Prosperity International Holdings (H.K.) Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2002

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This report, for which the directors of Prosperity International Holdings (H.K.) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Prosperity International Holdings (H.K.) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Wong Ben Koon

Executive Directors
Wong Ben Koon
Ng Hon Fai
Hon Ching Fong

Independent non-executive Directors
Mo Kwok Choi
Yuen Kim Hung, Michael

COMPANY SECRETARY

Tok Beng Tiong

QUALIFIED ACCOUNTANT

Tok Beng Tiong

COMPLIANCE OFFICER

Wong Ben Koon

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

4th Floor
Prosperity Industrial Building
89 Wai Yip Street
Kwun Tong
Kowloon
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICES

Principal registrar
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Branch registrar
Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

AUTHORISED REPRESENTATIVES

Wong Ben Koon
Ng Hon Fai

AUDIT COMMITTEE

Mo Kwok Choi
Yuen Kim Hung, Michael

LEGAL ADVISER TO THE COMPANY

Sidley Austin Brown & Wood

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China Fangcun Branch
Taiwan Business Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

The year under review was marked by continued and intensive competition from both domestic and overseas suppliers in major markets in China. Prosperity International Holdings (H.K.) Limited and its subsidiaries (collectively the "Group"), however, decided against becoming embroiled in a price war in the coming year as that would not only impact negatively on the profit margin but also hinder the longer term goals.

Nevertheless, the Group did feel it prudent to execute a new pricing strategy to help increase revenue by the end of next year. Instead of a full range price cut, it was decided to select a few items and make them the target of periodical trade promotion exercises. At the same time, a mechanism was installed to allow negotiation on prices for any large and unique projects. Additionally, it was decided to offer customers attractive prices for some of the Group's best-selling products to increase sales and induce customers to purchase other Group products.

In maintaining its leading edge position in the market, the Group decided to expand the market base and to raise the Group's profile at important trade fairs. Other measures included the introduction of new and improved products, and also streamlining operating costs by achieving greater efficiencies at the factory in the People's Republic of China ("PRC"). To keep tight control over production costs, the Group will continue to carefully monitor overheads and also add new sourcing channels for materials. As a result of these activities, the Group should see better business returns in the years to come.

The Group fully intends to leverage its position as one of the three largest manufacturers of decorative sheets in the PRC and to aggressively exploit all business opportunities there. For example, to capture more domestic customers, the Group will commence to build chain stores in strategic locations in the PRC. To date, the Group has concluded negotiations with business partners in Beijing and Humen, and is in negotiation with other partners in Shenyang, Tianjin, Shanghai, Guangzhou, and Shenzhen.

The Group will also continue to expand the sector in the knowledge that this will deflect the impact of intense competition and price cutting in any one area. Up to now, sales to new customers in Taiwan, South Korea, the Philippines, and Indonesia have been encouraging. The Group will continue to expand its business horizons and earnestly seek new business in Asia-Pacific and the Middle East.

Additions have been made to the management team. The Group will also continue research and development into new and improved decorative sheets and seek to continually increase its range of high quality products. With these additional strengths, the Group is well equipped to navigate any uncertain waters that might be ahead and fully expects business to improve in the near future.

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude to our shareholders for their continuous support and to our management and staff for their dedication and contribution in the past year.

WONG BEN KOON
Chairman

Hong Kong
25 June 2002

BUSINESS REVIEW

Prosperity International Holdings (H.K.) Limited (the "Company") listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 2 August 2001. During the year under review, the Group continued to engage in the manufacture and trading of decorative sheets, formally known as high pressure laminates. These were sold under the Group's own brand names, "Pearl" and "Waika". These brands catered to demand in the low-end and middle-end market and the high-end market respectively. The Group's high pressure laminates can be widely used for interior design, musical instruments, or the manufacture of furniture and are classified in the following three categories:

1. Standard high pressure laminates made of paper and featuring an extensive design range and colour palette which evolves with trends in the market.

2. Metal foil high pressure laminates that have all properties of the standard variety except that the surface is made of very thin aluminium foil.

