明倫集團
MINGLUN GROUP

MINGLUN GROUP (HONG KONG) LIMITED

Annual Report 2003

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS
Mr. Zhou Yiming *(Chairman)*
Mr. Cheung Wai Yin Wilson *(Deputy Chairman)*
Mr. Lu Zhiming

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Wong Hing Tat
Mr. Kwong Chi Ho

COMPANY SECRETARY
Mr. Fu Wing Kwok Ewing

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Room 4605-7, 46th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

AUTHORISED REPRESENTATIVES
Mr. Cheung Wai Yin Wilson
Mr. Fu Wing Kwok Ewing

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
DBS Kwong On Bank Limited

LEGAL ADVISER
Bosco Tso & Partners
8th Floor, Luk Hoi Tong Building
31 Queen's Road Central
Central
Hong Kong

AUDITORS
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
6th Floor, Wheelock House
20 Pedder Street
Central
Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the abovenamed company (the "Company") will be held at Room 4605-7, 46th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong on Wednesday, 24 September 2003 at 11:00 a.m. for the following purposes:–

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and Auditors for the year ended 31 March 2003.

2. To re-elect Directors and to authorise the board of directors to fix their remuneration.

3. To re-appoint Auditors and to authorise the board of directors to fix their remuneration.

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:–

"**THAT**:–

(a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period (as hereinafter defined);

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to a Rights Issue (as hereinafter defined) or scrip dividend scheme of the Company or the exercise of the subscription rights under the share option scheme of the Company shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:–

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:–

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and

iii. the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to the holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company 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)."

5. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"**THAT**:–

(a) the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period (as hereinafter defined) shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution:–

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:–

i. the conclusion of the next annual general meeting of the Company;

ii. the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and

iii. the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. As special business, to consider and, if thought fit, with or without amendments, the following resolution as an ordinary resolution:

   "**THAT** conditional upon resolution no. 5 above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in resolution no. 5 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no. 4 above."

By order of the Board

Fu Wing Kwok Ewing
Company Secretary
Hong Kong, 6 August 2003

Principal Office:
Room 4605-7, 46th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Notes: –

(1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company.

(2) In order to be valid, the form of proxy must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

(3) With reference to ordinary resolution 5 of the above notice, the directors of the Company wish to state that they have no immediate plans to repurchase any existing shares or to issue any new shares of the Company.

CHAIRMAN'S STATEMENT

For and on behalf of the board of directors (the "Directors") of Minglun Group (Hong Kong) Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2003.

PERFORMANCE

Despite the economic downturn and the lack of an obvious, positive invigoration of prospect faced by the globe during the year, the Group achieved a stable turnover of HK$520,857,000 for the year ended 31 March 2003, represented a slight increase of 0.5% compared to the pervious year. Meanwhile, the profit attributable to shareholders, it was steady and was approximately HK$8,549,000 (2002: HK$8,899,000). Earnings per share sustained at HK0.9 cent (2002: HK0.9 cent).

BUSINESS REVIEW

It was a remarkable year for the Group. During the year, the Group implemented tactically internal move to rationalize both managerial hierarchy and operational structure of the Group for accommodation of long term strategy. Primarily, new management joined the Group in August 2002 that marked a new era of position development for the Group. Through fusion of the unique experience and enthusiasm of the new management with the expertise and extensive network of the existing business heads, synergy has been created which benefited every aspect of the Group in terms of efficiency and effectiveness. In addition, new management philosophy generated positive motives and forces on human capital and operations of the Group.

Disposal of our manufacturing operation was the other event during the year. Having reviewed the market trend of the PU foam and related products manufacturing industry, the new management notice that numbers of PU foam and related products manufacturers have been increasing rapidly as a result of low entry barriers of the industry. In particular, mainland enterprises benefit from the People's Republic of China (the "PRC") government's preferential foreign exchange policies have been scrambling for market shares of the PU foam and related products manufacturing industry. As a result, the intensive competition diminished the profitability of industry. In addition, manufacturing operation involved huge production over heads and locked up large amount of our operational capital, in return, hampered the liquidity of the Group.

In view of the exacerbating competition and significant capital commitment of running the manufacturing business, the new management disposed its manufacturing operations to an independent third party at a profit of HK$1,973,000. By abandoning the manufacturing arm, the Group would be flexible in allocation of resources to grasp potential investment opportunities. In addition, the discontinuance of the manufacturing operations avoided the Group from tying up working capital. Therefore, the Group would be capable to deal with unforeseen difficulties under the current economic turmoil.

To adhere to the business restructuring plan, substantial effort has been placed into areas such as business diversification. The Group is dedicated to explore potential and high growth rate development projects by all means, including assets acquisition, business rationalization, mergers and establishment of new ventures.

LOOKING AHEAD

The devastating impact of Severe Acute Respiratory Syndrome and conflicts in the Middle East will continue to pose uncertainties on both Hong Kong and global economy. Given these difficulties, the Group will pursue actively for development opportunities and reinforce its business by implementation of stringent cost control measure and cost effective management to strive for growth of revenue and to stay ahead of major competitors.

Following the accession of the PRC to the World Trade Organisation ("WTO"), the Directors anticipates that the PRC will be the foundation for recovery of the global economy. The rapid development of the PRC economy will stimulate both local demands and attract global traders flocking to the PRC for investment opportunities. As a result, the demand for reliable Asian business partners who can cater the needs of these traders will be tremendous. With strong financial resources and extensive network in the PRC, the Group is well-positioned to reap business opportunities arising from the change of pattern of global trade.

Looking ahead, the Directors is dedicated to bring the best return and to enhance the shareholders' value in the long run. The Group will continue to strive for advancement in both quantity and quality of earnings and expansion of business by all means, including merger, acquisition or establishment of business ventures.

APPRECIATION

I would like to thank our management team and all our staff for their untiring efforts and significant contribution during the past year. I would also like to take this opportunity to express my sincere gratitude and appreciation to all our fellow shareholders and institutional investors for their continuous support and confidence in our Group.

