KIN DON HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Annual Report 2002

KIN DON ®

Contents

Corporate Information

Board of Directors

Executive Directors
Yeung Kwok Kwong *(Chairman)*
Wong Yuk Ching
Zhou Ge

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

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

23/F, Pioneer Centre
750 Nathan Road
Kowloon, 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
G/F, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Financial and Operation Highlights

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

	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Operating results					
Turnover	**824**	1,681	17,375	325,521	401,742
Increase/(decrease)(%)	**(51)**	(90)	(95)	(19)	29
Net profit/(loss) from ordinary activities attributable to shareholders	**19,625**	(8,767)	(155,792)	(299,245)	111,480
Increase (%)	**N/A**	N/A	N/A	N/A	20
Financial position					
Shareholders' fund/ (deficiency in assets)	**34,585**	14,960	(153,189)	(83,921)	195,087
Total assets	**62,918**	86,102	25,941	78,096	389,736
Net assets/(liabilities) value per share (HK cents)	**0.58**	0.25	(16)	(14)	39
Financial statistics					
Current ratio	**1.85**	1.02	0.02	0.07	1.75
Bank borrowings to equity ratio	**0.27**	0.73	N/A	N/A	0.29
Total debts to equity ratio	**0.32**	0.84	N/A	N/A	1.0
Inventory turnover on sales (days)	**N/A**	545	77	145	106
Return on sales (%)	**N/A**	N/A	N/A	N/A	27.7
Return on total assets (%)	**31.2**	N/A	N/A	N/A	28.6
Basic earnings/(loss) per share (HK cents)	**0.3**	(0.4)	(18.5)	(59.1)	25.8

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2003 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, 19 May 2003 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 2002;

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 ordinary shares ("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 ordinary share capital of the Company in issue on the date of 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 earlier 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 ordinary 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.";

Notice of Annual General Meeting

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 deal 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 ordinary 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 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 deal with or agreed conditionally or unconditionally to be issued, allotted or otherwise deal with (whether pursuant to an option or otherwise) shall not in total exceed 20% of the total nominal amount of the ordinary 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 earlier 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 ordinary 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

Notice of Annual General Meeting

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 ordinary 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, 28 March 2003

Notes:

1. The register of members of the Company will be closed from Friday, 16 May 2003 to Monday, 19 May 2003 (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, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 May 2003.

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

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting.

4. An circular containing further details regarding Resolutions Nos. 4 to 6 above will be despatched to shareholders together with the 2002 Annual Report.

Chairman's Statement

I take the pleasure to report that the Group has turned around from loss to profit for the year ended 30 November 2002 after its successful debt restructuring last year.

Despite the relative low level of business turnover in fiscal 2002, the Group reported an overall profit due to an exceptional gain of approximately HK$34 million upon its successful disposal of two subsidiaries not presently required by the Group under its current mode of operation. With the China's accession to the WTO and Beijing's successful bidding to host the 2008 Olympics Game, economic development and reform in China will undoubtedly bring in tremendous business opportunities. During the year, the Group has therefore continued to evaluate its core business and new business and investment opportunities in China. In order to strengthen and speed up our China development, we invited a new director, who possesses vast corporate finance, merger and acquisition experience in China to join our Board. Since his arrival, various business and investment proposals have been and are now being reviewed, and I am confident that business of our Group will soon be activated shortly in a safe and prudent manner.

On behalf of the Board, I would like to express my heartfelt thanks to our staff and members of our management team for their hard work and dedication to the Group. With their ongoing support, we are confident of a sound prospect of our Group in the future.

Yeung Kwok Kwong
Chairman
Hong Kong, 28 March 2003

Management Discussion and Analysis

Business review

As stated in our 2002 interim report, the Group is now in the process of evaluating its core business and opportunities in the diversification into new business areas since the completion of restructuring and fund raising last year. This explains for the reason of the relative low level of business activities for the year ended 30 November 2002. Turnover of the Group for the year was about HK$824,000 representing a drop of 51% from last year. Nevertheless, as management successfully disposed of two subsidiaries not required by the Group under its current mode of operation generating a gain of about HK$34 million and also successfully implemented effective cost control measures resulting in that total operating expenses for the year were substantially reduced by about HK$6 million to about HK$14 million, the Group finally attained an overall net profit of approximately HK$20 million for the full fiscal 2002.

Liquidity and resources

The Group has financed its business development by means of internal resources with unutilised cash and bank balances of approximately HK$43 million as at 30 November 2002. Total borrowings of the Group, which are all indebted by its PRC subsidiaries and are not guaranteed by the Company, amounted to approximately HK$11 million at the balance sheet date and gearing ratio expressed as a percentage of total borrowings of approximately HK$11 million over net asset value of approximately HK$35 million was substantially improved from 84% in 2001 to 32% following the disposal of subsidiaries. The relative strong cash position and low gearing ratio reflect the financially healthy status of the Group.

Pledge of assets

As at 30 November 2002, certain assets of the Group with an aggregate net book value of approximately HK$9,253,000 were pledged to secure credit facilities granted to the Group.