3. Postforming grade high pressure laminates that are produced by the same manufacturing process as the standard variety but using a special resin so they can be thermoformed and bent into different shapes and forms.

The Group experienced a fall in turnover and gross profits as a direct result of intensive competition in the southern part of China, especially in Guangdong province. As domestic suppliers wanted to expand their market share, they sold their products with very slim margins. Further, the Group believes there may have been some instances of illegal copying of its products. The Group will look further into this matter.

In response, the Group actively focused its resources to maintain and improve its position and counter the aggressive price moves made by competitors. New advertising and promotional materials were initiated – including the installation of display panels at Points of Purchase – and additional sales and marketing personnel were recruited to effectively promote post-forming grade high pressure laminates under the 'Waika' brand name.

In September 2001, the Group also successfully launched compact laminates made of kraft paper which is an excellent substitute for wood. In addition, all of the Group's laminates are water, fire and heat resistant and can be used to partition toilets, lockers, and work spaces in offices. The market response was excellent, and subsequent sales contributed greatly to the gross profit.

During the year, the Group sought to further expand its sales operations in Zhejiang and Jiangsu provinces. In addition, new customers were found in Taiwan, South Korea, the Philippines, and Indonesia and those customers bought products regularly from the Group. This larger footprint will serve the Group well in the future and aid in deflecting the impact of intense competition in any one market.

In August 2001, in order to build up the brand and develop new business opportunities, the Group actively participated in trade exhibitions in Guangzhou. The Group also attended a four-day International Home Furniture Expo in March 2002. As a result, the Group established valuable contacts in the PRC and intends to follow up and develop those leads.

Acting in a prudent but positive manner, the Group sought ways to improve the long term competitiveness of its products and to maintain its market position. Following an intensive and probing internal review, new senior appointments were made, including in March, two experienced engineers; another new appointment, a head of production, was also made in March. These appointments greatly enhance the Group's management strength.

The Group was satisfied that all necessary measures were in place to pave the way for better business in the years ahead.

FINANCIAL REVIEW

Results

During the year under review, the Group posted a turnover of HK$109.6 million, representing a decrease of approximately 20% compared with the previous year. The Group recorded a gross profit of approximately HK$25.1 million as compared to a gross profit of HK$41.5 million for the same period last year. Net profit attributable to shareholders for the year was HK$1.6 million as compared to that of the preceding year of approximately HK$18.0 million.

The decrease of net profit attributable to shareholders was mainly due to the intense price competition with domestic suppliers in Guangdong province and increased supply of high pressure laminates from other provinces and overseas. As a result of these factors, prices of a wide range of high pressure laminates fell drastically as compared to last year.

The selling expenses incurred during the year ended 31st March 2002 increased by approximately HK$0.7 million. The increase was due to our sales and marketing efforts on new products namely post-forming high pressure laminates and compact laminates.

The Group's administrative expenses increased by approximately HK$3.7 million and this was mainly due to the increase in professional fees following the listing of the Company's shares on GEM.

Since September 2000, the Group has relied on one of its subsidiaries to procure decorative papers (a raw material for the production of high pressure laminates) from overseas suppliers to Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS") directly, instead of outsourcing from other independent suppliers. To finance those purchases, the subsidiary obtained new banking facilities and additional finance costs were incurred accordingly.

Outlook

As a result of its experience throughout the year, the Group determined to take positive steps to enhance the position of its products in the marketplace. Those measures included:

1. An upgrade to the surface quality of products.

2. Issue certificates of guarantee to customers, for both premium and standard quality products, stating the model, batch number, inspection details and relevant technical data.

3. Improve the packing for both domestic and overseas customers requiring multiple handling.

4. Implement a Korean resin formulation for the post-forming high pressure laminates.

5. Execute a new pricing strategy to help increase revenue by the end of next year. But rather than a full range product price cut, to select a few items for periodical trade promotion and to negotiate prices for special projects. There will also be introductory price cuts on best-selling items for new customers to increase sales and induces them to purchase other group products.