Zhou Yiming
Chairman

Hong Kong
6 August 2003

Management Discussion and Analysis

FINANCIAL REVIEW

For the financial year ended 31 March 2003, the Group recorded a turnover of approximately HK$520,857,000 (2002: HK$518,281,000) up 0.5% compared to the previous year, while profits attributable to shareholders were HK$8,549,000 (2002: HK$8,899,000), slightly declined from the previous year. This was a result of intense competition in the PU materials industry which diminished the profit of the operations of the Group. Given the above difficulties, we strived to sustain our results by implementation of stringent cost control and introduction of a discriminative pricing approach in accepting sales order of the PU materials. Earnings per share sustained at HK0.9 cent (2002: HK0.9 cent).

OPERATIONAL REVIEW

During the year under review, revenue derived from distribution of PU material and manufacturing of PU foam and related products accounted for approximately 80.4% (2002: 78.1%) and 19.6% (2002: 21.9%) of the Group's total revenue respectively. The principal market of the Group was PRC, accounted for approximately 77.4% (2002: 73.7%) of the Group's turnover. Revenue derived from Hong Kong and overseas market were approximately 19.5% (2002: 22.7%) and 3.2% (2002: 3.6%), respectively.

Distribution of PU material

During the year under review, the turnover of distribution of PU materials was HK$418,688,000, representing an increase of approximately 3.5% compared to the previous year. The operating profit of the distribution of PU materials was HK$8,843,000, representing a decrease of 11.7% compared to the previous year. The decrease was attributable to the exacerbated competition of the industry. The Directors are of the view that the intense competition of the industry diminished the profitability. In response to these structural changes of the industry, the Group launched a restructuring exercise which the Group disposed its manufacturing operations, along with the implementation of discriminative pricing strategies on its clientele basis. Sales orders were made based on above-break-even approach which secured profitability of the Group. Moreover, only clients with good track records of reasonable settlement duration will be selected. The Directors believe these stringent policies will help stabilizing the profit margin and liquidity of the Group.

On the other hand, the Group is keen on exploring new market segments and business diversification to sustain the profitability and stimulate growth of the Group.

Manufacturing of PU foam and related products

In order to capture an increase in the demand of home accessories products in the PRC and achieve competitive edges with other competitors in the industry, the Group disposed its manufacturing operation of PU foam and related products to an independent third party with a profit of HK$1,973,000.

OPERATIONAL REVIEW *(continued)*

Manufacturing of PU foam and related products *(continued)*

The operating performance from the sales and manufacturing of PU foam and related products was disappointing during the year under review. The Group experienced a drop in turnover of 10.1% to HK$102,169,000 (2002: HK$113,604,000). The operating profits also dropped from HK$4,960,000 to HK$3,346,000, representing a 32.5% decrease compared to the previous year. This was mainly attributable to the exacerbated competition in the industry which turned the industry to be unattractive. The Directors were of the views that manufacturing operations required significant capital commitment which posed threats on the liquidity position of the Group and created inflexibilities in allocation of working capital. The Directors also anticipates that the profit margin of manufacturing operations will continue to shrink in the future.

DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 March 2003 (2002: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group financed its operations with internally generated cash flows. The Group adopted a prudent financial policy such that it could meet the financial obligations when they fall due and maintain a sufficient operating fund for the development of the Group's business. As at 31 March 2003, the Group's pledged bank deposit and cash and balances amounted to approximately HK$23,892,000 (2002: HK$7,750,000) and HK$29,676,000 (2002: HK$35,060,000) respectively.

As at 31 March 2003, trade finance facilities for the Group amounted to approximately HK$42 million. Based on the Group's present capital base, the bank balances, pledged bank deposits and banking facilities available, the Directors believe the Group has sufficient working capital for its present requirements and developments.

As at 31 March 2003, the current ratio (current assets divided by current liabilities) was 1.82 times (2002: 1.88 times) and the gearing ratio (finance lease payables divided by shareholders' equity) was 0.53% (2002: 0.53%).

CHARGE ON ASSETS

As at 31 March 2003, pledged bank deposits of approximately HK$23,892,000 (2002: HK$7,705,000) were pledged to secure banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As at 31 March 2003, substantially all of the monetary assets of the group was comprised of cash and bank balances and pledged bank deposits, which denominated in Hong Kong dollars. In addition, the Group's finance lease payable was in fixed interest rates, hence exchange risk of the group is minimal.

As at 31 March 2003, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

CONTINGENT LIABILITIES

As at 31 March 2003, the Company continued to provide corporate guarantees, with unlimited amount, in favor of banks in respect of general banking facilities granted to certain subsidiaries. As at 31 March 2003, the subsidiaries had utilised approximately HK$42 million (2002: HK$41 million) of the facilities.

CAPITAL COMMITMENT

The Group did not have any capital commitment as at 31 March 2003.

MATERIAL ACQUISITIONS AND DISPOSALS

Pursuant to a conditional sale and purchase agreement dated 24 April 2002, the Group disposed of its entire interest in Luen Tai Component Limited and Luen Tai Industrial (H.K.) Limited together with their wholly-owned subsidiaries, all of them being wholly-owned subsidiaries of the Group, to independent third parties at a consideration of HK$200,000 and HK$15,000,000 respectively. The PU foam and related products segment therefor became discontinued operation at year end.

During the year under review, there was no other material acquisition or disposal of any subsidiary, associate or joint venture of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2003, the Group's total number of staff was 51 (2002: 41). Salaries of employees are maintained at a competitive level. The Group has not encountered any problem with the recruitment of its employees. None of the companies in the Group has experienced any labour disputes during the Year and the Directors of the Company consider that the Group has maintained an excellent employment relationship.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.

DIRECTORS' BIOGRAPHIES

DIRECTORS

Executive Directors

Mr. ZHOU Yiming, aged 29, is the Chairman of the Company. Mr. Zhou has extensive experience in the electronic business in the PRC. He also engages in the technical research, production and sales, as well as investments in, optoelectronics and electronics products and related accessories and ironmongery and plastics in the PRC. Mr. Zhou is also the Chairman of Sichuan Mingxing Electric Power Co., Ltd., which is a company engaged in the utility business including electricity, gas and water, and listed in the Shanghai Stock Exchange.

