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 24 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

SCOPE LIMITATIONS ARISING FROM THE PRIOR YEAR'S AUDIT SCOPE LIMITATIONS AFFECTING OPENING BALANCES

1. Our opinion on the financial statements of the Group and the Company for the year ended 30 November 1999 was disclaimed for reasons which included the significance of the possible effects of several limitations on the scope of our audit which are further detailed in our report dated 23 November 2000.

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Basis of opinion (continued)

SCOPE LIMITATIONS ARISING FROM THE PRIOR YEAR'S AUDIT SCOPE LIMITATIONS AFFECTING OPENING BALANCES (continued)

In summary those scope limitations included:

(i) Incomplete books and records of certain subsidiaries;

(ii) Matters which prevented us from satisfying ourselves concerning closing inventories at 30 November 1999 aggregating HK$47,369,000 and accounts receivable of a similar account; and

(iii) Our inability to perform proper subsequent events review procedures because the books and records of the Group had not been properly updated for our review.

Accordingly, we were then unable to form an opinion as to whether the 1999 financial statements gave a true and fair view of the state of affairs of the Group and the Company as at 30 November 1999 and of the loss and cash flows of the Group for the year then ended. Any adjustment found to be necessary to the opening net liabilities of the Group and the Company would have a consequential effect on the loss of the Group and the Company for the current year ended 30 November 2000.

SCOPE LIMITATIONS ARISING FROM CURRENT YEAR AUDIT

2. Scope limitation – completeness of books and records

As explained in note 2(ii) to the financial statements, due to the significant staff and management turnover within the Group, particularly that in the accounting and finance department, and due to the relocation of the Group's office in the People's Republic of China (the "PRC"), certain underlying books and records of the Group were either lost, or could not be located. Accordingly, we have not been provided with adequate information and documents to satisfy ourselves as to the completeness, appropriateness, classification and disclosures in respect of either the transactions undertaken during the year ended 30 November 2000 or the related balances further detailed in note 2(ii) to the financial statements.

Any adjustments found to be necessary in respect of the matters set out in the above would have a consequential impact on the Group's net loss from ordinary activities attributable to shareholders for the year ended 30 November 2000, the Group's net liability position as at 30 November 2000 and the related disclosures in the financial statements.

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Basis of opinion (continued)

3. **Scope limitation – accounts receivable and inventories**
   As explained in note 6(i) to the financial statements, as part of the Group's initiatives to collect amounts owing to it, the Group repossessed certain inventories aggregating HK$47,369,000 during May 2000. We have not been able to satisfy ourselves as to the nature, existence and custody of the repossessed inventories because we have not attended the Group's physical inventory count during and subsequent to the repossession thereof and because of the absence of proper books and records documenting such. In addition, we have not been able to satisfy ourselves that the amount and disclosures concerning cash received, accounts receivable, inventories and the related provisions and recoveries therefrom have been properly reflected and disclosed in the financial statements at 30 November 2000.

   Any adjustments that might have been found necessary would have a consequential impact on the Group's net liability position at 30 November 2000, the inventory provision, bad debts written off/provision and the net loss from ordinary activities attributable to shareholders for the year then ended.

4. **Scope limitation – investment in a jointly-controlled entity**
   During the year, the Group acquired the entire issued share capital of City Power Services Limited ("City Power") which held a 40% equity interest in a jointly-controlled entity, Li Yang Broadcasting & Advertising (HK) Limited ("Li Yang"), at the date of the Group's acquisition. Pursuant to a shareholders' agreement, as further detailed in notes 4(iii) to the financial statements, the Group subsequently made an additional capital injection of HK$50,000,000 and advanced a shareholder's loan of HK$30,000,000 to Li Yang. As a result, the Group's equity interest in Li Yang increased to 48% as at 30 November 2000.

