

Interim Report 2001

2001



KIN DON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

The Board of Directors (the “Directors”) of Kin Don Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 May 2001.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the six months ended 31 May	
		2001	2000
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
TURNOVER	3	1,167	8,900
Cost of sales		<u>(1,177)</u>	<u>(12,368)</u>
Gross loss		(10)	(3,468)
Other revenue		204	1,222
Selling and distribution costs		(11)	(2,730)
Administrative expenses		(7,606)	(14,176)
Depreciation		(1,020)	(1,822)
Debt collection charges		-	(173)
Provision against loan advanced to and for diminution in value of the Group's interest in a jointly-controlled entity		-	(17,000)
Other operating expenses		<u>(1,596)</u>	<u>(7,545)</u>
LOSS FROM OPERATING ACTIVITIES		(10,039)	(45,692)
Finance costs		(7,776)	(9,073)
Share of results of a jointly-controlled entity		-	(40,000)
LOSS BEFORE TAX		(17,815)	(94,765)
Tax	4	-	-
LOSS BEFORE MINORITY INTERESTS		(17,815)	(94,765)
Minority interests		<u>385</u>	<u>374</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(17,430)</u>	<u>(94,391)</u>
LOSS PER SHARE –Basic	5	<u>HK1.85 cents</u>	<u>HK12.63 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	31 May 2001 HK\$'000 (Unaudited)	30 November 2000 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets	7	15,044	22,302
Interests in a jointly-controlled entity		—	—
		15,044	22,302
CURRENT ASSETS			
Inventories		939	2,106
Prepayments, deposits and other receivables		1,280	1,296
Cash and cash equivalents		193	237
		2,412	3,639
CURRENT LIABILITIES			
Accounts payable	8	4,088	4,088
Accrued liabilities, other payables and deposits received		30,795	22,352
Taxation		33,376	33,376
Due to a director		4,949	1,139
Interest-bearing bank and other borrowings		70,591	75,508
Current portion of finance lease payables		349	330
Debentures, include redemption premium and interest		36,521	34,373
		180,669	171,166
NET CURRENT LIABILITIES		(178,257)	(167,527)
TOTAL ASSETS LESS CURRENT LIABILITIES		(163,213)	(145,225)
NON-CURRENT LIABILITIES			
Interest-bearing other borrowings		—	22
Non-current portion of finance lease payables		295	446
Deferred tax		1,160	1,160
		1,455	1,628
MINORITY INTERESTS		5,951	6,336
		(170,619)	(153,189)
DEFICIENCY IN ASSETS			
Issued capital		94,066	94,066
Reserves		(264,685)	(247,255)
		(170,619)	(153,189)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 31 May 2001
HK\$'000
(Unaudited)

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(87)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(1,125)
NET CASH INFLOW FROM INVESTING ACTIVITIES	<u>6,238</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	5,026
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(304)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	4,722
Cash and cash equivalents at the beginning of the period	<u>(23,885)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>(19,163)</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	193
Bank overdrafts	<u>(19,356)</u>
	<u><u>(19,163)</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Basis of presentation

These unaudited interim financial statements have been prepared on a going concern basis despite the significant net current liabilities and deficiency in assets of the Group as at 31 May 2001. The Directors have undertaken a number of measures with a view to improve the Group's liquidity and capital base. As recently announced, the Group has entered into conditional compromise agreements in the settlement of the debts with its major creditors and a conditional subscription agreement with Marble King International Limited ("Marble King") for the subscription of shares in the Company (collectively the "Restructuring Proposal") and proposed a one-to-one rights issue. In the opinion of the Directors, in light of the expected results of the Restructuring Proposal and the one-to-one rights issue, the Group will have sufficient working capital for its current operational requirements and it is expected that the Group will ultimately return to a commercially viable concern notwithstanding the Group's financial position and tight cash flows as at 31 May 2001 and the date these unaudited interim financial statements were approved.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these unaudited interim financial statements.

As certain underlying books and records of the Group for the year ended 30 November 2000 were either lost, or could not be located, any adjustment found to be necessary to the opening net liabilities of the Group would have a consequential effect on the loss of the Group for the six months ended 31 May 2001.

