



MINGLUN GROUP (HONG KONG) LIMITED

INTERIM REPORT 2002

**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 2717, 27th Floor  
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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  
UFJ Bank Limited  
Fortis Bank Asia HK  
Hang Seng Bank Limited

**LEGAL ADVISER**

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

**AUDITORS**

Ernst & Young  
Certified Public Accountants  
15th Floor, Hutchison House  
10 Harcourt Road  
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  
4th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

**INTERIM RESULTS**

The Board of directors (the "Board") of Minglun Group (Hong Kong) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2002 together with comparative figures as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

|   |              | <b>Six months ended<br/>30 September</b> |                                 |
|---|--------------|--|---------------------------------|
|   | <i>Notes</i> | <b>2002<br/>(Unaudited)<br/>HK\$'000</b> | 2001<br>(Unaudited)<br>HK\$'000 |
| TURNOVER  | 2            | <b>221,365</b>                           | 304,585                         |
| Cost of sales   |              | <b>(207,444)</b>                         | (275,033)                       |
| Gross profit  |              | <b>13,921</b>                            | 29,552                          |
| Other revenue   |              | <b>1,604</b>                             | 867                             |
| Selling and distribution costs                                      |              | <b>(2,190)</b>                           | (3,927)                         |
| Administrative expenses   |              | <b>(5,143)</b>                           | (5,444)                         |
| PROFIT FROM OPERATING ACTIVITIES                                    | 2,3          | <b>8,192</b>                             | 21,048                          |
| Finance costs   | 4            | <b>(89)</b>                              | (675)                           |
| PROFIT BEFORE TAX   |              | <b>8,103</b>                             | 20,373                          |
| Tax   | 5            | <b>(1,514)</b>                           | (3,381)                         |
| NET PROFIT FROM ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS |              | <b>6,589</b>                             | 16,992                          |
| EARNINGS PER SHARE – Basic, HK cents                                | 7            | <b>3.3</b>                               | 8.5                             |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  | <i>Notes</i> | <b>As at<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | <b>As at<br/>31 March<br/>2002<br/>(Audited)<br/>HK\$'000</b> |
|--|--------------|---|---|
| <b>NON-CURRENT ASSETS</b>                    |              |   |   |
| Fixed assets                                 | 8            | <b>7,243</b>  | 7,705   |
| <b>CURRENT ASSETS</b>                        |              |   |   |
| Inventories                                  |              | <b>11,187</b>   | 5,581   |
| Trade receivables                            | 9            | <b>144,762</b>  | 150,835   |
| Prepayment, deposits and other receivables   |              | <b>6,770</b>  | 1,608   |
| Pledged time deposits                        |              | <b>5,124</b>  | 7,705   |
| Cash and cash equivalents                    |              | <b>26,390</b>   | 35,060  |
|  |              | <b>194,233</b>  | 200,789   |
| <b>CURRENT LIABILITIES</b>                   |              |   |   |
| Trade and bills payables                     | 10           | <b>60,731</b>   | 71,816  |
| Tax payable                                  |              | <b>19,796</b>   | 18,305  |
| Other payables and accruals                  |              | <b>11,731</b>   | 16,079  |
| Finance lease payables                       |              | <b>336</b>  | 224   |
|  |              | <b>92,594</b>   | 106,424   |
| <b>NET CURRENT ASSETS</b>                    |              |   |   |
|  |              | <b>101,639</b>  | 94,365  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              |   |   |
