

# Management Discussion and Analysis

## Business review

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

## Liquidity and financial resources

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

## Charges on group assets

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

## Significant investment

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

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## Employees

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

## Prospects

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

ON BEHALF OF THE BOARD

**Yeung Kwok Kwong**

*Chairman*

Hong Kong, 31 May 2001