

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 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	<u>520,857</u>	<u>518,281</u>	<u>670,180</u>	<u>483,605</u>	<u>306,242</u>
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	<u>8,549</u>	<u>8,899</u>	<u>42,060</u>	<u>29,436</u>	<u>20,211</u>

REPORT OF THE DIRECTORS (continued)

SUMMARY FINANCIAL INFORMATION (continued)

Assets and Liabilities

	Year ended 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 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.

REPORT OF THE DIRECTORS *(continued)*

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.

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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.

REPORT OF THE DIRECTORS *(continued)*

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. Liao 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:

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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.

REPORT OF THE DIRECTORS *(continued)*

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.

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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