|  |              | <b>108,882</b>  | 102,070   |
| <b>NON-CURRENT LIABILITIES</b>               |              |   |   |
| Finance lease payables                       |              | <b>536</b>  | 313   |
| Deferred tax                                 |              | <b>364</b>  | 364   |
|  |              | <b>900</b>  | 677   |
|  |              | <b>107,982</b>  | 101,393   |
| <b>CAPITAL AND RESERVES</b>                  |              |   |   |
| Issued capital                               | 11           | <b>20,000</b>   | 20,000  |
| Reserves                                     |              | <b>87,982</b>   | 81,393  |
|  |              | <b>107,982</b>  | 101,393   |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|   | <b>2002</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | <b>Six months ended</b><br><b>30 September</b><br>2001<br>(Unaudited)<br>HK\$'000 |
|---|--|---|
| Net cash outflow from operating activities                              | <b>(7,723)</b>                                       | (53,119)  |
| Net cash outflow from investing activities                              | <b>(834)</b>   | (14,643)  |
| Net cash inflow/(outflow) from financing activities                     | <b>(113)</b>   | 37,333  |
|   | <hr/>  | <hr/>   |
| Decrease in cash and cash equivalents                                   | <b>(8,670)</b>                                       | (30,429)  |
| Cash and cash equivalents at beginning of period                        | <b>35,060</b>  | (5,219)   |
|   | <hr/>  | <hr/>   |
| Cash and cash equivalents at end of period                              | <b><u>26,390</u></b>                                 | <b><u>(35,648)</u></b>  |
| <br>ANALYSIS OF BALANCES OF CASH AND<br>CASH EQUIVALENTS                |  |   |
| Cash and bank balances  | <b>26,390</b>  | 16,656  |
| Time deposits   | –  | 10,000  |
| Trust receipt loans with original maturity of<br>less than three months | –  | (62,304)  |
|   | <hr/>  | <hr/>   |
|   | <b><u>26,390</u></b>                                 | <b><u>(35,648)</u></b>  |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                     | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|-------------------------------------|-------------------------------------|---|--|--------------------------|
| At 1 April 2002 (Audited)           | 17,647                              | 3,156                                     | 60,590                                 | 81,393                   |
| Profit attributable to shareholders | –                                   | –   | 6,589                                  | 6,589                    |
| At 30 September 2002 (Unaudited)    | <u>17,647</u>                       | <u>3,156</u>                              | <u>67,179</u>                          | <u>87,982</u>            |
|                                     | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
| At 1 April 2001 (Audited)           | –                                   | 3,156                                     | 51,691                                 | 54,847                   |
| Issue of shares to the public       | 45,000                              | –   | –                                      | 45,000                   |
| Capitalisation issue                | (14,800)                            | –   | –                                      | (14,800)                 |
| Share issue expense                 | (12,553)                            | –   | –                                      | (12,553)                 |
| Profit attributable to shareholders | –                                   | –   | 16,992                                 | 16,992                   |
| At 30 September 2001 (Unaudited)    | <u>17,647</u>                       | <u>3,156</u>                              | <u>68,683</u>                          | <u>89,486</u>            |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 March 2002 except that the following new and revised SSAPs issued by the HKSA have been adopted for the first time in the preparation of the current periods' condensed consolidated financial statements.