6. Carry out research and development into acid- and alkaline-resistant high pressure laminates in order to cater to a new market segment.

In the coming year, the Company will continue to spend its best efforts to strengthening its position as a reliable supplier of quality decorative sheets. This will be achieved through various marketing strategies including the publication of a new product catalogue in August 2002 and continued participation in top exhibitions (e.g. 18th SASMIL in Milan in May 2002). The Group will also explore new business opportunities and develop new designs and colour palettes suitable for the surfaces of its decorative sheets.

To capture more domestic customers, the Group will commence to build chain stores in strategic locations in the PRC. To that end, the Group has concluded negotiations with business partners in Beijing and Humen, and is in negotiation with other partners in Shenyang, Tianjin, Shanghai, Guangzhou, and Shenzhen.

For the longer term benefit, the Group will use efficient sales channels and seek to continue to expand the market. The Group will also carefully monitor overheads and add new sourcing channels for materials to keep tight control over production costs.

In terms of production capacity, the Group is one of the three largest manufacturers of domestic decorative sheets in the PRC and its large-scale production lines turn out high quality and reliable decorative sheets that are competitively priced. As one of the market leaders in the PRC, the Group intends to leverage its position and exploit every opportunity arising from the hosting of Olympic games in the PRC and PRC's accession into the WTO.

In addition to the PRC and Hong Kong, the Group intends to actively explore new markets and business opportunities throughout the Asia-Pacific region.

Financial Resources, Liquidity And Gearing Ratio

The Group generally finances its operations and meet its debts with cash generated from its operations and banking facilities provided by its principal bankers. As at 31 March 2002, the Group had cash of approximately HK$1.8 million and bank loans of approximately HK$48.7 million. The total borrowing facilities of the Group amounted to approximately HK$68 million and it has been utilised approximately HK$59 million as at 31 March 2002. The interest rates for the bank borrowings of the Group are at market rate. According to the directors, the Group has adequate financial resources to meet its ongoing operations.

As at 31 March 2002, the net current assets of the Group amounted to approximately HK$17.2 million which represents 28% of the shareholder's equity.

The Group's gearing ratio measured in terms of total borrowings divided by total assets, was 37% as at 31 March 2002 (2001: 39%).

Foreign Exchange

During the year under review, the Group used the internally generated funds and bank loans to pay its suppliers and meet its capital requirements. These are normally denominated in RMB, Euro, HK$ or US$. The Group does not currently engage in hedging any currency risk, as it consider its cost associated with such hedging arrangements would exceed the benefits. However, management will continue to monitor the relevant circumstances and will take such measure as it deems prudent.

Significant Investments And Acquisitions

During the year ended 31 March 2002, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

Contingent Liabilities

As at 31 March 2002, the Group did not have any significant contingent liabilities (2001: nil).

Details on the contingent liabilities are set out in note 28 to the financial statements.

Charge on Group Assets

Details on the charge on Group Assets are set out in note 21 to the financial statements.

Employee

As at 31 March 2002, the Group had a total of 382 staff of which 372 are based in the PRC and 10 are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	PRC	Hong Kong	Total
Management	5	4	9
Sales & marketing	25	1	26
Purchase & supplies	5	–	5
Production & quality control	327	–	327
Research and development	5	–	5
Finance and administration	5	5	10
	372	10	382

The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

DIRECTORS

Executive Directors

Mr. WONG Ben Koon, aged 49, is one of the co-founders of the Group and chairman of the Group. Mr. Wong is responsible for the overall marketing, management and strategic planning of the Group. He is also the compliance officer of the Company. He has over 7 years' experience in the manufacture and trading of decorative sheets.

Mr. NG Hon Fai, aged 42, is one of the co-founders of the Group and an executive Director of the Group. Mr. Ng is responsible for the marketing and daily operation of the production facilities of the Group. He has over 7 years' experience in the management and sale of decorative sheets.

Madam HON Ching Fong, aged 54, is an executive Director of the Group. Madam Hon is responsible for the Group's human resources management and administration. She joined the Group as a director in July 1997.