2. Accounting policies

These unaudited interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants as applicable to condensed interim financial statements and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the comparative figures of the condensed consolidated cash flow statement and condensed consolidated statement of recognised gains and losses have not been presented as permitted by the Listing Rules. For the six months ended 31 May 2001, the Group had no recognised gains or losses other than the net loss from ordinary activities attributable to shareholders. Accordingly, a condensed consolidated statement of recognised gains and losses is not presented in these unaudited interim financial statements.

Certain of the 2000 comparative figures have been reclassified to conform to the presentation of the current period as a result of changes in the reporting requirements in accordance with the SSAP No. 2.101 "Presentation of financial statements".

The accounting policies used in these unaudited interim financial statements are consistent with those used in the audited annual financial statements of the Group for the year ended 30 November 2000.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (Continued)

3. Turnover

The Group's turnover is derived predominantly from the sale of men's apparel. All the Group's turnover is principally derived in the People's Republic of China.

4. Tax

No tax has been provided for the six months ended 31 May 2001 (2000: Nil) as the Group did not derive any assessable profits during the period.

Deferred tax has not been provided for the six months ended 31 May 2001 (2000: Nil), as the Group has no material timing difference in the recognition of revenue and expenses for tax and for financial reporting purposes.

5. Loss per share

The calculation of basic loss per share for the six months ended 31 May 2001 is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$17,430,000 (2000: HK\$94,391,000) and 940,661,976 (2000: weighted average of 747,197,556) ordinary shares in issue during the period.

There were no potential diluted ordinary shares during the six months ended 31 May 2000 and 2001 and, therefore, no dilutive loss per share is presented.

6. Interim dividend

The Directors do not recommend the payment of any interim dividend in respect of the period ended 31 May 2001 (2000: Nil).

7. Fixed assets

The changes in fixed assets for the six months ended 31 May 2001 are analysed as follows:

	<i>HK\$'000</i>
Net book value at 1 December 2000	22,302
Disposal	(6,238)
Depreciation	(1,020)
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Net book value at 31 May 2001	<u><u>15,044</u></u>

The fixed assets disposed of during the six months ended 31 May 2001 did not result in any significant gain or loss to the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS (Continued)

8. Accounts payable

The age of accounts payable is analysed as follows:

	31 May	30 November
	2001	2000
	HK\$'000	HK\$'000
Outstanding balances with ages:		
91 days to 180 days	–	678
181 days to 365 days	678	58
Over 365 days	3,410	3,352
	4,088	4,088

9. Related party transactions

The Group had the following transactions with related parties for the six months ended 31 May 2001:

- (i) A related company owned by Mr. Au Tung Chi, a 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.
- (ii) During the period, an additional amount of HK\$3,810,000 net (2000: Nil) was advanced to the Group by a director. The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

10. Subsequent events

On 31 July 2001, the Company and its subsidiary, Kin Don (Group) Limited, entered into a conditional compromise agreement with their major creditors (including certain subsidiaries of the Company), in which these major creditors agreed to accept approximately HK\$12,273,000 and 463,053,218 ordinary shares in the Company as full settlement to the indebtedness owed by the Company and Kin Don (Group) Limited to each of them in an aggregate amount of approximately HK\$110,003,000 together with interests.

Concurrently, the Company entered into a conditional subscription agreement with Marble King in relation to the subscription of 1,300,000,000 new ordinary shares and 4,000,000,000 convertible preference shares in the Company by Marble King at a subscription price of HK\$0.02 per new ordinary share and per convertible preference share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS *(Continued)*

10. **Subsequent events** *(Continued)*

The Company further proposed to effect a rights issue of 2,975,186,217 new ordinary shares on the basis of one new ordinary share for every ordinary share held on the date immediately upon the Restructuring Proposal becoming effective at an issue price of HK\$0.02 per new ordinary share (the "Rights Issue"). Marble King has irrevocably undertaken to subscribe for Marble King's full entitlements under the Rights issue and Hantec Securities Co., Limited, an associate of Marble King as defined under the Listing Rules, has underwritten the Rights Issue (net of Marble King's undertaking).

Upon completion of the subscription and Rights Issue, the Company will raise an additional capital of approximately HK\$93,504,000 of which HK\$20,293,000 will be utilized for the settlements to creditors, including Stone Church LLC ("Stone Church") and certain subsidiaries of the Company, in accordance with the compromise agreements with the remaining of HK\$73,211,000 to be used for the Group's future working capital.

The Company proposed a cancellation of the Company's share premium account and to apply the credit therefrom of approximately HK\$134,600,000 as at 30 November 2000 to set off the accumulated losses of the Company.