Employees

As at 30 November 2002, the total number of employees of the Group was about 20. 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 the employees.

Prospects

The Group has consistently adopted a careful and prudent approach in the activation and diversification of its business in order to protect the shareholders' value of investment. Under the progress of our current development plan with a primary focus in China, our objective of activating the Group's business in various different areas of high growth and return will soon be materialized.

ON BEHALF OF THE BOARD
Yeung Kwok Kwong
Chairman
Hong Kong, 28 March 2003

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 30 November 2002.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results

The Group's profit for the year ended 30 November 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 54.

Report of the Directors

Summary of financial information

The following is a summary of the published results, and assets, liabilities and minority interests of the Group for the last five years, as extracted from the published audited financial statements and reclassified as appropriate.

	Year ended 30 November				
	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**824**	1,681	17,375	325,521	401,742
Profit/(loss) from operating activities	**(12,065)**	(21,057)	(91,556)	(292,363)	139,833
Finance costs	**(2,131)**	(12,249)	(20,623)	(9,324)	(7,177)
Gain on disposal of subsidiaries	**33,658**	252	–	–	–
Gain on a debt restructuring	**–**	18,114	–	–	–
Share of results of a jointly-controlled entity	**–**	–	(44,690)	–	–
Profit/(loss) before tax	**19,462**	(14,940)	(156,869)	(301,687)	132,656
Tax	**–**	–	38	683	(21,634)
Profit/(loss) before minority interests	**19,462**	(14,940)	(156,831)	(301,004)	111,022
Minority interests	**163**	6,173	1,039	1,759	458
Net profit/(loss) from ordinary activities attributable to shareholders	**19,625**	(8,767)	(155,792)	(299,245)	111,480
Total assets	**62,918**	86,102	25,941	78,096	389,736
Total liabilities	**(28,333)**	(70,979)	(172,794)	(153,446)	(184,465)
Minority interests	**–**	(163)	(6,336)	(8,571)	(10,184)
Net assets/(liabilities)	**34,585**	14,960	(153,189)	(83,921)	195,087

Report of the Directors

Major customers and suppliers

Sales to the three customers of the Group accounted for all of the Group's total turnover for the year. In particular, sales to the Group's largest customer accounted for approximately 83% of the Group's total turnover for the year.

Purchases from the three 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 79% 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 issued share capital had any beneficial interest in the Group's three largest customers and/or three largest suppliers.

Fixed assets

Details of the movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

Reserves

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

Distributable reserves

As at 30 November 2002, 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 account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 30 November 2002, the Company's capital reserve and share premium account amounted to approximately HK$182,607,000 in aggregate.

Report of the Directors

Directors

The directors of the Company during the year were:

Executive directors

Mr. Yeung Kwok Kwong *(Chairman)*	
Ms. Wong Yuk Ching	(appointed on 8 January 2002)
Mr. Zhou Ge	(appointed on 16 August 2002)
Mr. Au-Yeung Chi Hung, Alex	(resigned on 16 August 2002)

Non-executive directors

Mr. Lai Ka Fai*	
Mr. Ho Ping	(resigned on 8 January 2002)

Independent non-executive directors

Mr. Conway Anthony Francis Martin
Mr. Siu Leung Yau
Mr. Liu Kwong Sang

* On 8 January 2002, Mr. Lai Ka Fai changed his directorship from executive director to non-executive director of the Company.

In accordance with articles 108(A) and (B) and 112 of the Company's articles of association, Mr. Conway Anthony Francis Martin, Mr. Siu Leung Yau, Mr. Zhou Ge and Ms. Wong Yuk Ching will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' service contracts

Each of Mr. 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. On 16 August 2002, Mr. Au-Yeung Chi Hung, Alex resigned as an executive director of the Company by serving to the Company a written notice not less than six months.

Directors' service contracts (continued)

On 8 January 2002, Mr. Lai Ka Fai changed his directorship from executive director to non-executive director and entered into a new service contract with the Company as a non-executive director for a term of two years commencing on 8 January 2002, 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 one month prior to the effective date of termination.

Ms. Wong Yuk Ching entered into a service contract with the Company for a term of two years commencing on 8 January 2002, 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 one month prior to the effective date of termination.

Mr. Zhou Ge entered into a service contract with the Company commencing on 16 August 2002 with no specified duration of service, 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 two months prior to the effective date of termination.

None of the directors 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

As at 30 November 2002, the interests of a director and his associates in the share capital of the Company and its associated corporations, as recorded in 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:

Ordinary shares of the Company

Name of director	Number of ordinary shares held	Nature of interests
Yeung Kwok Kwong	6,000,000	Personal

In addition to the above, Mr. Yeung Kwok Kwong has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company, 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 interests in the share capital of the Company or any of its associated corporations which were recorded in the Register as defined in the SDI Ordinance.

Report of the Directors

Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the directors of the Company and any of its subsidiaries, and other employees of the Group. The Scheme became effective on 19 August 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

No option may be granted to any eligible participant which, if exercised in full, would result in such eligible participant being entitled to subscribe for such number of the shares of the Company as, when aggregated with the total number of the Company's shares already issued and issuable to him/her under the Scheme, would exceed 25% of the aggregate number of the Company's shares in issue and issuable under the Scheme.