Independent Non-executive Directors

Mr. MO Kwok Choi, aged 67, was appointed an independent non-executive director in October 2000. Mr. Mo had served as General Manager of Nanjing Iron & Steel Group Import and Export Group Limited from 1984 to 1999. Mr. Mo has extensive experience in business management.

Mr. YUEN Kim Hung, Michael, aged 41, was appointed as an independent non-executive director in January 2002. He is a member of the Hong Kong Society of Accountants, fellow member of the Association of Chartered Certified Association and a member of Certified General Accountants Association of Ontario. He has over 10 years of experience in auditing, tax and accounting field.

SENIOR MANAGEMENT

Mr. CHEUNG Sui Sing, aged 48, is the General Manager of the Group and a director of GXDS. He has over 14 years extensive experience in management and business development in the PRC. Before joining the Group in October 1998 as a director of GXDS, he was responsible for business development for the PRC market in Colgate Palmolive for 2 years.

Mr. HONG Cheng Zhang, aged 41, is the Deputy General Manager of the Group and a director of GXDS. He is in charge of the finance and administration department in GXDS. Before joining the Group in November 1998, he was a Branch Manager of the Industrial and Commercial Bank of China in the PRC. He has over 20 years experience in the field of finance and banking. Mr. Hong was educated in Ji Nan University in 1993, majoring in finance.

Mr. TOK Beng Tiong, aged 31, joined the Company in December 2001 and he is the qualified accountant and secretary of the Company. Mr. Tok is primarily responsible for overseeing the accounting and financial affairs of the Company. He holds a bachelor degree in Commerce majoring in accounting from University Of New South Wales, Australia and he is also a member of the CPA, Australia. He has extensive local and overseas experience in financial and general management.

Mr. KE Mei Hai, aged 37, joined the Group in September 1999 as an accounting manager of GXDS. He holds a degree of finance and accounting from Zhongnan University of Economics and Finance in China. Mr. Ke is a Certified Public Accountant of China since October 1994.

USE OF PROCEEDS FROM THE GROUP'S INITIAL PUBLIC OFFERING ("IPO")

The net proceeds raised from the Group's IPO on the GEM board of the Stock Exchange of Hong Kong, after deduction of related expenses pursuant to the IPO, were HK$15 million only. The net proceeds were applied during the year ended 31 March 2002 as follows:

	Intended use of net proceeds as set out in the Prospectus	**Actual use of net proceeds as of 31 March 2002**
	HK$ million	HK$ million
Purchase of production facilities	10.5	9.6
Purchase of land & building	8.0	5.2
Marketing and sales	1.8	0.2
Working capital	1.6	NIL
Total	21.9	15

COMPARISON OF BUSINESS PROGRESS

Business Objectives as set out in the Prospectus	Actual Business Progress for the Year
A. Sales	
To obtain 17 new customers	The Group obtained 13 new customers instead of 17 due to adverse market conditions
To develop 40 new colours or patterns	Manufactured and sold 41 new colours or patterns
B. Market expansion	
To expand the sales team and develop the domestic markets in four cities located in Jiangsu, Zhejiang, Liaoning and Shandong provinces in the PRC	The Group successfully entered the market in Zhejiang and Jiangsu provinces
To continue the overseas market expansion and seek suitable distribution agency in Asia-Pacific region	The Group obtained new customers in Taiwan, South Korea, the Philippines and Indonesia and will continue to develop a wider distribution network in Asia-Pacific region

To promote the product brand names through advertisement in newspapers published in major cities in the PRC	The Group promoted product brand names through organizing exhibitions instead of advertisements

C. Production capacity (no. of pieces)

Target to produce 3,420,000 pieces	Actual production was slightly lower than the target of approximately 2,890,000 pieces of decorative sheets produced due to intensified price competition in Guangdong province and increased market activity by both domestic and overseas suppliers
To commence the installation of the fifth production line mainly manufacturing the 5 feet x 12 feet size decorative sheets	Due to intense price competition and market uncertainty, the Group decided to defer the installation of the fifth production line