Mr. CHEUNG Wai Yin Wilson, aged 32, is the Deputy Chairman of the Company. Mr. Cheung is responsible for the overall strategic planning and business development of the Group. Prior to joining the Group, Mr. Cheung had worked in a listed China-affiliated Corporation for business development and corporate finance. He has over 7 years of experience in the field of corporate finance and financial management. Mr. Cheung holds Bachelor of Arts in Economics and Bachelor of Administrative Studies from York University, Canada.

Mr. LU Zhiming, aged 28, is a graduate from Ningbo Yucai Technical Institute with majoring in electricity and electronics. Mr. Lu has diversified management experience in the fields of petrochemical and electronic business in the PRC. Prior to joining the Group, Mr. Lu was a vice president of an Chinese enterprise engaged in the production of plastics and petrochemical products, for which he was responsible for the overall business operation.

Independent Non-Executive Directors

Mr. WONG Hing Tat, aged 38, was appointed as an independent non-executive Director of the Company since 28 October 2002. Mr. Wong is a qualified practicing accountant in Hong Kong and proprietor of H. T. Wong & Co. He is a fellow member of both the Association of Chartered Certified Accountants and Hong Kong Society of Accountants. He has over 16 years of experience in auditing, taxation and financial consultancy.

Mr. KWONG Chi Ho, aged 33, was appointed as an independent Non-Executive Director of the Company on 28 October 2002. Mr. Kwong is a practicing solicitor in Hong Kong. He was admitted as a solicitor of the High Court of Hong Kong in 2001. He has approximately 9 years of experience in handling Hong Kong legal affairs. Mr. Kwong is also a director of another Hong Kong listed company.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements of the Company and of the Group for the year ended 31 March 2003.

CHANGE OF COMPANY'S NAME

On 1 November 2002, the Company changed its name from Luen Tai Group Limited to Minglun Group (Hong Kong) Limited.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 March 2003 is set out in Note 4 to financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 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 22.

The directors do not recommend the payment of any dividend in respect of the year. (2002: Nil)

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and assets and liabilities of the Group for the last five years prepared on the basis set out in the note below:

Results

	Year ended 31 March				
	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**520,857**	518,281	670,180	483,605	306,242
Profit before tax	**10,728**	10,565	50,244	35,550	24,254
Tax	**(2,179)**	(1,666)	(8,184)	(6,114)	(4,043)
Net profit from ordinary activities attributable to shareholders	**8,549**	8,899	42,060	29,436	20,211

SUMMARY FINANCIAL INFORMATION *(continued)*

Assets and Liabilities

	Year ended 31 March				
	2003	2002	2001	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fixed assets	**1,504**	7,705	3,452	1,108	1,192
Current assets	**240,344**	201,592	159,767	112,167	69,454
Total assets	**241,848**	209,297	163,219	113,275	70,646
Current liabilities	**(131,488)**	(107,227)	(107,389)	(82,863)	(46,670)
Non-current liabilities	**(418)**	(677)	(783)	–	–
Total liabilities	**(131,906)**	(107,904)	(108,172)	(82,863)	(46,670)
	109,942	101,393	55,047	30,412	23,976

Note:

The summary of the published combined results for each of the two years ended 31 March 2000 has been extracted from the Company's listing prospectus dated 30 March 2001. The consolidated results of the Group for the year ended 31 March 2001 has been extracted from the Group's financial statements for the year ended 31 March 2001. The consolidated results of the Group for each of the two years ended 31 March 2003 are set out in the financial statements on page 20. The summary of the consolidated/combined results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout these financial years.

The combined balance sheets as at 31 March 1999 and 2000 have been extracted from the Company's listing prospectus dated 30 March 2001, and were prepared on the basis as if the Group had been in existence since 1 April 1997. The consolidated balance sheet as at 31 March 2001 has been extracted from the Group's financial statements for the year ended 31 March 2001. The consolidated balance sheets as at 31 March 2002 and 31 March 2003 are as set out on page 21 of the financial statements.

This summary does not form part of the audited financial statements.

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year and details of the Company's share option scheme, are set out in Notes 25 and 26 to financial statements respectively.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 27 to financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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 and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31 March 2003, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to HK$70,950,000. This amount included the Company's contributed surplus in the amount of HK$54,045,000 at 31 March 2003, which may only be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$17,647,000 at 31 March 2003, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

(1) The aggregate amount of sales attributable to the Group's five largest customers represented 30% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 7%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 68% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 34%.

As far as the directors are aware, neither the directors, their associates nor shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in Note 32 to financial statements.

PENSION SCHEMES AND COSTS

Details of the Group's pension schemes and costs charged to the consolidated income statement for the year are set out in Notes 3 and 6 to financial statements, respectively.

At 31 March 2003, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

DIRECTORS

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

Executive Directors

Mr. Zhou Yiming	(appointed on 18 September 2002)
Mr. Cheung Wai Yin Wilson	(appointed on 28 August 2002)
Mr. Lu Zhiming	(appointed on 28 August 2002)
Mr. Kwok Tat Kwong	(resigned on 18 September 2002)
Mr. Liau Leong Pin	(resigned on 18 September 2002)
Mr. Cheung Yat Ko	(resigned on 18 September 2002)

Independent Non-executive Directors

Mr. Wong Hing Tat	(appointed on 28 October 2002)
Mr. Kwong Chi Ho	(appointed on 28 October 2002)
Mr. Chan Kam Man	(resigned on 28 October 2002)
Mr. Au Chun Wai	(resigned on 28 October 2002)

In accordance with the Company's bye-laws, Mr. Cheung Wai Yin Wilson and Mr. Lu Zhiming will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the Company's bye-laws.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 11 of the annual report.

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from the respective date of appointment, which continues thereafter until terminated by either party giving three months' notice in writing to the other party.

Save as disclosed above, 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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 32 to financial statements, no director had a material interest, whether 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.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the interests of the directors or chief executives of the Company or their respective associates in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

	Number of issued ordinary shares of HK$0.10 each in the Company held and nature of interest			
Name of director	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**
Mr. Zhou Yiming *(Note (i))*	–	–	150,000,000	–

Note:

(i) The 150,000,000 shares are registered in the name of Chance Profit Investments Limited ("Chance Profit"), a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Zhou Yiming.