No consideration is payable by the grantee of an option upon acceptance of the grant of the option. The exercise period of the share options granted is determinable by the directors, and in any event is not later than ten years commencing on the date on which the share options are granted.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer of the option; and (ii) the nominal value of the shares.

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 (the "Listing Rules"), which came into effect on 1 September 2001. In accordance with the amendments to the Listing Rules and the announcement of the Stock Exchange, 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. The directors intend to terminate the existing share option scheme and adopt a new scheme.

During the year, no share option was granted or outstanding under the share option scheme.

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, its holding company or any of its subsidiaries was a party during the year.

Substantial shareholders

As at 30 November 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of ordinary shares held	Percentage of the Company's share capital
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 2002.

Marble King International Limited, a company incorporated in the British Virgin Islands, is beneficially 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 pursuant to Section 16(1) of the SDI Ordinance.

Biographical details in respect of directors

Executive directors

Mr. Yeung Kwok Kwong, aged 44, joined the Company in September 2000 as the Chairman and managing director. 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 the 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.

Ms. Wong Yuk Ching, aged 46, joined the Company in January 2002 as an executive director. Prior to joining the Company, she held managerial and director positions in a number of large garment trading and manufacturing companies. She has over 20 years of experience in the garments industry. She is currently responsible for the development of corporate strategies, corporate planning and the day-to-day management of the Group.

Report of the Directors

Biographical details in respect of directors (continued)

Executive directors (continued)
Mr. Zhou Ge, aged 31, joined the Company in August 2002 as an executive director. Prior to joining the Company, he was a director of UBS Warburg Asia Limited. He is currently responsible for the development of corporate strategies, corporate planning and the day-to-day management of the Group. Mr. Zhou graduated from the University of Manchester Institute of Science and Technology with a bachelor's degree in chemical engineering. He also holds a degree of Master of Business and Administration from the Massachusetts Institute of Technology Sloan School of Management.

Mr. Au-Yeung Chi Hung, Alex, aged 43, joined the Company in September 2000 as an executive director. 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 20 years of experience in project management, finance, operational management, and production planning and development. Mr. Au-Yeung is a member of the Hong Kong Institution of Engineers. Mr. Au-Yeung resigned on 16 August 2002.

Non-executive directors
Mr. Lai Ka Fai, aged 38, joined the Company in September 2000 as an executive director. On 8 January 2002, Mr. Lai was re-designated as a non-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. 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. Ho Ping, aged 46, is an investment consultant of King Pacific International Holdings Limited, the shares of which are listed on the Stock Exchange. Mr. Ho graduated from the Construction Engineering Department of Qinghua University in 1979. Mr. Ho has over 14 years' working experience in the PRC and was a manager of China International Trust & Investment Corporation for eleven years. Mr. Ho resigned on 8 January 2002.

Independent non-executive directors
Mr. Conway Anthony Francis Martin, aged 62, joined the Company in September 2000 as an independent non-executive director. Mr. Conway has over 38 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 Hong Kong Management Association, the British Computer Society and the Hong Kong Institution of Engineers.

Report of the Directors

Biographical details in respect of directors (continued)

Independent non-executive directors (continued)
Mr. Siu Leung Yau, aged 49, joined the Company in September 2000 as an independent non-executive director. Mr. Siu has over 22 years' experience in property agency, investment and development. He is currently the managing director of Pan Win Holdings Limited. Mr. Siu is a member 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 40, joined the Company in July 2000 as an independent non-executive director. He is a practising accountant in Hong Kong with more than 12 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.

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

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

Director's interests in competing 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 (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that Mr. Ho Ping, a non-executive director who resigned on 8 January 2002, and the independent non-executive directors were not appointed for any specific terms as required by paragraph 7 of the Code, 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 requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. 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.

Report of the Directors

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
28 March 2003

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 20 to 54 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. 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 and performed 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. 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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 30 November 2002 and of the profit 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that because our opinion dated 7 January 2002 on the loss and cash flows of the Group for the year ended 30 November 2001 was qualified for the scope limitation reasons summarised in the basis of opinion section therein, any adjustments in respect of the scope limitations found to be necessary to the opening net liabilities of the Company and of the Group as at 1 December 2000 would have had a consequential effect on the results of the Company and of the Group for the year ended 30 November 2001. Accordingly, 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
28 March 2003

Consolidated Profit and Loss Account

Year ended 30 November 2002

	Notes	**2002**	2001
		HK$'000	*HK$'000*
TURNOVER	*6*	**824**	1,681
Cost of sales		**(599)**	(2,533)
Gross profit/(loss)		**225**	(852)
Other revenue and gains	*6*	**2,102**	703
Selling and distribution costs		**(90)**	(183)
Administrative expenses		**(8,543)**	(14,010)
Other operating expenses		**(5,759)**	(6,715)
LOSS FROM OPERATING ACTIVITIES	*7*	**(12,065)**	(21,057)
Finance costs	*9*	**(2,131)**	(12,249)
Gain on disposal of subsidiaries	*26(b)*	**33,658**	252
Gain on a debt restructuring	*10*	**–**	18,114
Share of results of jointly-controlled entities		**–**	–
PROFIT/(LOSS) BEFORE TAX		**19,462**	(14,940)
Tax	*11*	**–**	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**19,462**	(14,940)
Minority interests		**163**	6,173
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	*12*	**19,625**	(8,767)
EARNINGS/(LOSS) PER SHARE	*13*		
– Basic		**0.33 cent**	(0.44 cent)
– Diluted		**0.20 cent**	N/A