D. Synergetic integration and investment

To finish the feasibility study on a business venture to manufacture decorative paper and to commence the establishment of the decorative paper factory if the business venture is confirmed	Due to the market uncertainty, both the potential partner and the Group have agreed to terminate the feasibility study on the business venture to manufacture decorative paper
To explore the opportunities of synergetic integration business and investment	The Group remained keen on exploring the opportunities of synergetic integration business and investment

E. Research and development

To finish the research and development on the technology and resin mixture of impregnating aluminium foil to form decorative paper	The Group has successfully completed research on aluminium-foil decorative sheets and introduced them to the market
To conduct research and development on new products and partially finished product	The Group has successfully manufactured compact laminates and introduced them to the market
To send staff to relevant exhibitions and conferences to obtain the latest knowledge and technology in the decorative sheet industry	The Group participated in two national exhibitions held in Guangzhou in August 2001 and March 2002

F. Human Resources (no. of staff)

	Planned as at 31.3.2002	Actual as at 31.3.2002
Sales and marketing	20	26
Research and development	5	5
Finance and administration	10	10
Production	330	332
Management	9	9
Total headcount	374	382

REPORT OF THE DIRECTORS

The directors herein present their first annual report and the audited financial statements of the Company and of the Group for the year ended 31 March 2002.

The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 August 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

The Group's turnover and contribution to results are mainly derived from manufacture and trading of decorative sheets, comprising high pressure laminates to customers located in the People's Republic of China (the "PRC") for the two years ended 31 March 2002.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 54.

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2002.

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the published results of the Group for the three years ended 31 March 2002 and the assets, liabilities and minority interests of the Group as at 31 March 2001 and 2002 prepared on the basis set out in notes 1 and 2 below.

	Year ended 31 March		
	2002	2001	2000
	HK$'000	HK$'000	HK$'000
RESULTS			
Turnover	**109,576**	137,589	115,812
Profit before tax	**2,866**	24,935	19,676
Tax	**(1,065)**	(4,688)	(2,875)
Profit before minority interests	**1,801**	20,247	16,801
Minority interests	**(160)**	(2,203)	(1,528)
Net profit from ordinary activities attributable to shareholders	**1,641**	18,044	15,273

	As at 31 March	
	2002	2001
	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS		
Fixed assets	**84,171**	67,282
Long term deposits	**1,476**	1,783
Net current assets	**17,229**	24,164
Non-current liabilities	**(35,056)**	(48,245)
Minority interests	**(7,200)**	(6,437)
	60,620	38,547

Notes:

1. The summary of the combined results of the Group for each of the two years ended 31 March 2001 has been extracted from the Company's prospectus dated 24 July 2001 (the "Prospectus"). The summary of the combined results of the Group includes the results of the Company and its subsidiaries as if the Group structure as set out in the Prospectus had been in existence throughout the two years ended 31 March 2001.

2. The only consolidated balance sheets that have been prepared to date are those as at 31 March 2001 and 2002.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda 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

Other than in connection with the Company's initial public offering as detailed in note 23 to the financial statements, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$37,542,000, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the balance in the share premium account of HK$10,400,000 at 31 March 2002 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 42% of the total sales for the year and sales to the largest customer included therein amounted to 15%.

The purchases attributable to the five largest suppliers of the Group accounted for 60% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

None of the directors of the Company or any of their associates, or any of the shareholders of the Company which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Mr. Wong Ben Koon	(appointed on 12 October 2000)
Mr. Ng Hon Fai	(appointed on 12 October 2000)
Madam Hon Ching Fong	(appointed on 12 October 2000)

Independent non-executive directors:

Mr. Mo Kwok Choi	(appointed on 12 October 2000)
Mr. Chen Guowei	(appointed on 12 October 2000, and resigned on 18 December 2001)
Mr. Yuen Kim Hung, Michael	(appointed on 9 January 2002)

In accordance with the Company's bye-law, Mr. Ng Hon Fai and Mr. Yuen Kim Hung, Michael will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the Company's annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company commencing from 1 July 2001, which will continue thereafter until terminated by not less than three months notice given by either party to the other. Such notice may only be given at any time on or after the second anniversary of the commencement date of the service contract.