Details of the Restructuring Proposal, Rights Issue and share premium cancellation were set out in the Company's announcement dated 4 August 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Due to the limitation of available financial resources for the Group's business, the Group had substantially scaled down its level of core business of the manufacturing, marketing and distribution of men's apparel in fiscal 2000 and has further scaled down its level of core business for the six months ended 31 May 2001. Accordingly, turnover for the first half of fiscal 2001 decreased by 87% as compared with that of last year. Net loss from ordinary activities attributable to shareholders was recorded at HK\$17,430,000, due mainly to interest expense and other operating expenses and costs.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and financial resources

As a result of the continued loss operation of the Group, working capital and net liabilities positions have further deteriorated. As at 31 May 2001, the Group had net current liabilities of approximately HK\$178,257,000 and deficiency in assets of approximately HK\$170,619,000. In December 2000, a winding up petition against the Company was served by a creditor, Stone Church. In March and June 2001, legal actions against the Group for debt recovery were taken by the China State Bank Limited. After prolonged discussion with Stone Church, other major creditors of the Group and Marble King, the Group has entered into conditional compromise agreements with Stone Church and other major creditors in the settlement of the debts owed by the Group and a conditional subscription agreement with Marble King for subscription of shares in the Company to strengthen the Group's capital base. Concurrently, the Company further announced a proposed rights issue on the basis of one new ordinary share for every ordinary share held on the date immediately upon the Restructuring Proposal becoming effective. Details of the Restructuring Proposal and proposed rights issue were set out in the Company's announcement dated 4 August 2001.

Pledge of assets

As at 31 May 2001, certain assets of the Group with an aggregate net book value of approximately HK\$12,110,000 were pledged to secure credit facilities granted to the Group.

Significant investment

As at 31 May 2001, the Group's major investment was its 48% equity interest in Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang"), a jointly-controlled entity of the Group. Since the last annual balance sheet date, Li Yang has no improvement in its operations and has continued to suffer losses. As the Group has already made full provision against the entire investment in and loan advanced to Li Yang in the last audited annual financial statements, no further provision is required for any losses in the current period.

Employees

As at 31 May 2001, the total number of employees of the Group was about 30. The Group remunerates its employees based on their performance, working experience and degree of hardship of work. Staff benefits include a share option scheme and bonus.

Prospects

Under current adverse financial position, the Directors consider that it is crucial for the Group to complete the aforesaid Restructuring Proposal and proposed rights issue so that core business of the Group can be revived and reactivated in the not so distant future. In order to explore more business opportunities to restore its profitability and to strengthen the shareholders' value, the Group has commenced preliminary discussions and negotiations with some independent third parties with a view to acquiring distribution rights for apparel and accessories under several international brand names in the PRC market.

DIRECTORS' INTERESTS IN SHARES

At 31 May 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name	Number of shares	Type of interests
Au Tung Chi	13,750,000	Corporate (<i>Note</i>)

Note:

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

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

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

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 discretion, grant options to employees and directors of the Group to subscribe for shares in the Company. During the six months ended 31 May 2001, no option was granted to any directors and there was no outstanding option at 31 May 2001.

At no time during the six months ended 31 May 2001 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 May 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 161(1) of the SDI Ordinance:

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

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

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

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 six months ended 31 May 2001.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited interim financial statements of the Group for the six months ended 31 May 2001 and discussed with the Directors internal control and financial reporting matters.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors of the Company, 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 interim report, except that the non-executive director and independent non-executive directors of the Company 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.

FINANCIAL ASSISTANCE TO AN AFFILIATED COMPANY

Pursuant to a shareholders' agreement dated 20 December 1999 entered into among the Company, City Power Services Limited ("City Power") (a subsidiary of the Company) and Li Yang Advertising Public Relations (HK) Limited ("LY Advertising") (an unrelated party), the Group advanced an interest-free shareholder's loan of HK\$30,000,000 ("Shareholder's Loan") to Li Yang. The Shareholder's Loan was not repayable by Li Yang without the approval of both City Power and LY Advertising. The outstanding balance of the Shareholder's Loan as at 31 May 2001 was HK\$25,750,000, which has been fully provided for in the last audited annual financial statements.

By order of the Board
Yeung Kwok Kwong
Chairman

Hong Kong, 9 August 2001