Other than the net profit/(loss) for the year from ordinary activities attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

Consolidated Balance Sheet

30 November 2002

	Notes	**2002**	2001
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Fixed assets	*14*	**9,868**	14,934
Interests in jointly-controlled entities	*16*	**2,540**	–
Rental and other deposits		**191**	–
		12,599	14,934
CURRENT ASSETS			
Inventories	*17*	**–**	2,922
Short term investments	*18*	**6,438**	–
Prepayments, deposits and other receivables		**1,195**	1,203
Cash and cash equivalents	*19*	**42,686**	67,043
		50,319	71,168
CURRENT LIABILITIES			
Accounts payable	*20*	**1,392**	2,594
Accrued liabilities and other payables		**14,592**	18,598
Deposits received		**–**	2,244
Tax payable		**–**	33,376
Interest-bearing bank and other borrowings	*21, 22*	**11,121**	12,561
Finance lease payables	*23*	**68**	378
		27,173	69,751
NET CURRENT ASSETS		**23,146**	1,417
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,745**	16,351

continued/...

Consolidated Balance Sheet

30 November 2002

	Notes	**2002**	2001
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Finance lease payables	*23*	**–**	68
Deferred tax	*11*	**1,160**	1,160
		1,160	1,228
MINORITY INTERESTS		**–**	163
		34,585	14,960
CAPITAL AND RESERVES			
Issued capital	*24*	**63,504**	63,504
Reserves	*25*	**(28,919)**	(48,544)
		34,585	14,960

Yeung Kwok Kwong
Director

Zhou Ge
Director

Consolidated Cash Flow Statement

Year ended 30 November 2002

	Notes	2002 HK$'000	2001 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26(a)	**(15,044)**	(15,351)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**248**	15
Interest paid		**(169)**	(595)
Interest element on finance lease payments		**(38)**	(93)
Dividends from listed securities		**458**	256
Net cash inflow/(outflow) from returns on investments and servicing of finance		**499**	(417)
TAX		**–**	–
INVESTING ACTIVITIES			
Purchases of fixed assets	14	**(57)**	–
Proceeds from disposal of fixed assets		**1,410**	6,238
Disposal of subsidiaries	26(b)	**100**	(1)
Purchases of short term investments		**(31,530)**	–
Proceeds from disposal of short term investments		**24,083**	–
Loan to a jointly-controlled entity		**(2,000)**	–
Net cash inflow/(outflow) from investing activities		**(7,994)**	6,237
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(22,539)**	(9,531)
FINANCING ACTIVITIES	26(c)		
Repayment of bank loans		**(1,440)**	(1,094)
Repayment of other loans		**–**	(2,173)
Capital element of finance lease obligations		**(378)**	(330)
Issue of shares for cash consideration		**–**	93,504
Share issue expenses		**–**	(3,507)
Repayment of convertible debentures		**–**	(3,020)
Net cash inflow/(outflow) from financing activities		**(1,818)**	83,380

continued/...

Consolidated Cash Flow Statement

Year ended 30 November 2002

	Notes	**2002**	2001
		HK$'000	*HK$'000*
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(24,357)**	73,849
Discharge of bank overdrafts under a debt restructuring		**–**	17,079
Cash and cash equivalents at beginning of year		**67,043**	(23,885)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**42,686**	67,043
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*19*	**12,515**	10,036
Time deposits with original maturity of less than three months when acquired	*19*	**30,171**	57,007
		42,686	67,043

Balance Sheet

30 November 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	**8,821**	4,969
CURRENT ASSETS			
Prepayments, deposits and other receivables		**4**	–
Cash and cash equivalents	*19*	**42,348**	61,235
		42,352	61,235
CURRENT LIABILITIES			
Accrued liabilities and other payables		**850**	5,503
NET CURRENT ASSETS		**41,502**	55,732
		50,323	60,701
CAPITAL AND RESERVES			
Issued capital	*24*	**63,504**	63,504
Reserves	*25*	**(13,181)**	(2,803)
		50,323	60,701

Yeung Kwok Kwong
Director

Zhou Ge
Director

Notes to Financial Statements

30 November 2002

1. CORPORATE INFORMATION

The principal place of business of Kin Don Holdings Limited is located at 23/F, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

During the year, the Company's principal activity was investment holding. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant 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. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements arising from those SSAPs which had a significant effects on these financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements and accordingly no prior year adjustment was required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 23 and 27 to the financial statements, respectively.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 include 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;

– consultancy service fee income, when the services are rendered and are billable;

– 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 shareholders' right to receive payment has been established.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the activities of the joint venture company, the capital contributions of the joint venture parties, the duration of the joint venture, the basis on which the assets are to be realised upon its dissolution and details regarding the appointment of the board of directors or equivalent governing body of the joint venture company. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)
A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control with other joint venture parties over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's share/registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds less than 20% of the joint venture company's share/registered capital and neither has joint control, nor is in a position to exercise significant influence over the joint venture company.