These revised SSAPs prescribed new disclosure practices. The major effects of adopting these revised SSAPs are summarized as follows:

|                    |                                      |
|--------------------|--------------------------------------|
| SSAP 1 (revised):  | Presentation of Financial Statements |
| SSAP 15 (revised): | Cash Flow Statements                 |
| SSAP 34:           | Employee Benefits                    |

SSAP 1 (revised) prescribes 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 condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 15 (revised) prescribes the provision of information about the historical changes in cash and cash equivalents. The condensed consolidated cash flow statement for the current interim period and the comparative figures are presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has no major impact on these financial statements.

The adoption of the above revised and new SSAPs has no material effect on the amounts reported in prior years.

These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company (the "Committee") and were approved by the Board on 20 December 2002.

## 2. SEGMENTAL INFORMATION

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.

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

Intersegment sales and transfers are transacted at mutually agreed prices.



## 2. SEGMENTAL INFORMATION (Continued)

### (a) Business segments

The following tables present revenue and results for the Group's business segments.

|  | PU materials                    |                                 | PU foam and<br>related products |                                 | Eliminations                    |                                 | Consolidated                    |                                 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|  | Six months ended 30 September   |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
|  | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 |
| Segment revenue:   |                                 |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Sales to external customers                                      | 157,318                         | 248,757                         | 64,047                          | 55,828                          | -                               | -                               | 221,365                         | 304,585                         |
| Intersegment sales   | 30,193                          | 21,841                          | -                               | -                               | (30,193)                        | (21,841)                        | -                               | -                               |
| Total revenue  | <u>187,511</u>                  | <u>270,598</u>                  | <u>64,047</u>                   | <u>55,828</u>                   | <u>(30,193)</u>                 | <u>(21,841)</u>                 | <u>221,365</u>                  | <u>304,585</u>                  |
| Segment results  | <u>1,717</u>                    | <u>14,666</u>                   | <u>9,523</u>                    | <u>8,746</u>                    | <u>-</u>                        | <u>-</u>                        | <u>11,240</u>                   | <u>23,412</u>                   |
| Interest income  |                                 |                                 |                                 |                                 |                                 |                                 | 98                              | 479                             |
| Unallocated expenses   |                                 |                                 |                                 |                                 |                                 |                                 | (3,146)                         | (2,843)                         |
| Profit from operating activities                                 |                                 |                                 |                                 |                                 |                                 |                                 | 8,192                           | 21,048                          |
| Finance costs  |                                 |                                 |                                 |                                 |                                 |                                 | (89)                            | (675)                           |
| Profit before tax  |                                 |                                 |                                 |                                 |                                 |                                 | 8,103                           | 20,373                          |
| Tax  |                                 |                                 |                                 |                                 |                                 |                                 | (1,514)                         | (3,381)                         |
| Net profit from ordinary activities attributable to shareholders |                                 |                                 |                                 |                                 |                                 |                                 | <u>6,589</u>                    | <u>16,992</u>                   |

## 2. SEGMENTAL INFORMATION (Continued)

### (b) Geographical segments

The following tables present revenue and results for the Group's geographical segments.

|                             | PRC                                  |                                 | Hong Kong                       |                                 | Others                          |                                 | Consolidated                    |                                 |
|-----------------------------|--------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                             | 2002<br>(Unaudited)<br>HK\$'000      | 2001<br>(Unaudited)<br>HK\$'000 | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 | 2002<br>(Unaudited)<br>HK\$'000 | 2001<br>(Unaudited)<br>HK\$'000 |
|                             | <b>Six months ended 30 September</b> |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Segment revenue:            |                                      |                                 |                                 |                                 |                                 |                                 |                                 |                                 |
| Sales to external customers | <b>149,559</b>                       | 241,292                         | <b>63,230</b>                   | 54,537                          | <b>8,576</b>                    | 8,756                           | <b>221,365</b>                  | 304,585                         |
| Segment results             | <b>2,320</b>                         | 14,688                          | <b>7,854</b>                    | 7,116                           | <b>1,066</b>                    | 1,608                           | <b>11,240</b>                   | 23,412                          |

## 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

|                                  | <b>Six months ended<br/>30 September</b> |                                 |
|----------------------------------|--|---------------------------------|
|                                  | <b>2002<br/>(Unaudited)<br/>HK\$'000</b> | 2001<br>(Unaudited)<br>HK\$'000 |
| Depreciation                     | <b>1,225</b>                             | 604                             |
| Gain on disposal of subsidiaries | <b>(721)</b>                             | –                               |
| Interest income                  | <b>(98)</b>                              | (479)                           |

## 4. FINANCE COSTS

|  | <b>Six months ended<br/>30 September</b> |                                 |
|--|--|---------------------------------|
|  | <b>2002<br/>(Unaudited)<br/>HK\$'000</b> | 2001<br>(Unaudited)<br>HK\$'000 |
| Interest on:   |  |                                 |
| Trust receipt loans wholly repayable within five years | <b>56</b>                                | 643                             |
| Finance leases   | <b>33</b>                                | 32                              |
|  | <b>89</b>                                | 675                             |