On 16 June 2003, an ordinary resolution was passed to subdivide the issued and unissued share of HK$0.10 each of the Company into five shares of HK$0.02 each with effect from 17 June 2003.

On 30 July 2002, a sale and purchase agreement (the "Sale and Purchase Agreement") was entered into between, amongst other things, Best Dollar Investments Limited ("Best Dollar") and Everwonder Investments Limited ("Everwonder") (the former controlling shareholders of the Company) and Chance Profit (the existing controlling shareholder of the Company), pursuant to which Best Dollar and Everwonder agreed to sell 95,200,000 shares and 40,800,000 shares respectively in the Company ("Share"), to Chance Profit at a consideration of approximately HK$0.417 per Share. Completion of the Sale and Purchase Agreement took place on 1 August 2002.

DIRECTORS' INTERESTS IN SHARES *(continued)*

Following completion of the Sale and Purchase Agreement, there was a Mandatory Unconditional Cash Offer (the "Offer") made by Kingsway SW Securities Limited on behalf of Chance Profit to acquire all the issued shares of Luen Tai Group Limited (former name of the Company) other than those already held by Chance Profit or parties acting in concert with it at the offer price of HK$0.417. Upon closing of the Offer on 18 September 2002, Chance Profit has received valid acceptances in respect of 25,310,000 Shares under the Offer which made Chance Profit and parties acting in concert with it interested in 161,310,000 Shares, representing approximately 80.655% of the total issued share capital of the Company as at the closing date. Details of the Offer were set out in the Offer Document dated 28 August 2002.

Pursuant to Rule 8.08(1) of the Listing Rules, the minimum percentage of Shares which must be in the hands of the public is 25%. Accordingly, the Company has made an application to the Stock Exchange for a waiver from compliance with such rule for a period of one month from 19 September 2002 to 19 October 2002 ("One-Month Period"). Chance Profit and the Company have undertaken to the Stock Exchange to restore the public float of 25% within the One-Month Period.

The Board has been notified by Chance Profit that it had entered into a placing agreement on 17 October 2002 with Kingsway SW Securities Limited (the "Placing Agent") to place, on a fully underwritten basis, 11,310,000 Shares represent 5.655% of the total issued Shares. Upon completion of the Placing, 25% of the total issued share capital has been held in the hands of the public. Accordingly, the minimum public float of the issued share capital as required under Rule 8.08 of the Listing Rules has been restored.

In addition to the above, a director of the Company has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Group solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the issued ordinary shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the year and up to the date of this report 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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in Note 26 to financial statements.

REPORT OF THE DIRECTORS *(continued)*

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, no person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance, other than the shares held by Chance Profit as disclosed in the section headed "Directors' Interests in Shares" above, which represented 75% of the issued share capital of the Company at 31 March 2003.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in Note 33 to financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The present management took control of the management of the Company on 18 September 2002 and by virtue thereof the present management is not in a position to comment in respect of the previous management. In the opinion of the current directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules since 18 September 2002, except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 March 2003 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

AUDITORS

Messrs. HLB Hodgson Impey Cheng having been appointed the auditors of the Company in succession to Messrs. Ernst & Young, retire and being eligible, offer themselves for re-appointment.

ON BEHALF OF THE BOARD

Zhou Yiming
Chairman

Hong Kong
6 August 2003

AUDITORS' REPORT

國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

To the members
MINGLUN GROUP (HONG KONG) LIMITED
(incorporated in Bermuda 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 directors of the Company 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 financial 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 circumstances of the Company and the Group, 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 as at 31 March 2003 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong
6 August 2003

Consolidated Income Statement

for the year ended 31 March 2003 (in HK Dollars)

	Notes	2003 HK$'000	2002 HK$'000
Turnover	5	**520,857**	518,281
Cost of Sales		**(494,549)**	(484,478)
Gross Profit		**26,308**	33,803
Other Revenue	5	**1,457**	1,213
Selling and Distribution Costs		**(6,762)**	(11,254)
Administrative Expenses		**(12,110)**	(11,057)
Other Operating Expenses		**–**	(1,329)
Profit from Operating Activities	6	**8,893**	11,376
Profit from Disposal of Subsidiaries		**1,973**	–
Profit before Finance Costs and Tax		**10,866**	11,376
Finance Costs	9	**(138)**	(811)
Profit before Tax		**10,728**	10,565
Tax	10	**(2,179)**	(1,666)
Net Profit from Ordinary Activities Attributable to Shareholders	11, 27	**8,549**	8,899
Dividends	12	**–**	–
Earnings per Share	13		
Basic		**HK0.9 cent**	HK0.9 cent

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 March 2003 (in HK Dollars)

	Notes	2003 HK$'000	2002 HK$'000
Non-Current Assets			
Fixed assets	14	**1,504**	7,705
Current Assets			
Inventories	16	**8,526**	5,581
Trade receivables	17	**157,677**	150,835
Prepayments, deposits and other receivables		**1,682**	1,608
Amount due by a related company	18	**18,616**	–
Tax recoverable		**275**	803
Pledged bank deposits	19	**23,892**	7,705
Cash and bank balances		**29,676**	35,060
		240,344	201,592
***Less:* Current Liabilities**			
Trade and bills payables	20	**99,474**	71,816
Tax payable		**21,278**	19,108
Other payables and accruals		**4,132**	16,079
Amount due to holding company	22	**6,354**	–
Finance lease payables	23	**250**	224
		131,488	107,227
Net Current Assets		**108,856**	94,365
Total Assets Less Current Liabilities		**110,360**	102,070
Non-Current Liabilities			
Finance lease payables	23	**335**	313
Deferred tax	24	**83**	364
		418	677
Net Assets		**109,942**	101,393
Capital and Reserves			
Issued capital	25	**20,000**	20,000
Reserves	27	**89,942**	81,393
Shareholders' Funds		**109,942**	101,393

Approved by the board of directors on 6 August 2003 and signed on its behalf by:

Zhou Yiming	**Cheung Wai Yin Wilson**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

