

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

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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.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

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.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

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.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

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.

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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	<u>402,897</u>	<u>381,955</u>	<u>101,473</u>	<u>117,712</u>	<u>16,487</u>	<u>18,614</u>	<u>520,857</u>	<u>518,281</u>
Segment results*	<u>6,722</u>	<u>6,121</u>	<u>4,554</u>	<u>7,243</u>	<u>913</u>	<u>1,610</u>	<u>12,189</u>	<u>14,974</u>
Other segment information:								
Segment assets	<u>144,203</u>	<u>138,284</u>	<u>96,379</u>	<u>69,686</u>	<u>1,266</u>	<u>1,327</u>	<u>241,848</u>	<u>209,297</u>
Capital expenditure	<u>4,789</u>	<u>7,001</u>	<u>1,891</u>	<u>468</u>	<u>-</u>	<u>-</u>	<u>6,680</u>	<u>7,469</u>

* 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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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
<u>Turnover</u>		
<i>Continuing:</i>		
Sale of goods	418,688	404,677
<i>Discontinued:</i>		
Sale of goods	102,169	113,604
	520,857	518,281
<u>Other revenue</u>		
<i>Continuing:</i>		
Bank interest income	153	860
Others	230	144
	383	1,004
<i>Discontinued:</i>		
Bank interest income	4	64
Others	1,070	145
	1,074	209
	1,457	1,213
	522,314	519,494

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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	<u>20</u>	<u>–</u>
Other emoluments		
Basic salaries, housing benefits, other allowances and benefits in kind	1,100	1,237
Mandatory provident fund scheme contributions	<u>26</u>	<u>36</u>
	<u>1,126</u>	<u>1,273</u>
	<u>1,146</u>	<u>1,273</u>

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	1,224	780
Mandatory provident fund contributions	29	24
	<u>1,253</u>	<u>804</u>

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.

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9. FINANCE COSTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Trust receipt loans wholly repayable within five years	54	746
Finance leases	84	65
	<u>138</u>	<u>811</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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
	<hr/>	<hr/>
Tax charge for the year	<u>2,179</u>	<u>1,666</u>

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

14. FIXED ASSETS

Group	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total 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).

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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)
	<u>91,067</u>	<u>91,052</u>

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:

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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

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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		Principal activities
			Direct	Indirect	
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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	–	3,048
Work in progress	–	1,768
Finished goods	<u>8,526</u>	<u>765</u>
	<u>8,526</u>	<u>5,581</u>

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	<u>157,677</u>	<u>150,835</u>

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>157,677</u>	<u>150,835</u>

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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	<u>18,616</u>	<u>–</u>

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	<u>53,892</u>	<u>40,729</u>
	<u>99,474</u>	<u>71,816</u>

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	<u>44,456</u>	<u>49,204</u>
	<u>99,474</u>	<u>71,816</u>

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 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

	2003	Group
	HK\$'000	2002
		HK\$'000
At beginning of year	364	246
Charge for the year (Note 10)	–	118
Attributable to disposal of subsidiaries	(281)	–
	<u>83</u>	<u>364</u>

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	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
200,000,000 ordinary shares of HK\$0.10 each	<u>20,000</u>	<u>20,000</u>

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

NOTES TO FINANCIAL STATEMENTS *(continued)*

31 March 2003 (in HK Dollars)

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			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\$
		Granted during the year	Exercised during the year	Lapsed during the year					
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
		<u>18,400,000</u>	<u>-</u>	<u>-</u>	<u>18,400,000</u>				

* 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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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.

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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 HK\$'000	2002 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)	–
	<u>13,227</u>	<u>–</u>
Net assets	13,227	–
Gain on disposal of subsidiaries	1,973	–
	<u>15,200</u>	<u>–</u>
Satisfied by:		
Cash consideration received	<u>15,200</u>	<u>–</u>
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)	–
	<u>4,897</u>	<u>–</u>

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).

NOTES TO FINANCIAL STATEMENTS (continued)

31 March 2003 (in HK Dollars)

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	633	610
In the second to fifth years, inclusive	72	300
	<u>705</u>	<u>910</u>

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	Group	
			2003	2002
			<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>103</u>	<u>–</u>

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

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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.