## 5. TAX

|                           | <b>Six months ended<br/>30 September</b> |                                 |
|---------------------------|--|---------------------------------|
|                           | <b>2002<br/>(Unaudited)<br/>HK\$'000</b> | 2001<br>(Unaudited)<br>HK\$'000 |
| Current period provision: |  |                                 |
| Hong Kong                 | <b>549</b>                               | 1,189                           |
| Elsewhere                 | <b>965</b>                               | 2,192                           |
| Tax charge for the period | <b>1,514</b>                             | 3,381                           |

The Company and its subsidiaries are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which they operate, based on existing legislation, interpretations and practices thereof.

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong for the period.

Aotobao Home Furniture and Decorative (Shenzhen) Co. Ltd. ("Aotobao", 奧特寶家飾(深圳)有限公司), the Company's wholly-owned subsidiary established and operating in the People's Republic of China (the "PRC"), was exempted from the PRC corporate income tax for its first two profitable years of operations and is eligible for a 50% relief from the PRC corporate income tax for the following three years under the relevant tax law of the PRC. As Aotobao did not generate any assessable profits during the period, no PRC corporate income tax provision was made in respect thereof.

**5. TAX (Continued)**

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the period (2001: Nil).

**6. DIVIDEND**

The Directors resolved not to declare any dividend in respect of the six months ended 30 September 2002 (2001: Nil).

**7. EARNINGS PER SHARE**

The calculation of basic earnings per share for the six months ended 30 September 2002 was based on the Group's net profit from ordinary activities attributable to shareholders for the period of approximately HK\$6,589,000 (2001: HK\$16,992,000) and the weighted average of 200,000,000 (2001: 200,000,000) shares in issue during the period.

The diluted earnings per share for the periods ended 30 September 2001 and 2002 have not been presented as there were no potential dilutive ordinary shares in existence during either of the periods.

**8. FIXED ASSETS**

The changes in the net book value of fixed assets for the six months ended 30 September 2002 are analysed as follows:

|   |                 |
|---|-----------------|
|   | <i>HK\$'000</i> |
| At 1 April 2002 (Audited)                             | 7,705           |
| Additions   | 1,097           |
| Attributable to disposal of subsidiaries              | (1,003)         |
| Depreciation  | (1,225)         |
| Written back attributable to disposal of subsidiaries | 669             |
|   | <hr/>           |
| <b>At 30 September 2002 (Unaudited)</b>               | <b>7,243</b>    |

**9. TRADE RECEIVABLES**

The ages of the Group's trade receivables are analysed as follows:

|                      | <b>As at<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>31 March<br>2002<br>(Audited)<br>HK\$'000 |
|----------------------|---|--|
| Current to 30 days   | <b>45,087</b>   | 51,802   |
| 31 days to 90 days   | <b>58,055</b>   | 34,129   |
| 91 days to 180 days  | <b>41,620</b>   | 54,347   |
| 181 days to 360 days | <b>—</b>  | 10,557   |
|                      | <b>144,762</b>  | 150,835  |

**10. TRADE AND BILLS PAYABLES**

|                | <b>As at<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>31 March<br>2002<br>(Audited)<br>HK\$'000 |
|----------------|---|--|
| Trade payables | <b>51,690</b>   | 31,087   |
| Bills payables | <b>9,041</b>  | 40,729   |
|                | <b>60,731</b>   | 71,816   |

**10. TRADE AND BILLS PAYABLES** (Continued)

The ages of the Group's trade and bills payables are analysed as follows:

|                    | <b>As at<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>31 March<br>2002<br>(Audited)<br>HK\$'000 |
|--------------------|---|--|
| Current to 30 days | <b>27,825</b>   | 22,612   |
| 31 days to 90 days | <b>32,906</b>   | 49,204   |
|                    | <b>60,731</b>   | 71,816   |

