

# Report of the Directors

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

## Principal activities

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

## Segmental information

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

## Results

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

# Report of the Directors

## Summary of financial information

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

	Year ended 30 November				
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Turnover	<u>17,375</u>	<u>325,521</u>	<u>401,742</u>	<u>312,544</u>	<u>225,568</u>
Profit/(loss) from operating activities	(91,556)	(292,363)	139,833	115,569	80,698
Finance costs	(20,623)	(9,324)	(7,177)	(3,461)	(1,425)
Share of results:					
An associate	–	–	–	–	(689)
A jointly-controlled entity	<u>(44,690)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit/(loss) before tax	(156,869)	(301,687)	132,656	112,108	78,584
Tax	<u>38</u>	<u>683</u>	<u>(21,634)</u>	<u>(19,220)</u>	<u>(13,383)</u>
Profit/(loss) before minority interests	(156,831)	(301,004)	111,022	92,888	65,201
Minority interests	<u>1,039</u>	<u>1,759</u>	<u>458</u>	<u>252</u>	<u>227</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(155,792)</u>	<u>(299,245)</u>	<u>111,480</u>	<u>93,140</u>	<u>65,428</u>
	30 November				
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>	1996 <i>HK\$'000</i>
Total assets	25,941	78,096	389,736	256,125	
Total liabilities	(172,794)	(153,446)	(184,465)	(189,675)	
Minority interests	<u>(6,336)</u>	<u>(8,571)</u>	<u>(10,184)</u>	<u>(8,201)</u>	
Net assets/(liabilities)	<u>(153,189)</u>	<u>(83,921)</u>	<u>195,087</u>	<u>58,249</u>	

# Report of the Directors

## Summary of financial information (continued)

*Notes:*

1. The summary of the combined results of each of the two years ended 30 November 1997 has been extracted from the Company's prospectus dated 1 September 1998. This two-year summary was prepared from the audited financial statements of the companies now comprising the Group as if the structure of the Group had been in existence throughout these financial years. The results of the Group for each of the two years ended 30 November 2000 are set out in the consolidated profit and loss account on page 24 of the financial statements.
2. The summary of the net assets of the Group as at 30 November 1997 has been extracted from the Company's prospectus dated 1 September 1998. The summary of net liabilities of the Group as at 30 November 1999 and 30 November 2000 has been extracted from the audited consolidated balance sheet of the Group set out on pages 26 and 27 of the financial statements.

## Major customers and suppliers

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

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

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

## Fixed assets

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

## Subsidiaries

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

## Jointly-controlled entity

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

## Borrowings

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

## Share capital and share options

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

# Report of the Directors

## Share premium and reserves

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

## Distributable reserves

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

## Directors

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

### Executive directors

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

### Non-executive director

Mr. Ho Ping

### Independent non-executive directors

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

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

# Report of the Directors

## Directors (continued)

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

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

## Directors' service contracts

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

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

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

## Directors' interests in shares

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

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

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

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

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

# Report of the Directors

## Directors' rights to acquire shares

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

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

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

*Note:*

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

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

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

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Pledge of shares by controlling shareholder

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

# Report of the Directors

## **Pledge of shares by controlling shareholder (continued)**

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

## **Financial assistance to an affiliated company**

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

## **Directors' and employees' remuneration**

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

## **Directors' interests in contracts**

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

## **Substantial shareholders**

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

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

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

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

# Report of the Directors

## Biographical details in respect of directors

### Executive directors

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

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

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

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

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

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

# Report of the Directors

## Biographical details in respect of directors (continued)

### Executive directors (continued)

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

### Non-executive director

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

### Independent non-executive directors

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

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

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

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

# Report of the Directors

## Biographical details in respect of directors (continued)

### Independent non-executive directors (continued)

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

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

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

### Purchase, redemption or sale of listed securities

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

### Pre-emptive rights

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

### Director's interests in competing business

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

### Compliance with the Code of Best Practice

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

# Report of the Directors

## **Audit committee**

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

## **Year 2000 compliance**

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

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

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

## **Post balance sheet events**

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

## **Auditors**

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

ON BEHALF OF THE BOARD

**Yeung Kwok Kwong**

*Chairman*

Hong Kong, 31 May 2001