Apart from the foregoing, 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 4 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, or any of its holding companies and subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

		Number of shares	
	Corporate interest	**Personal interest**	**Total interest**
(A) The Company			
Mr. Wong Ben Koon (note 1)	319,680,000	–	319,680,000
Madam Hon Ching Fong (note 1)	319,680,000	–	319,680,000
(B) Xingda Decorative Sheets Company Limited			
Mr. Wong Ben Koon (note 2)	–	3,118,125	3,118,125
Mr. Ng Hon Fai (note 2)	–	3,118,125	3,118,125

Notes:

1. Mr. Wong Ben Koon and Madam Hon Ching Fong are interested in these shares through their interests in Well Success Group Limited ("Well Success"), which is owned as to 20.8% by Mr. Wong Ben Koon and 20.8% by Madam Hon Ching Fong and 58.4% by Advance Success Limited. Advance Success Limited is equally owned by Mr. Wong Ben Koon and Madam Hon Ching Fong.

2. Mr. Wong Ben Koon and Mr. Ng Hon Fai are the registered and beneficial owners of 3,118,125 and 3,118,125 deferred shares, respectively, of HK$1.00 each in Xingda Decorative Sheets Company Limited ("Xingda"), which is a wholly-owned subsidiary of the Company. In addition, Mr. Wong Ben Koon also has non-beneficial personal equity interest in Xingda held for the benefit of the Group.

Save as disclosed above, as at the balance sheet date, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as recorded in the register required to be kept under Section 20 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities (the "Listing Rules") on GEM of the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of recognising the significant contributions of the employees of the Group's to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible employees of the Scheme include any employees of the Company and its subsidiaries, including any executive directors of the Group. The Scheme was adopted on 18 July 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. These share options are exercisable at any time for a period from the commencement date and expiring on the last day of the period to be determined by the board of directors, or the 10th anniversary of the Scheme's adoption date on 18 July 2001, whichever is the earlier.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. No eligible participant of the Scheme shall be granted an aggregate number of share option which exceed 25% of the aggregate number of shares issued and issuable under the Scheme.

The offer of a grant of share options may be accepted in writing within 3 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors, and commences after a certain vesting period which must not be less than 3 years and not more than 10 years from the date of grant of the share options granted or the expiry date of the Scheme, if earlier.

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

SHARE OPTION SCHEME *(continued)*

Pursuant to the amendments to Chapter 23 of the Listing Rules (the "New Rules"), any options granted after 1 October 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to other eligible participants in future, a new share option scheme in compliance with the New Rules is required to be approved and adopted by the shareholders of the Company in a general meeting.

As at the balance sheet date and up to the date of this report, no share options had been granted under the Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, so far as the directors were aware of, the following shareholder had an interest of more than 10% of the nominal value of the Company's issued share capital:

Name	Number of shares held	Shareholding
Well Success Group Limited	319,680,000	66.6%

Well Success is beneficially owned as to 20.8% by Mr. Wong Ben Koon, 20.8% by Madam Hon Ching Fong and 58.4% by Advance Success Limited. Advance Success Limited is equally owned by Mr. Wong Ben Koon and Madam Hon Ching Fong.

Save as disclosed above, the directors are not aware of any person holding 10% or more of the issued share capital of the Company at the balance sheet date which was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the Listing Rules since the listing of the Company's shares on GEM on 2 August 2001.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 18 July 2001, with written terms of reference in compliance with the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors of the Company. During the year, the Committee met three times to review and supervise the financial reporting process, and to provide advices and recommendations to the board of directors. The financial statements of the Group for the year ended 31 March 2002 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

SPONSORS' INTERESTS

The Company's sponsor, Oriental Patron Asia Limited (the "Sponsor"), its respective directors, employees and associates, as at 31 March 2002, did not have any interest in the securities of the Company or of any member of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to the agreement dated 23 July 2001 entered into between the Company and the Sponsor, the Sponsor received, and will receive, fees for listing of the Company's shares and for acting as the Company's retained sponsor for the period from 2 August 2001 to 31 March 2004.