Jointly-controlled entities
A jointly-controlled entity is a joint venture company which is subject to joint control by the Group and other joint venture parties, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Impairment of assets
An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses.

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 total of this 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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal or retirement, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

Depreciation is calculated 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.

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 the estimated selling price less any further costs expected to be incurred to completion and disposal.

Short term investments

Short term investments 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.

Equity-linked notes are debt securities with a maturity of usually less than one year, whose return is linked to the share price performance of a particular listed reference equity. The Group purchases such equity-linked notes at a discount and receives the full nominal amount of the notes (the "Nominal Value") at the maturity date, provided that the closing price of the particular reference equity on the maturity date is above a predetermined strike price (the "Strike Price"). If the closing price of the reference equity on the maturity date is at or below the Strike Price, the Group is obliged to redeem the equity-linked notes in exchange for shares in the underlying reference equity.

The equity-linked notes are stated at the lower of the cost of the notes plus cumulative amortisation of the difference between their purchase price and the Nominal Value at the maturity date, and the fair value of the particular reference equity on the basis of its quoted market price at the balance sheet date. The net gains or losses so arising 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During the year and the year ended 30 November 2001, the Group had the following transactions with related parties:

(i) During the year, the Group received written consent from certain existing directors and an ex-director of the Company to waive their remuneration owed by the Group, amounting to HK$2,032,580 (2001: HK$6,450,000) in aggregate (note 8). In addition, during the year ended 30 November 2001, a director waived an amount of HK$1,521,000 in connection with an advance made by that director to the Group.

(ii) During the year, the Group paid rental expenses and building management fees amounting to HK$568,000 (2001: Nil) in aggregate to Kowloon Development Company Limited ("Kowloon Development") for the leasing of an administrative office in Hong Kong. Kowloon Development is a subsidiary of Polytec Holdings International Limited, which is beneficially owned by Mr. Or Wai Sheun, the beneficial owner of Marble King. The rental expenses were charged with reference to the prevailing market price and conditions.

(iii) During the year, the Group received consultancy service fee income of HK$220,000 (2001: Nil) from a jointly-controlled entity. The consultancy service fee income was charged on a monthly basis of HK$20,000.

(iv) During the year ended 30 November 2001, the Company entered into a 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. Further details of the terms and conditions of the subscription agreement are set out in a circular (the "Circular") of the Company dated 20 August 2001.

4. RELATED PARTY TRANSACTIONS (continued)

(v) During the year ended 30 November 2001, the Company, Marble King and Hantec Securities Co., Limited ("Hantec") entered into an underwriting agreement relating to the rights 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. 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 is beneficially owned by Mr. Or Wai Sheun, the beneficial owner of Marble King. Upon the completion of the rights issue, an underwriting commission of HK$715,000 was paid to Hantec.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

(a) Geographical segments

Further segment information has not been disclosed in respect of the Group's geographical segments as all of the Group's revenue, results, assets and liabilities were derived from operations in the PRC, including Hong Kong.

(b) Business segments

Further segment information has not been disclosed in respect of the Group's business segments as the Group is principally engaged in the manufacturing and trading of garments.

6. TURNOVER AND REVENUE AND GAINS

Turnover represents the invoiced value of goods sold, after allowances for returns and trade discounts.

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

	2002	2001
	HK$'000	*HK$'000*
Turnover – sale of goods	**824**	1,681
Other revenue and gains		
Dividend income from listed securities	**458**	256
Interest income	**310**	15
Rental income	**–**	294
Consultancy service fee income	**220**	–
Gain on disposal of short term investments	**975**	138
Others	**139**	–
	2,102	703
	2,926	2,384

7. LOSS FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	*HK$'000*
Staff costs (excluding directors' remuneration, note 8):		
Wages and salaries	**2,060**	2,260
Provident fund contributions	**62**	62
	2,122	2,322
Depreciation	**1,200**	1,130
Minimum lease payments under operating leases in respect of land and buildings	**1,157**	1,863
Auditors' remuneration:		
Current year provision	**318**	400
Under/(over) provision in prior year	**50**	(80)
	368	320
Fixed assets written off	**86**	–
Loss on disposal of fixed assets	**370**	–
Impairment of fixed assets*	**1,989**	–
Provision for doubtful debts	**–**	111
Unrealised losses on short term investments	**1,984**	–
Provision against other receivables	**1,500**	–

* The impairment of fixed assets for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non-executive directors	**30**	10
Independent non-executive directors	**60**	60
	90	70
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	**2,559**	6,450
Provident fund contributions	**85**	54
	2,644	6,504
	2,734	6,574