Balance Sheet

at 31 March 2003 (in HK Dollars)

	Notes	2003 HK$'000	2002 HK$'000
Non-Current Assets			
Interests in subsidiaries	*15*	**91,067**	91,052
Current Assets			
Prepayments and deposits		**73**	145
Cash and bank balances		**12**	164
		85	309
***Less:* Current Liabilities**			
Other payables and accruals		**202**	32
Net Current (Liabilities)/Assets		**(117)**	277
Net Assets		**90,950**	91,329
Capital and Reserves			
Issued capital	*25*	**20,000**	20,000
Reserves	*27*	**70,950**	71,329
Shareholders' Funds		**90,950**	91,329

Approved by the board of directors on 6 August 2003 and signed on its behalf by:

Zhou Yiming
Director

Cheung Wai Yin Wilson
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2003 (in HK Dollars)

	2003	2002
	HK$'000	*HK$'000*
Total equity at 1 April 2002/2001	**101,393**	74,847
Net profit for the year	**8,549**	8,899
Movements in issued share capital and share premium:		
Issue of shares	–	45,000
Share issue expenses	–	(12,553)
Capitalisation of the share premium account	–	(14,800)
Total equity at 31 March 2003/2002	**109,942**	101,393

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 March 2003 (in HK Dollars)

	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**10,728**	10,565
Adjustments for:		
Interest income	**(157)**	(924)
Gain on disposal of subsidiaries	**(1,973)**	–
Depreciation	**1,789**	3,095
Loss on disposal of fixed assets	**6**	121
Finance costs	**138**	811
Operating profit before working capital changes	**10,531**	13,668
(Increase)/decrease in inventories	**(11,530)**	1,789
Increase in trade and bills receivables	**(41,017)**	(27,117)
Decrease in prepayments, deposits and other receivables	**21**	9,333
Increase in amount due by a related company	**(18,616)**	–
Increase in trade and bills payables	**78,299**	27,405
Increase in amount due to holding company	**6,354**	–
(Decrease)/increase in other payables and accruals	**(11,666)**	9,163
Decrease in trust receipt loans with original maturity of more than three months	**–**	(27,580)
Cash generated from operations	**12,376**	6,661
Interest received	**157**	924
Hong Kong profits tax refunded	**–**	204
Net cash inflow from operating activities	**12,533**	7,789
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales proceeds from disposal of subsidiaries	**4,897**	–
Purchases of fixed assets	**(6,680)**	(7,469)
(Increase)/decrease in pledged bank deposits	**(16,187)**	3,547
Net cash outflow from investing activities	**(17,970)**	(3,922)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

for the year ended 31 March 2003 (in HK Dollars)

	2003	2002
	HK$'000	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	**–**	50,000
Share issue expenses	**–**	(12,553)
New finance leases	**506**	–
Capital element of finance lease payments	**(315)**	(224)
Finance costs paid	**(138)**	(811)
Net cash inflow from financing activities	**53**	36,412
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(5,384)**	40,279
Cash and cash equivalents at beginning of year	**35,060**	(5,219)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**29,676**	35,060
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**29,676**	35,060

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2003 (in HK Dollars)

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Group continued in the trading of polyurethane materials. During the year, the Group's businesses in the manufacture and sale of polyurethane foam and related foam products were discontinued.

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

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 of adopting these SSAPs, which have had a significant effect on the financial statements, are summarised as follows:

(i) SSAP 1 (revised) prescribed the basis for presentation of financial statements and sets out guidelines for their structure and minimum requirements of the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The consolidated statement of changes in equity for the current financial year and the comparative figures has been presented in accordance with the revised SSAP.

(ii) SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the whereas previously they were translated into the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

(iii) SSAP 15 (revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised.

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

(iv) SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines discontinuing operations and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinued operations are now included in the financial statements.

(v) SSAP 34 prescribed the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are required in respect of the Company's share option scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2003. The results of the 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.

(c) 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 interests in subsidiaries are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, 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 assets 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 consolidated income statement in the period in which it arises.

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 depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the consolidated income statement in the period in which it arises.

(e) Fixed assets and depreciation

Fixed assets are stated at cost 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 consolidated income statement 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.

Depreciation is calculated on the reducing balance basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	:	20% – 30%
Furniture, fixtures and equipment	:	20% – 30%
Motor vehicles	:	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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 consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

(h) Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(i) 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 consolidated income statement.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) 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.

(k) Related party transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(l) 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:

(i) 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; and

(ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(m) Retirement benefits schemes

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Retirement benefits schemes *(continued)*

(iii) The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the consolidated income statement or consolidated balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(n) Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed.

(o) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences 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.

(p) 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 consolidated income statement.

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 included in the exchange fluctuation reserve.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the polyurethane ("PU") materials segment involves the trading of PU materials, such as isocyanate, polyols and various kinds of PU catalysts.

(b) PU foam and related products segment comprises the manufacture and sales of PU foam and PU foam products, molded and unmolded (a discontinued operation as detailed in note below).

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at mutually agreed prices.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments.

Group

	PU materials		(Discontinued operation) PU foam and related products *(Note)*		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**418,688**	404,677	**102,169**	113,604	**–**	–	**520,857**	518,281
Intersegment sales	**41,155**	50,566	**–**	–	**(41,155)**	(50,566)	**–**	–
Total revenue	**459,843**	455,243	**102,169**	113,604	**(41,155)**	(50,566)	**520,857**	518,281
Segment results	**8,843**	10,014	**3,346**	4,960	**–**	–	**12,189**	14,974
Interest income							**157**	924
Unallocated expenses							**(3,453)**	(4,522)
Profit from operating activities							**8,893**	11,376
Profit from disposal of subsidiaries							**1,973**	–
Profit before finance costs and tax							**10,866**	11,376
Finance costs							**(138)**	(811)
Profit before tax							**10,728**	10,565
Tax							**(2,179)**	(1,666)
Net profit from ordinary activities attributable to shareholders							**8,549**	8,899

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	PU materials		(Discontinued operation) PU foam and related products *(Note)*		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**241,484**	191,051	**–**	41,193	**–**	(23,331)	**241,484**	208,913
Unallocated assets	**364**	–	**–**	–	**–**	–	**364**	384
Total assets							**241,848**	209,297
Segment liabilities	**131,689**	93,871	**–**	36,821	**–**	(22,820)	**131,689**	107,872
Unallocated liabilities	**217**	–	**–**	–	**–**	–	**217**	32
Total liabilities							**131,906**	107,904
Other segment information:								
Depreciation	**295**	232	**1,494**	2,863	**–**	–	**1,789**	3,095
Other non-cash expenses	**6**	–	**–**	1,213	**–**	–	**6**	1,213
Capital expenditure	**895**	410	**5,785**	7,059	**–**	–	**6,680**	7,469

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue, profit and certain assets and expenditure information for the Group's geographical segments.