CHANGE OF COMPANY SECRETARY

Mr. Tsui Chun Kuen (Mr. Tsui) resigned as the company secretary of the Company, and Mr. Tok Beng Tiong (Mr. Tok) was appointed as the company secretary of the Company, both with effect from 1 December 2001.

CHANGE OF QUALIFIED ACCOUNTANT

Mr. Tsui resigned as the qualified accountant of the Company, and Mr. Tok was appointed as the qualified accountant of the Company, both with effect from 1 December 2001.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wong Ben Koon
Chairman

Hong Kong
25 June 2002

Ernst & Young
安永會計師事務所

To the members
Prosperity International Holdings (H.K.) Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
25 June 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2002

	Notes	2002 HK$'000	2001 HK$'000
TURNOVER	5	**109,576**	137,589
Cost of sales		**(84,486)**	(96,089)
Gross profit		**25,090**	41,500
Other revenue		**576**	569
Selling and distribution costs		**(3,085)**	(2,432)
Administrative expenses		**(15,547)**	(11,810)
PROFIT FROM OPERATING ACTIVITIES	7	**7,034**	27,827
Finance costs	8	**(4,168)**	(2,892)
PROFIT BEFORE TAX		**2,866**	24,935
Tax	11	**(1,065)**	(4,688)
PROFIT BEFORE MINORITY INTERESTS		**1,801**	20,247
Minority interests		**(160)**	(2,203)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	**1,641**	18,044
DIVIDENDS	13	**–**	17,700
EARNINGS PER SHARE	14		
– Basic		**HK0.37 cent**	HK5.01 cents
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 March 2002

	Note	2002 HK$'000	2001 HK$'000
Surplus on revaluation of leasehold land and buildings	24	**5,432**	20,823
Net profit for the year attributable to shareholders	24	**1,641**	18,044
Total recognised gains and losses		**7,073**	38,867

CONSOLIDATED BALANCE SHEET

31 March 2002

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	**84,171**	67,282
Long term deposits	16	**1,476**	1,783
		85,647	69,065
CURRENT ASSETS			
Inventories	18	**37,510**	43,073
Accounts receivable	19	**23,384**	14,489
Prepayments, deposits and other receivables		**2,446**	6,838
Cash and bank balances		**1,794**	820
Pledged bank deposits	21	**1,000**	2,663
		66,134	67,883
CURRENT LIABILITIES			
Accounts and bills payable	20	**13,771**	13,270
Tax payable		**10,450**	10,315
Accrued liabilities and other payables		**3,867**	6,400
Interest-bearing bank loans, secured	21	**16,022**	2,340
Interest-bearing other loans	21	**–**	4,673
Trust receipt loans	21	**2,768**	6,721
Current portion of finance lease payables	22	**2,027**	–
		48,905	43,719
NET CURRENT ASSETS		**17,229**	24,164
TOTAL ASSETS LESS CURRENT LIABILITIES		**102,876**	93,229
NON-CURRENT LIABILITIES			
Long term payables		**–**	8,058
Interest-bearing bank loans, secured	21	**32,692**	40,187
Finance lease payables	22	**2,364**	–
		35,056	48,245
MINORITY INTERESTS		**7,200**	6,437
		60,620	38,547
CAPITAL AND RESERVES			
Issued capital	23	**4,800**	200
Reserves	24	**55,820**	38,347
		60,620	38,547