**11. SHARE CAPITAL**

|   | <b>As at<br/>30 September<br/>2002<br/>(Unaudited)<br/>HK\$'000</b> | As at<br>31 March<br>2002<br>(Audited)<br>HK\$'000 |
|---|---|--|
| <i>Authorised:</i>  |   |  |
| 2,000,000,000 ordinary shares of HK\$0.10 each                      | <b>200,000</b>  | 200,000  |
| <i>Issued and fully paid:</i>                                       |   |  |
| 200,000,000 (2001: 200,000,000) ordinary shares<br>of HK\$0.10 each | <b>20,000</b>   | 20,000   |

**12. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS

The Group's unaudited consolidated turnover and net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2002 were approximately HK\$221 million and approximately HK\$6 million respectively, representing a decrease of approximately 27% and approximately 61% respectively as compared to the same period last year. The Group's gross profit margin decreased by approximately 3.4% as compared to the corresponding period last year.

The principal market of the Group remained the PRC which accounted for approximately 68% of the Group's turnover. Sales to Hong Kong and overseas market accounted for approximately 28% and 4% of the Group's turnover respectively.

### CHANGE OF THE COMPANY'S NAME

The name of the Company was changed from Luen Tai Group Limited to Minglun Group (Hong Kong) Limited with effect from 1 November 2002. The change of name was intended to better identify the change in controlling shareholder and management of the Company during the period under review.

### BUSINESS REVIEW

#### *Distribution business*

During the period under review, revenue from the distribution of PU materials was approximately HK\$157 million, down from approximately HK\$249 million of the same period last year. The distribution business contributed approximately HK\$2 million to the Group's profit from operating activities for the period, representing a decrease of approximately 88% in comparison to the corresponding period in 2001. The oversupply of the PU materials in the global market gave rise to a more intensified market competition that resulted in extra pressure on PU material prices and sales were achieved at the expenses of leaner margins. In view of the sluggish market sentiment, the management deliberately scaled down the Group's PU material trading in order to reduce the risk exposure in the gloomy environment. The Group has adopted a more selective approach in accepting PU trading orders by ensuring that these transactions will meet the minimum profit criteria.

**BUSINESS REVIEW** (continued)*Manufacturing business*

During the period under review, revenue and operating profit generated from the Group's manufacturing business during the period were approximately HK\$64 million (2001: HK\$56 million) and approximately HK\$10 million (2001: HK\$9 million) respectively. The worldwide economic recession had a substantial negative impact on the Group's manufacturing business and led to a price reduction pressure from the customers. However, the Group had adopted a series of measures to retain its profitability and strive for improvement in performance.

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2002, the Group held cash and bank balances of approximately HK\$26 million with no bank borrowings and available banking facilities of approximately HK\$42 million. HK\$5 million of the Group's assets was pledged to secure the bank borrowings and general banking facilities. As at 30 September 2002, the net book value of the Group's fixed assets held under finance leases amounted to approximately HK\$902,000. Finance lease payables of approximately HK\$336,000 were repayable within one year. The remaining finance lease payables of approximately HK\$536,000 were repayable within five years. The Group's borrowings are made in Hong Kong dollars and US dollars. The Group maintained a very low level of debts and a high liquidity. As at 30 September 2002, the Group had a current ratio of approximately 2.1 (2001: 2.0) and zero gearing ratio (2001: Nil) (defined as long term bank borrowings over shareholder's equity). 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.

**CONTINGENT LIABILITIES**

The Company had executed several guarantees, with unlimited limit, in favor of banks in respect of general banking facilities granted to certain subsidiaries. As at 30 September 2002, the subsidiaries had utilised approximately HK\$9 million of the facilities.

**INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002.



## MATERIAL ACQUISITIONS AND DISPOSALS

Pursuant to a conditional sale and purchase agreement dated 24 April 2002, the Group disposed of Luen Tai Component Limited together with its wholly-owned subsidiary, both of them being wholly-owned subsidiaries of the Company, to an independent third party at a consideration of HK\$200,000. The completion of the sale and purchase agreement is subject to, among other things, the due execution of instruments of transfer and the bought and sold notes. The transaction was completed in June 2002, resulting in no material gain or loss on disposal of these subsidiaries.

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

## EMPLOYEES

As at 30 September 2002, the total number of staff was 45. Salaries of employees were maintained at competitive level. The Group has encountered no problem with the recruitment of its employees. None of the companies in the Group has experienced any labor disputes during the period and the Directors of the Company consider that the Group has excellent employment relationship.

## OUTLOOK

Subsequent to the change of the controlling shareholder during the period, new directors have been appointed and the new directors of the Company will review in detail the financial position and operation of the Group and will formulate long-term business plans and management strategy for the business of the Group. They will explore other business opportunities and consider whether any asset disposals (including redeployment of fixed asset in the ordinary course of business), asset acquisitions, business rationalization, divertment and/or diversification will be appropriate in order to enhance the long term growth potential of the Group. Any acquisition or disposal will be made in accordance with the Listing Rules. However, at present no detailed plan has been formulated. With future emphasis being placed in business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth and help to restore a profit growth for the Group in the long run. The Group would then be in a better position to enhance the shareholder value going forward. Given the healthy financial position of the Group, the Directors believe that the Group is able to leverage the available opportunities to maximize returns for its shareholders.

**DISCLOSURE OF ADDITIONAL INFORMATION****DIRECTORS' INTERESTS IN SHARE CAPITAL**

As at 30 September 2002, the interests of the Directors and their associates in the issued share capital of the Company or its associated corporations (as defined in 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:

| <b>Name of Director</b> | <i>Note</i> | <b>Nature of interest</b> | <b>Number of ordinary shares held</b> |
|-------------------------|-------------|---------------------------|---------------------------------------|
| Mr. Zhou Yiming         | (i)         | Corporate                 | 161,310,000                           |

*Note:*

- (i) The 161,310,000 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 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.

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.

**DIRECTORS' INTERESTS IN SHARE CAPITAL** (continued)

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 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.

Save as disclosed above, none of the Directors, chief executives or their respective associates had any interest in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

**SUBSTANTIAL SHAREHOLDERS**

As at 30 September 2002, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, other than the Directors of the Company, the following persons had an interest in 10% or more of the issued share capital of the Company:

| <b>Name</b>                       | <i>Note</i> | <b>Number of issued shares held</b> | <b>Percentage of holding</b> |
|-----------------------------------|-------------|-------------------------------------|------------------------------|
| Chance Profit Investments Limited | (i)         | 161,310,000                         | 80.655%                      |

*Note:*

- (i) The 161,310,000 shares are wholly and beneficially owned by Mr. Zhou Yiming.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company which was required to be recorded under Section 16(1) of the SDI Ordinance as at 30 September 2002.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the period 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**

In the Company's special general meeting held on 1 November 2002, an ordinary resolution was passed by the Company's shareholders for adoption of a new share option scheme (which is complied with amended Chapter 17 of the Listing Rules) and termination of the Company's share option scheme adopted on 26 March 2001. No share options have been granted by the Company under both of the above-mentioned share option schemes.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period and up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **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, 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 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

All the former independent non-executive directors resigned on 28 October 2002 and the audit committee which comprised the former independent non-executive directors was dismissed. Simultaneously, the current independent directors were appointed and a new audit committee (the "New Audit Committee") was established on 28 October 2002, comprising two current independent non-executive directors of the Company. The New Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2002.

By Order of the Board

**Zhou Yiming**

*Chairman*

Hong Kong, 20 December 2002