Group

	PRC		Hong Kong		Others		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**402,897**	381,955	**101,473**	117,712	**16,487**	18,614	**520,857**	518,281
Segment results*	**6,722**	6,121	**4,554**	7,243	**913**	1,610	**12,189**	14,974
Other segment information:								
Segment assets	**144,203**	138,284	**96,379**	69,686	**1,266**	1,327	**241,848**	209,297
Capital expenditure	**4,789**	7,001	**1,891**	468	**–**	–	**6,680**	7,469

* Disclosed pursuant to the requirements of the Listing Rules.

Note: During the year ended 31 March 2003, the Group disposed of its entire interest in Luen Tai Component Limited and Luen Tai Industrial (H.K.) Limited together with their wholly-owned subsidiaries, all of them being wholly owned subsidiaries of the Group to independent third parties at a consideration of HK$200,000 and HK$15,000,000 respectively. The PU foam and related products segment therefore became discontinued operation at year end.

5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intercompany transactions have been eliminated on consolidation.

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Continuing:		
Sale of goods	**418,688**	404,677
Discontinued:		
Sale of goods	**102,169**	113,604
	520,857	518,281
Other revenue		
Continuing:		
Bank interest income	**153**	860
Others	**230**	144
	383	1,004
Discontinued:		
Bank interest income	**4**	64
Others	**1,070**	145
	1,074	209
	1,457	1,213
	522,314	519,494

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Cost of inventories sold	**494,549**	484,478
Write off of inventories	**–**	2,857
Auditors' remuneration	**366**	720
Depreciation	**1,789**	3,095
Minimum lease payments under operating leases in respect of land and buildings	**1,227**	855
Exchange losses, net	**184**	261
Loss on disposal of fixed assets	**6**	121
Staff costs:		
Salaries and wages (directors' remuneration included – *Note 7*)	**5,823**	6,149
Mandatory provident fund contributions	**186**	231
	6,009	6,380
Bad debts written off	**–**	1,329

The cost of inventories sold includes HK$4,663,000 (2002: HK$5,336,000) relating to staff costs, write off of inventories and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. DIRECTORS' REMUNERATION

Details of remuneration of the directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Fees	**20**	–
Other emoluments		
Basic salaries, housing benefits, other allowances and benefits in kind	**1,100**	1,237
Mandatory provident fund scheme contributions	**26**	36
	1,126	1,273
	1,146	1,273

Included in the directors' remuneration were fees of HK$20,000 (2002: Nil) paid to an independent non-executive director during the year.

The remuneration of all of the directors fell within the nil to HK$1,000,000 band for the years ended 31 March 2002 and 2003.

During the year, there were no bonuses paid or payable to the directors (2002: Nil). No directors waived or agreed to waive any remuneration during the year (2002: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2002: Nil).

During the year, a total of 6,400,000 share options to subscribe for ordinary shares of the Company were granted to certain directors under the Company's share option scheme. The details of these benefits in kind are disclosed in Note 26 to financial statements.

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2002: three) directors, details of whose remuneration are set out in Note 7 above. The remuneration of the remaining two (2002: two) non-director, highest paid individuals, which each fell within the nil to HK$1,000,000 band, is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,224**	780
Mandatory provident fund contributions	**29**	24
	1,253	804

During the year, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (2002: Nil). 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 a compensation for loss of office (2002: Nil).

During the year, share options to subscribe for ordinary shares of the Company were granted to certain employees under the Company's share option scheme. The details of these benefits in kind are disclosed in Note 26 to financial statements.

9. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on:		
Trust receipt loans wholly repayable within five years	**54**	746
Finance leases	**84**	65
	138	811

10. TAX

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	594
Elsewhere	**2,602**	1,643
Overprovision in prior years	**(423)**	(689)
Deferred tax *(Note 24)*	**–**	118
Tax charge for the year	**2,179**	1,666

No provision for Hong Kong profits tax has been made as the Group did not have assessable profits for the year (2002: 16%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. NET 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 31 March 2003 was HK$379,000 (2002: HK$320,000).

12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2003 (2002: Nil).

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK$8,549,000 (2002: HK$8,899,000) and the number of 1,000,000,000 (2002: adjusted weighted average of 993,835,615) ordinary shares currently in issue after subdivision of each of the issued and unissued shares into five subdivided shares on 17 June 2003. The earnings per share for 2002 has been adjusted accordingly.

Diluted earnings per share amount for the year ended 31 March 2003 has not been presented as the effect of the assumed conversion of the Company's outstanding share options would be anti-dilutive.

Diluted earnings per share amount for the year ended 31 March 2002 has not been presented as there were no potential dilutive ordinary shares in existence during the year ended 31 March 2002.

14. FIXED ASSETS

Group	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 April 2002	8,596	1,139	2,341	12,076
Additions	528	5,522	630	6,680
Disposals	(52)	–	–	(52)
Disposal of subsidiaries	(9,072)	(5,318)	(1,554)	(15,944)
At 31 March 2003	**–**	**1,343**	**1,417**	**2,760**
Accumulated depreciation:				
At 1 April 2002	3,032	463	876	4,371
Charges during the year	1,196	337	256	1,789
Written back on disposals	(46)	–	–	(46)
Written back on disposals of subsidiaries	(4,182)	(34)	(642)	(4,858)
At 31 March 2003	**–**	**766**	**490**	**1,256**
Net book value:				
At 31 March 2003	**–**	**577**	**927**	**1,504**
At 31 March 2002	5,564	676	1,465	7,705

The net book values of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2003 amounted to HK$713,000 (2002: HK$524,000).