During the year, the Group received written consent from certain existing directors and an ex-director of the Company to waive remuneration of a total HK$2,032,580 (2001: HK$6,450,000) payable to the directors. The remuneration waived for the current and prior years had not been incorporated in the other emoluments to executive directors as disclosed above. Save as the aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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

	Group	
	Number of directors 2002	Number of directors 2001
Nil to HK$1,000,000	**8**	5
HK$1,000,001 to HK$1,500,000	**–**	3
HK$1,500,001 to HK$2,000,000	**1**	1
	9	9

8. DIRECTORS' REMUNERATION AND EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The five highest paid individuals during the year included two (2001: five) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2001: Nil) non-director, highest paid individuals are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**943**	–
Provident fund contributions	**33**	–
	976	–

The remuneration of each of the remaining three non-director, highest paid individuals fell within the nil – HK$1,000,000 band for the year.

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

9. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans and overdrafts wholly repayable within five years	**1,786**	5,691
Other loans wholly repayable within five years	**307**	4,038
Convertible debentures	**–**	2,427
Finance leases	**38**	93
	2,131	12,249

10. GAIN ON A DEBT RESTRUCTURING

The gain of HK$18,114,000 credited to the profit and loss account of the Group for the year ended 30 November 2001 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, 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 LLC ("Stone Church") and the Principal Creditors following the completion of the compromise agreement with Stone Church and the Principal Creditors Compromise Agreement.

11. TAX

Hong Kong profits tax has not been provided for (2001: Nil) as the Group did not generate any assessable profits during the year.

The principal components of the Company's and the Group'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	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**–**	–	**(9)**	(10)	**–**	–	**–**	–
Tax losses carried forward	**–**	–	**(14,750)**	(37,100)	**–**	–	**(552)**	(6)
Other timing differences	**1,160**	1,160	(477)	–	**–**	–	**–**	–
At 30 November	**1,160**	1,160	**(15,236)**	(37,110)	**–**	–	**(552)**	(6)

The Group's liability for deferred tax, as provided in the balance sheet, relates to timing differences arising from the different basis of recognition for accounting and tax purposes of the PRC land appreciation tax and business tax in respect of the accumulated valuation surplus of the Group's leasehold land and buildings in the PRC.

No deferred tax liability with regard to PRC corporate income tax has been provided on the accumulated valuation surplus 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.

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 November 2002 was HK$10,378,000 (2001: net profit of HK$83,916,000).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year ended 30 November 2002 is based on the net profit from ordinary activities attributable to shareholders for the year of HK$19,625,000 (2001: loss of HK$8,767,000) and the weighted average of 5,950,372,434 (2001: 1,974,226,444) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 November 2002 is based on the net profit attributable to shareholders for the year of HK$19,625,000. The weighted average number of ordinary shares used in the calculation is 9,950,372,434, being the weighted average of 5,950,372,434 ordinary shares in issue during the year as used in the basic earnings per share calculation and assuming that the 4,000,000,000 convertible preference shares had been converted into ordinary share, at the rate of one ordinary share for every one convertible preference share.

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

14. 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	11,551	2,136	8,820	1,330	2,240	26,077
Additions	–	–	–	57	–	57
Disposals	(1,866)	–	–	–	–	(1,866)
Disposal of subsidiaries	–	–	–	(113)	–	(113)
Write off	–	(798)	–	(1,013)	–	(1,811)
At 30 November 2002	9,685	1,338	8,820	261	2,240	22,344
Accumulated depreciation and impairment:						
At beginning of year	265	1,443	6,074	1,121	2,240	11,143
Provided during the year	253	127	757	63	–	1,200
Impairment during the year	–	–	1,989	–	–	1,989
Disposals	(86)	–	–	–	–	(86)
Disposal of subsidiaries	–	–	–	(45)	–	(45)
Write off	–	(792)	–	(933)	–	(1,725)
At 30 November 2002	432	778	8,820	206	2,240	12,476
Net book value:						
At 30 November 2002	9,253	560	–	55	–	9,868
At 30 November 2001	11,286	693	2,746	209	–	14,934
Analysis of cost or valuation of fixed assets held by the Group at 30 November 2002:						
At cost	–	1,338	8,820	261	2,240	12,659
At 2000 valuation	9,685	–	–	–	–	9,868
	9,685	1,338	8,820	261	2,240	22,344

14. FIXED ASSETS (continued)

The Group's leasehold land and buildings are all situated outside Hong Kong and are held under medium term leases.

The Group's leasehold land and buildings were revalued by Castores Magi Surveyors Limited, an independent firm of professional valuers, at 30 November 2000 at HK$9,685,000 on a depreciated replacement cost basis. In the opinion of the directors, the carrying value of the Group's leasehold land and buildings as at 30 November 2002 approximated the market value at that date.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts as at 30 November 2002 would have been approximately HK$5,240,000 (2001: HK$7,342,000).

All of the Group's leasehold land and buildings are pledged to secure banking facilities granted to the Group (note 22).

Certain of the Group's plant and machinery, with a net book value of HK$552,000 at 30 November 2001, were pledged to secure banking facilities granted to the Group at that date (note 22).

