net profit for the year	–	–	–	–	–	83,916	83,916
At 30 November 2001	122,818	–	59,789	–	–	(185,410)	(2,803)

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.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	HK$'000	*HK$'000*
Loss from operating activities	**(20,805)**	(91,556)
Depreciation	**1,130**	3,287
Interest income	**(15)**	(1,536)
Dividend income	**(256)**	–
Gain on disposal of a subsidiary	**(252)**	–
Fixed assets written off	**–**	755
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
Deficit on revaluation	**–**	2,017
Provision for doubtful debts	**111**	2,990
Increase in accounts receivable	**(111)**	(2,990)
Decrease/(increase) in inventories	**(816)**	3,112
Decrease/(increase) in prepayments, deposits and other receivables	**(37)**	805
Decrease in accounts payable	**(1,228)**	(4,536)
Increase/(decrease) in accrued liabilities and other payables	**8,067**	(242)
Decrease in deposits received	**–**	(1,541)
Increase/(decrease) in an amount due to a director	**(1,139)**	1,139
Net cash outflow from operating activities	**(15,351)**	(57,465)

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

(b) Disposal of a subsidiary

	2001	2000
	HK$'000	*HK$'000*
Net liabilities disposed of:		
Cash and bank balances	**1**	–
Prepayments, deposits and other receivables	**130**	–
Accounts payable	**(266)**	–
Accrued liabilities and other payables	**(117)**	–
	(252)	–
Gain on disposal of a subsidiary	**252**	–
	–	–
Satisfied by:		
Cash consideration	**–**	–

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

	2001	2000
	HK$'000	*HK$'000*
Cash and bank balances disposed of	**(1)**	–

The subsidiary disposed during the year made no contribution to the Group's turnover and contributed HK$76,000 to the net loss from ordinary activities attributable to shareholders for the year.

The subsidiary disposed during the year contributed approximately HK$125,000 to the Group's net operating cash outflows, contributed HK$338,000 for investing activities and utilised HK$173,000 for financing activities. There were no significant cash flows in respect of tax and net returns on investments and servicing of finance.

25. 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 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 24	–	–	–	(1,196)	–	–	–
Net loss for the year	–	–	–	(1,039)	–	–	–
At 30 November 2000 and 1 December 2000	228,670	24,553	26,855	6,336	776	34,373	–
Capital reduction – note 23(B)(a)	(84,660)	–	–	–	–	–	–
Share premium cancellation – note 23(B)(d)	(134,604)	–	–	–	–	–	–
Issue of shares for cash consideration	93,504	–	–	–	–	–	–
Net cash outflow from financing	–	(1,094)	(2,173)	–	(330)	(3,020)	–
Issue of shares pursuant to Stone Church Compromise Agreement – note 2(a)(ii)	31,353	–	–	–	–	(31,353)	–
Issue of shares pursuant to Principal Creditors Compromise Agreement – note 2(a)(iii)	55,566	(12,580)	(23,000)	–	–	–	–
Share issue expenses	(3,507)	–	–	–	–	–	–
Minority share of net loss for the year	–	–	–	(6,173)	–	–	–
At 30 November 2001	186,322	10,879	1,682	163	446	–	–

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

(d) Major non-cash transactions

During the year, as set out in further detail in note 2, shares issued in connection with the Stone Church Compromise Agreement and Principal Creditors Compromise Agreement to settle the convertible debentures of HK$31,353,000, bank loans of HK$12,580,000, other loans of HK$23,000,000, bank overdrafts of HK$17,079,000 and interest payable of HK$2,907,000 did not result in any cash flow.

26. COMMITMENTS

As at 30 November 2001, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings, as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**417**	1,752
In the second to fifth years, inclusive	**–**	417
	417	2,169

The Company did not have any significant capital commitments at 30 November 2001.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 7 January 2002.