   Limited financial information is available in respect of Li Yang at the dates City Power was acquired and when the subsequent additional capital injection to Li Yang was made by the Group. Accordingly, the Group was not able to determine the goodwill, if any, arising from either the acquisition of City Power or as a result of the additional capital injection to Li Yang. In addition, the scope of our work was further limited in respect of auditing the Group's share of net assets of Li Yang and loan to Li Yang as at 30 November 2000 as disclosed in note 15 to the financial statements and of the Group's share of Li Yang's post-acquisition loss for the period then ended in the amount of HK$44,690,000 for which both amounts were derived from unaudited management accounts of Li Yang. Although full provision against the Group's interests in City Power and Li Yang had been made for the year, we have been unable to determine whether goodwill in respect of City Power and Li Yang has been properly quantified and accounted for and whether the provisions made in the financial statements regarding the recoverability of the loan to Li Yang and any impairment, permanent or otherwise, in the carrying value of the Group's interests in City Power and Li Yang is adequate but not excessive, and that the Group's share of the post-acquisition loss in Li Yang for the period ended 30 November 2000 is fairly stated.

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Basis of opinion (continued)

4. Scope limitation – investment in a jointly-controlled entity (continued)

Because of limited financial information available, we have not been able to satisfy ourselves as to the completeness, appropriateness, classification and disclosures in respect of the Group's interest in Li Yang further detailed in note 15 to the financial statements. In particular, no disclosures have been made in respect of (i) current assets, long term assets, current liabilities and long term liabilities as at 30 November 2000, income and profits or losses for the year then ended of the jointly-controlled entity in accordance with Statements of Standard Accounting Practice ("SSAP") 21, "Accounting for interests in joint ventures"; and (ii) a note to the consolidated cash flow statement showing a summary of the effects of the acquisition and material effects on amounts reported under each of the standard cash flow statement headings regarding the acquisition of City Power and Li Yang as required by SSAP 15, "Cash flow statements".

Any adjustments found to be necessary in respect of the matters set out above would have a consequential impact on the Group's net liability position at 30 November 2000 and the Group's net loss from ordinary activity attributable to shareholders for the year then ended and the related disclosures in the financial statements.

5. Scope limitation – fixed assets

As explained in note 2(i) to the financial statements, as a result of the constraints imposed by the Group's liquidity problems, the Group's production facilities in the PRC operated substantially below capacity during the year. Against this background, we were unable to assess whether any provision is required for permanent diminution in value regarding the leasehold land and buildings, leasehold improvements, plant and machinery, furniture and equipment of the production facilities in the PRC with an aggregate net book value of HK$13,492,000 as at 30 November 2000.

6. Scope limitation – fundamental uncertainty – going concern of the Group

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(i) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As further explained in note 2(i) to the financial statements, the directors are currently undertaking various measures to relieve the Group from its current profitability and liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Group's funding plans, the ongoing support of the Group's bankers and/or other financial institutions, and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful.

Basis of opinion (continued)

6. **Scope limitation – fundamental uncertainty – going concern of the Group (continued)**
We have been unable to obtain from the directors all the information, explanations or other evidence we consider necessary to satisfy ourselves that the directors' plans were based on the full facts of the Group's circumstances and that appropriate disclosures have been made in respect of this issue. Furthermore, because of the significant uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme, we are not able to determine whether the going concern basis used in preparing these financial statements is appropriate. Accordingly, we have disclaimed our opinion in respect of this issue.

Disclaimer of opinion

Because of the significance of each of (1) the fundamental uncertainty relating to the going concern basis; and (2) the possible effects of the limitations in evidence available to us as set out in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 30 November 2000 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

(i) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and

(ii) proper books of accounts have not been kept.

Without further qualifying our opinion, we draw attention to the fact that because our opinion on the financial statements in respect of the Group and the Company in the prior year dated 23 November 2000 was disclaimed for the scope limitation reasons summarised in 1 above, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

Ernst & Young
Certified Public Accountants

Hong Kong
31 May 2001