The Group's fixed assets held under finance leases included in the total amount of motor vehicles at 30 November 2002 had a net book value of nil (2001: Nil).

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted investments, at cost	**101,039**	101,039
Due from subsidiaries	**178,376**	319,836
Provisions for impairment	**(270,594)**	(415,906)
	8,821	4,969

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

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity 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
Indirectly held:				
Kin Don (Group) Limited	Hong Kong	HK$1,000,001	100	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	HK$2	100	Trading of securities
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	Investment holding and provision of consultancy service
Imperial Profit Investment Limited	British Virgin Islands/Hong Kong	US$1	100	Trading of securities
Silversheen Limited	British Virgin Islands	US$100	100	Dormant

15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
金盾服裝(惠州)有限公司 ("KD Garment")	People's Republic of China	US$7,200,000 Note (i)	90	Manufacturing and trading 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

Notes:

(i) KD Garment is a subsidiary established by the Group and a PRC partner for a period of 50 years commencing on 25 May 1992. The registered capital of KD Garment was US$7,200,000 as at 30 November 2002.

(ii) Bai Li Shi is a subsidiary established by the Group and a PRC partner for a period of 50 years commencing on 6 April 1994. The registered capital of Bai Li Shi was US$1,200,000 as at 30 November 2002.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Share of net assets	**–**	–
Loans to jointly-controlled entities	**27,750**	25,750
Due from a jointly-controlled entity	**540**	–
	28,290	25,750
Provision against a loan to a jointly-controlled entity	**(25,750)**	(25,750)
	2,540	–

The loan advanced to a jointly-controlled entity of HK$25,750,000 is unsecured, interest-free and will not be repaid until approval from all of the shareholders of the jointly-controlled entity is obtained. The other loan to a jointly-controlled entity of HK$2,000,000 is unsecured, interest-free and repayable after one year.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Li Yang Broadcasting & Advertising (HK) Limited *	Corporate	Hong Kong	48	Television advertisement design and production, and the provision of advertising agency and advertisement publication services, including the export and import of advertising and related products
Eastford Development Limited *	Corporate	Hong Kong	48	Property development

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

17. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Finished goods	**–**	2,922

No inventories were stated at net realisable value at 30 November 2001.

18. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at market value	**2,460**	–
Equity-linked notes, at amortised cost	**3,978**	–
	6,438	–

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**12,515**	10,036	**12,177**	4,228
Time deposits	**30,171**	57,007	**30,171**	57,007
Cash and cash equivalents	**42,686**	67,043	**42,348**	61,235

20. ACCOUNTS PAYABLE

As at 30 November 2001 and 2002, all of the Group's accounts payable were aged over 365 days.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank loans, secured	**9,439**	10,879
Other loans, secured	**1,682**	1,682
	11,121	12,561

The interest-bearing bank and other borrowings are repayable within one year or on demand.

22. PLEDGE OF ASSETS

As at 30 November 2002, the Group's borrowing facilities were supported by the followings:

(a) legal charges over all of the Group's medium term leasehold land and buildings with an aggregate net book value of approximately HK$9,253,000 (2001: HK$11,286,000) (note 14);

(b) the pledge of certain plant and machinery of the Group with nil net book value (2001: HK$552,000) (note 14);

(c) guarantees executed by a minority equity holder of a subsidiary of the Company to the extent of HK$2,187,000 (2001: HK$2,187,000); and

(d) legal charges over certain land owned by a company owned by Mr. Au Tung Chi, an ex-director of the Company.

23. FINANCE LEASE PAYABLES

The Group leases its motor vehicles for business purposes. The lease is classified as finance leases and has a remaining lease term of less than one year.

At 30 November 2002, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2002 *HK$'000*	Minimum lease payments 2001 *HK$'000*	**Present value of minimum lease payments 2002** *HK$'000*	Present value of minimum lease payments 2001 *HK$'000*
Amounts payable:				
Within one year	**69**	416	**68**	378
In the second year	**–**	70	**–**	68
Total minimum finance lease payments	**69**	486	**68**	446
Future finance charges	**(1)**	(40)		
Total net finance lease payables	**68**	446		
Portion classified as current liabilities	**(68)**	(378)		
Non-current portion	**–**	68		

24. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	1,000,000
5,000,000,000 convertible preference shares of HK$0.01 each	**50,000**	50,000
	1,050,000	1,050,000
Issued:		
5,950,372,434 fully paid ordinary shares of HK$0.01 each	**59,504**	59,504
4,000,000,000 partly paid convertible preference shares of HK$0.01 each – *Note*	**4,000**	4,000
	63,504	63,504

Note:

In the prior year, 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 entered with Marble King and were subscribed by Marble King. 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.

24. SHARE CAPITAL (continued)

Shares (continued)

Note: (continued)

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.

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 14.

During the year, no share option was granted or outstanding under the share option scheme.

