

Chairman's Statement

RESULTS

On behalf of the board of directors (the "Board") of Luen Tai Group Limited (the "Company") together with its subsidiaries (the "Group"), I am pleased to present the first annual report and the audited consolidated results of the Group for the financial year ended 31 March 2001.

The Group's audited turnover and net profit attributable to shareholders for the year ended 31 March 2001 (the "Year") were approximately HK\$670 million and HK\$42 million, respectively, representing increases of approximately 39% and 43%, respectively over the corresponding period in 2000. Earning per share for the Year stood at 28.0 HK cents.

BUSINESS REVIEW

The Group was successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 April 2001. The net proceeds of the new issue and placing of shares of the Company amounted to approximately HK\$35.5 million, which will be used to finance the Group's capital expenditure and strengthen its capital base and financial position.

The Group is principally engaged in the distribution of polyurethane ("PU") materials and the manufacture and sales of PU foam and PU foam products. In respect of the Year, the Group recorded a turnover of approximately HK\$670 million. Revenue from distribution of PU materials and manufacture and sales of PU foam and PU foam products has grown by approximately 41% and 24%, respectively, over the previous year. The Group delivered operating profit of approximately HK\$51 million for the Year, 39% up from 2000. Net profit attributable to shareholders for the Year was approximately HK\$42 million, 43% higher than that of the corresponding period of 2000. The increase in turnover was mainly attributable to the contribution of the Group's effort of marketing and promotion as well as the continuous growth in demand for PU materials and products. The Group's ability to secure supply of PU materials from major suppliers also contributed significantly to the increase in turnover.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal banker in Hong Kong. During the year, the cash generating ability of the Group remained strong, with approximately HK\$45 million being generated from operating activities. The Group's cash and cash equivalent are mostly held in the Hong Kong dollars.

The Group's bank borrowings are made in Hong Kong dollars and US dollars. At 31 March 2001, all the Group's bank borrowings are repayable within one year. The gearing ratio of the Group at 31 March 2001 calculated as a ratio of total debts to total assets is approximately 24%. Net current assets at 31 March 2001 was approximately HK\$52 million and current ratio was maintained at a healthy level of approximately 149%.

As the Group's transactions are mostly settled by Hong Kong dollars or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary.

With the available resources and the proceeds from the new issue and placing of shares of the Company, the Group has adequate working capital to finance its business operations.

EMPLOYEES

The Group is well aware of the importance of quality management and specialist expertise as key factors in achieving corporate success. It has therefore put considerable emphasis on staff training. For example, the Sales Department, Procurement Department, Production Department and Warehouse Department staff have attended an ISO 9001 training course during the year in order to upgrade their professional knowledge and service quality.

The Group has encountered no problems with the recruitment or training of its employees. None of the companies in the Group has experienced any labor disputes in the past and the Directors of the Company consider that the Group has excellent employment relations.

FUTURE PLAN AND PROSPECT

The Group has healthy financial status, clear market positioning, and a well defined strategic development blueprint covering every aspect from the development of its market and product range to the Group's future scale.

The continual improvement in global living standard, the increasing affluence of the PRC economy and the growth in consumption power of the PRC customers are expected to result in an increase in demand for the Group's products and PU materials traded by the Group.

The Group will continue to diversify its range of PU foam products to enhance its scales and market position in the industry. To extend its customer base and geographical market coverage by strengthening its marketing efforts with particular emphasis on the European market, the Group will expend its sales team. More participation by the Group in household commodities exhibitions in different countries is anticipated.

To capitalise on the rapid growth of customer purchasing power in the PRC, the Group has established two wholly-owned subsidiaries in the PRC with the approval for sales of a portion of their products to the PRC customers. In addition, the Group has planned to expand its manufacturing operation by purchasing a piece of land in the PRC for the construction of a new production facility. The Group intends to finance this acquisition out of the net proceeds from the new issue and placing of the Company's Shares.

USE OF PROCEEDS

The shares of the Company was listed on the Stock Exchange on 19 April 2001.

After deduction of necessary expenses payable by the Company, the net proceeds amount to approximately HK\$35.5 million. The Directors at present intend to apply the net proceeds as follows:–

- as to approximately HK\$20 million for the purchase of a piece of land in the PRC and for the construction of a new production facility thereon;
- as to approximately HK\$6 million for the purchase of new machinery and equipment for the new production facility;

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- as to approximately HK\$6 million for marketing activities of PU materials as well as PU foam products produced by the Group; and
- as to the balance of approximately HK\$3.5 as an additional working capital of the Group.

Up to date, such listing proceeds has not been used and it is the present intention of the Directors that the net proceeds are placed on short term deposits with licenced banks in Hong Kong.

APPRECIATION

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

Kwok Tat Kwong

Chairman

Hong Kong
26 July 2001