15. INTERESTS IN SUBSIDIARIES

Company

	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**54,245**	54,245
Due from subsidiaries	**36,822**	39,452
Due to subsidiaries	**–**	(2,645)
	91,067	91,052

The amounts due from subsidiaries are unsecured, interest-free and are not repayable in the next twelve months.

Particulars of the subsidiaries of the Company as at 31 March 2003 were as follows:

Name of company	**Place of incorporation/ establishment**	**Issued and fully paid-up share/ registered capital**	**Percentage of equity attributable to the Company**		**Principal activities**
			Direct	*Indirect*	
Market Reach Group Limited	British Virgin Island ("BVI")	Ordinary US$10,000	100	–	Investment holding
Wah Tat Industrial Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Wah Tat Industrial (Hong Kong) Limited	Hong Kong	Ordinary HK$2 Non-voting deferred *(Note (a))* HK$1,480,000	–	100	Trading of polyurethane materials
Wah Tat Industrial Trading Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Kurow Agents Limited	BVI	Ordinary US$10	–	100	Provision of transportation services in the PRC

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company *Direct*	*Indirect*	Principal activities
Revolving Maze Trading Limited	BVI	Ordinary US$10	–	100	Provision of marketing and technical support services in the PRC
Harvest Star Investment Limited	BVI	Ordinary US$1	100	–	Investment holding
Prime Rose Limited	BVI	Ordinary US$10	–	100	Trading of polyurethane materials
Minglun Industrial Limited	Hong Kong	Ordinary HK$2	–	100	Provision of administrative services to fellow subsidiaries in Hong Kong
Minglun Industrial (H.K.) Limited	Hong Kong	Ordinary HK$2	–	100	Dormant
Minglun Technology Limited	Hong Kong	Ordinary HK$10,000	–	100	Dormant
Panaview Trading Limited	BVI	Ordinary US$1	–	100	Dormant

Notes:

(a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than one half of the balance of such assets after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the Company in such winding-up).

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

16. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	–	3,048
Work in progress	–	1,768
Finished goods	**8,526**	765
	8,526	5,581

No inventories were stated at net realisable value at 31 March 2003 (2002: Nil).

17. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at the original invoiced amount less an allowance for any doubtful debts. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

	Group	
	2003	2002
	HK$'000	*HK$'000*
Trade receivables	**157,677**	150,835

An aged analysis of the trade receivables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current to 30 days	**43,244**	51,802
31 days to 90 days	**64,026**	34,129
91 days to 180 days	**50,407**	54,347
181 days to 360 days	–	10,557
	157,677	150,835

18. AMOUNT DUE BY A RELATED COMPANY

Name of company	Highest balance during year	Group 2003 HK$'000	2002 HK$'000
Luen Tai Industrial (H.K.) Limited	18,616	**18,616**	–

The amount due by a related company is unsecured, interest-free and repayable on demand.

19. PLEDGED BANK DEPOSITS

At 31 March 2003, the Group had time deposits, in an amount of HK$5,178,000 (2002: HK$7,705,000), pledged for general banking facilities granted from banks to the Group (Note 21).

At 31 March 2003, the Group had marginal deposits, in an amount of HK$18,714,000 (2002: Nil), pledged for documentary credits granted from a bank to the Group (Note 21).

20. TRADE AND BILLS PAYABLES

	Group 2003 HK$'000	2002 HK$'000
Trade payables	**45,582**	31,087
Bills payable	**53,892**	40,729
	99,474	71,816

An aged analysis of the trade and bills payables at the balance sheet date, based on invoice date, is as follows:

	Group 2003 HK$'000	2002 HK$'000
Current to 30 days	**55,018**	22,612
31 days to 90 days	**44,456**	49,204
	99,474	71,816

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

21. BANKING FACILITIES

At 31 March 2003, the Group's banking facilities were secured by:

(i) unlimited corporate guarantees executed by the Company;

(ii) unlimited corporate guarantees executed by certain subsidiaries of the Company;

(iii) the pledge of the Group's time deposits of HK$5,178,000 (2002: HK$7,705,000); and

(iv) the pledge of the Group's marginal deposits of HK$18,714,000.

Of the trade finance facilities of HK$42,000,000 (2002: HK$40,729,000) at 31 March 2003, all (2002: HK$28,011,000) are secured by the pledge of the Group's time deposits amounting to HK$5,178,000 (2002: HK$7,705,000). At 31 March 2003, there was no (2002: HK$32,989,000) undrawn facilities in relation to the above pledged trade finance facilities.

22. AMOUNT DUE TO HOLDING COMPANY

The amount due to holding company is unsecured, interest-free and repayable on demand.

23. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles under finance leases with remaining lease terms of three years.

At 31 March 2003, the total future minimum lease payments under the finance leases and their present values, were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**306**	289	**250**	224
In the second year	**224**	289	**186**	224
In the third to fifth years, inclusive	**153**	113	**149**	89
Total minimum finance lease payments	**683**	691	**585**	537
Future finance charges	**(98)**	(154)		
Total net finance lease payables	**585**	537		
Portion classified as current liabilities	**(250)**	(224)		
Long term portion	**335**	313		

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

24. DEFERRED TAX

	Group	
	2003	2002
	HK$'000	*HK$'000*
At beginning of year	**364**	246
Charge for the year *(Note 10)*	**–**	118
Attributable to disposal of subsidiaries	**(281)**	–
At 31 March	**83**	364

The provision for deferred tax of the Group is made principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 March 2003 (2002: Nil).

25. SHARE CAPITAL

	2003	2002
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
200,000,000 ordinary shares of HK$0.10 each	**20,000**	20,000

Subsequent to the balance sheet date, the issued and unissued shares of the Company were subdivided, as detailed in Note 33 to financial statements.

26. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in Note 2 to financial statements and under the heading "Employee benefits" in Note 3(l) to financial statements. As a result, the following detailed disclosures relating to the share option scheme of the Company are now included in the notes to financial statements. In the prior year, these disclosures were included in the Report of the Directors, as such disclosures are also a requirement of the Listing Rules.