25. RESERVES

	Share premium account HK$'000	Fixed asset revaluation reserve HK$'000	Capital reserve# HK$'000	Statutory reserve* HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Group							
At 1 December 2000	134,604	1,699	–	35	(1,043)	(382,550)	(247,255)
Capital reduction	–	–	–	–	–	84,660	84,660
Share premium cancellation	(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 and 1 December 2001	122,818	1,699	–	35	(1,043)	(172,053)	(48,544)
Net profit for the year	–	–	–	–	–	19,625	19,625
At 30 November 2002	122,818	1,699	–	35	(1,043)	(152,428)	(28,919)
Reserves retained by:							
Company and subsidiaries	122,818	1,699	–	35	(1,043)	(107,738)	15,771
Jointly-controlled entities	–	–	–	–	–	(44,690)	(44,690)
At 30 November 2002	122,818	1,699	–	35	(1,043)	(152,428)	(28,919)
Company and subsidiaries	122,818	1,699	–	35	(1,043)	(127,363)	(3,854)
Jointly-controlled entities	–	–	–	–	–	(44,690)	(44,690)
At 30 November 2001	122,818	1,699	–	35	(1,043)	(172,053)	(48,544)
Company							
At 1 December 2000	134,604	–	59,789	–	–	(488,590)	(294,197)
Capital reduction	–	–	–	–	–	84,660	84,660
Share premium cancellation	(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 and 1 December 2001	122,818	–	59,789	–	–	(185,410)	(2,803)
Net loss for the year	–	–	–	–	–	(10,378)	(10,378)
At 30 November 2002	122,818	–	59,789	–	–	(195,788)	(13,181)

25. RESERVES (continued)

\# 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 in 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.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2002**	2001
		HK$'000	*HK$'000*
Loss from operating activities		**(12,065)**	(21,057)
Depreciation	*7*	**1,200**	1,130
Interest income	*6*	**(310)**	(15)
Dividend income	*6*	**(458)**	(256)
Fixed assets written off	*7*	**86**	–
Loss on disposal of fixed assets	*7*	**370**	–
Impairment of fixed assets	*7*	**1,989**	–
Gain on disposal of short term investments	*6*	**(975)**	–
Unrealised losses on short term investments	*7*	**1,984**	–
Provision for doubtful debts	*7*	**–**	111
Provision against other receivables	*7*	**1,500**	–
Increase in rental and other deposits		**(191)**	–
Increase in accounts receivable		**–**	(111)
Increase in inventories		**–**	(816)
Increase in prepayments, deposits and other receivables		**(1,486)**	(37)
Increase in amount due from a jointly-controlled entity		**(540)**	–
Decrease in accounts payable		**(692)**	(1,228)
Increase/(decrease) in accrued liabilities and other payables		**(5,456)**	8,067
Decrease in an amount due to a director		**–**	(1,139)
Net cash outflow from operating activities		**(15,044)**	(15,351)

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

(b) Disposal of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net liabilities disposed of:		
Fixed assets	**68**	–
Inventories	**2,922**	–
Prepayments, deposits and other receivables	**56**	130
Cash and bank balances	**–**	1
Accounts payable	**(510)**	(266)
Accrued liabilities and other payables	**(474)**	(117)
Deposits received	**(2,244)**	–
Tax payable	**(33,376)**	–
	(33,558)	(252)
Gain on disposal of subsidiaries	**33,658**	252
	100	–
Satisfied by:		
Cash consideration	**100**	–

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	**100**	–
Cash and bank balances disposed of	**–**	(1)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**100**	(1)

The subsidiaries disposed of during the year made no contribution to the Group's turnover (2001: Nil) and contributed a loss of HK$54,000 (2001: HK$76,000) to the net profit from ordinary activities attributable to shareholders for the year.

The subsidiaries disposed of during the current and prior years made no significant contribution to the Group's net operating cash flows. There were no significant cash flows in respect of returns on investments and servicing of finance, tax, investing activities or financing activities.

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

(c) Analysis of changes in financing during the years

	Issued capital and share premium account HK$'000	Bank loans HK$'000	Other loans HK$'000	Minority interests HK$'000	Finance lease obligations HK$'000	Convertible debentures HK$'000
At 1 December 2000	228,670	24,553	26,855	6,336	776	34,373
Capital reduction	(84,660)	–	–	–	–	–
Share premium cancellation	(134,604)	–	–	–	–	–
Issue of shares for cash consideration	93,504	–	–	–	–	–
Issue of shares under restructuring agreements	86,919	(12,580)	(23,000)	–	–	(31,353)
Share issue expenses	(3,507)	–	–	–	–	–
Net cash outflow from financing	–	(1,094)	(2,173)	–	(330)	(3,020)
Share of net loss for the year	–	–	–	(6,173)	–	–
At 30 November 2001 and 1 December 2001	186,322	10,879	1,682	163	446	–
Net cash outflow from financing	–	(1,440)	–	–	(378)	–
Share of net loss for the year	–	–	–	(163)	–	–
At 30 November 2002	186,322	9,439	1,682	–	68	–

27. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years.

At 30 November 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**607**	417
In the second year	**152**	–
	759	417

27. OPERATING LEASE ARRANGEMENTS (continued)

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases have been restated to accord with the current year's presentation.

28. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2003.