In response to the amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, on 1 November 2002, the Company terminated its then share option scheme of the Company adopted on 26 March 2001 and adopted a new share option scheme (the "Scheme"). Details of the Scheme of the Company are set out below.

The Company operates 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 Company's directors and other employees of the Group. The Scheme was adopted on 1 November 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercised as the Directors may at their discretion determine.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

26. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the period from 1 November 2002 to 31 March 2003:

Name or category of participant	At 1 April 2002	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2003	Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** *HK$*	Price of Company's share at grant date of share options*** *HK$*
Directors									
Mr. Zhou Yiming	–	2,000,000	–	–	2,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.90	0.90
Mr. Cheung Wai Yin Wilson	–	2,000,000	–	–	2,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.90	0.90
Mr. Lu Zhiming	–	2,000,000	–	–	2,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.90	0.90
Mr. Wong Hing Tat	–	200,000	–	–	200,000	23/12/2002	23/12/2002 to 22/12/2012	0.90	0.90
Mr. Kwong Chi Ho	–	200,000	–	–	200,000	23/12/2002	23/12/2002 to 22/12/2012	0.90	0.90
Employees other than directors									
In aggregate	–	12,000,000	–	–	12,000,000	23/12/2002	23/12/2002 to 22/12/2012	0.90	0.90
	–	18,400,000	–	–	18,400,000				

* *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of capital of the Company. On 16 June 2003, an ordinary resolution was passed to subdivide the issued and unissued share of HK$0.10 each of the Company into five share of HK$0.02 each with effect from 17 June 2003.*

*** *The price of the Company's shares disclosed as at the date of grant of the share options is the closing price on the Stock Exchange on the business day on which the options were granted.*

At 31 March 2003, the Company had 18,400,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the capital structure of the Company as at 31 March 2003, result in the issue of 18,400,000 additional ordinary shares of HK$0.10 each of the Company and additional share capital of HK$1,840,000 and share premium of HK$14,720,000.

27. RESERVES

Group	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2001	–	3,156	51,691	54,847
Issue of shares	45,000	–	–	45,000
Share issue expenses	(12,553)	–	–	(12,553)
Capitalisation of share premium	(14,800)	–	–	(14,800)
Net profit for the year	–	–	8,899	8,899
At 31 March 2002 and 1 April 2002	17,647	3,156	60,590	81,393
Net profit for the year	–	–	8,549	8,549
At 31 March 2003	**17,647**	**3,156**	**69,139**	**89,942**

Company	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2001	–	54,045	(43)	54,002
Issue of shares	45,000	–	–	45,000
Share issue expenses	(12,553)	–	–	(12,553)
Capitalisation of share premium	(14,800)	–	–	(14,800)
Net loss for the year	–	–	(320)	(320)
At 31 March 2002 and 1 April 2002	17,647	54,045	(363)	71,329
Net loss for the year	–	–	(379)	(379)
At 31 March 2003	**17,647**	**54,045**	**(742)**	**70,950**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

(b) The Company had distributable reserves of HK$70,950,000 (2002: HK$71,329,000) at 31 March 2003, which included the Company's contributed surplus in the amount of HK$54,045,000 (2002: HK$54,045,000). Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders of the Company in certain circumstances. In addition, the Company's share premium account, in the amount of HK$17,647,000 (2002: HK$17,647,000) at 31 March 2003, may be distributed in the form of fully paid bonus shares.

28. DISPOSALS OF SUBSIDIARIES

During the year, the Group disposed of its entire interest in Luen Tai Component Limited and Luen Tai Industrial (H.K.) Limited together with their wholly-owned subsidiaries, all of them being wholly owned subsidiaries of the Group.

Net assets disposed of:

	2003	2002
	HK$'000	*HK$'000*
Fixed assets	**11,086**	–
Inventories	**8,585**	–
Trade and other receivables	**34,175**	–
Cash and bank balances	**10,303**	–
Trade and other payables	**(50,641)**	–
Other long-term payables	**(281)**	–
Net assets	**13,227**	–
Gain on disposal of subsidiaries	**1,973**	–
	15,200	–
Satisfied by:		
Cash consideration received	**15,200**	–
Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	**15,200**	–
Cash and bank balances disposed of	**(10,303)**	–
	4,897	–

The subsidiaries disposed of during the year ended 31 March 2003 contributed HK$1,180,000 to the Group's net operating cash flows and utilised HK$888,000 and HK$143,000 in respect of investing and financing activities respectively.

29. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease contracts in respect of assets with a total capital value at the inception of the leases of HK$506,000 (2002: Nil).

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between 1 and 2 years.

At 31 March 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**633**	610
In the second to fifth years, inclusive	**72**	300
	705	910

31. COMMITMENTS

Apart from the operating lease commitments detailed in Note 30 to financial statements above, at the balance sheet date, neither the Group, nor the Company had any significant commitments.

32. RELATED PARTY TRANSACTIONS

During the year, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

Name of related parties	**Relationship**	**Nature of transactions**	**2003**	2002
			HK$'000	*HK$'000*
Luen Tai Industrial (H.K.) Limited *(Notes)*	Company in which two directors of subsidiaries are also the directors of the company	Sales – receivable	**9,173**	–
		Rental income – received	**50**	–
		Transportation income – received	**103**	–

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

32. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

a. The transactions were based on amounts agreed between the parties concerned.

b. The amount receivable from the above related party is unsecured and non-interest bearing.

c. The above related party transactions represented those transactions entered into between the above related party and the Group after the disposal of the entire 100% interest in this former subsidiary during the year ended 31 March 2003. For the year ended 31 March 2002, the transactions entered into between the Group and this former subsidiary were classified as intercompany transactions within the Group and eliminated on consolidation.

33. POST BALANCE SHEET EVENT

On 16 June 2003, an ordinary resolution was passed to subdivide the issued and unissued share of HK$0.10 each of the Company into five shares of HK$0.02 each with effect from 17 June 2003.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

35. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Chance Profit Investments Limited, a company incorporated in the British Virgin Islands.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 August 2003.