Wong Ben Koon
Director

Ng Hon Fai
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2002

	Notes	2002 HK$'000	2001 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25(a)	**4,184**	20,610
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**43**	288
Interest paid		**(3,855)**	(2,892)
Interest element on finance lease rental payments		**(313)**	–
Dividend paid		**–**	(17,700)
Dividend paid to a minority equity holder		**–**	(1,650)
Net cash outflow from returns on investments and servicing of finance		**(4,125)**	(21,954)
TAX			
Overseas taxes paid		**(930)**	(270)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(16,770)**	(11,754)
Release of pledged/(pledge of) bank deposits		**1,663**	(2,663)
Net cash outflow from investing activities		**(15,107)**	(14,417)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(15,978)**	(16,031)
FINANCING ACTIVITIES	25(b)		
Draw down of bank loans		**6,187**	2,340
Repayment of other loans		**(4,673)**	–
Cash inflow from sales and leaseback transaction		**6,080**	–
Capital element of finance lease rental payments		**(1,689)**	–
Capital contribution from minority equity holder		**–**	590
Issue of share capital		**30,000**	–
Share issue expenses		**(15,000)**	–
Net cash inflow from financing activities		**20,905**	2,930
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,927**	(13,101)
Cash and cash equivalents at beginning of year		**(5,901)**	7,200
CASH AND CASH EQUIVALENTS AT END OF YEAR		**(974)**	(5,901)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,794**	820
Trust receipt loans with original maturity of less than three months from date of advance		**(2,768)**	(6,721)
		(974)	(5,901)

	Notes	2002 HK$'000	2001 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	**15**	–
Investment in subsidiaries	17	**38,542**	38,542
		38,557	38,542
CURRENT ASSETS			
Cash and bank balances		**5**	10
Prepayments and deposits		**540**	–
Due from subsidiaries	17	**14,644**	10
		15,189	20
CURRENT LIABILITIES			
Accrued liabilities		**1,004**	–
Due to a subsidiary	17	**–**	15
		1,004	15
NET CURRENT ASSETS		**14,185**	5
		52,742	38,547
CAPITAL AND RESERVES			
Issued capital	23	**4,800**	200
Reserves	24	**47,942**	38,347
		52,742	38,547

Wong Ben Koon
Director

Ng Hon Fai
Director

1. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

The registered office of the Company's is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. During the year, the Group has been engaged in the manufacture and trading of decorative sheets, comprising high pressure laminates.

The Company is a subsidiary of Well Success Group Limited, a company incorporated in the British Virgin Islands and wholly-owned by Advance Success Limited, a company also incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company at the balance sheet date.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time for the current year's financial statements.

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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

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 those SSAPs and Interpretations which have had a significance effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. It has made certain amendments to the previous accounting measurement treatments, however, these amendments have not had a material effect on the amounts previously recorded in the profit and loss account and balance sheet, therefore no prior year adjustments have been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, as further detailed in note 26 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management determines whether the Group's predominant risks or returns are based on business segments or geographical segments and to choose one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The principal impact of this SSAP is the inclusion of additional segment reporting disclosures, which are set out in note 6 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. This SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisition in previous years which remains eliminated against consolidated reserves. The adoption of SSAP 30 and Interpretation 13 has not resulted in a prior year adjustment, for the reasons detailed in note 24 to the financial statements. The required new disclosures are included in note 24 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. The results of 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 have been eliminated on consolidation.

The prior year comparative consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition by the Company pursuant to the group reorganisation implemented on 22 March 2001. Accordingly, the consolidated results of the Group for the year ended 31 March 2001 included the results of the Company and its subsidiaries with effect from 1 April 2000 or since their respective dates of incorporation, where this is a shorter period, as if the current group structure had been in existence throughout the year ended 31 March 2001.

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 investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary if the Group has unilateral control over the joint venture company.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated economic useful life of not exceeding 20 years.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of positive goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

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

Negative goodwill *(continued)*

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation 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 profit and loss account 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.

Construction in progress represents the costs incurred for buildings and plants under construction. Cost comprise direct costs incurred in the period of construction, installation and testing. No depreciation is provided on construction in progress.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuation is transferred to retained profits as movement in reserves.

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

Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line 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:

Medium term leasehold land and buildings	Over the lease terms
Plant and machinery	10% to 20%
Furniture, fixtures, equipment and motor vehicles	10% to 20%

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

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 asset's 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 profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 any depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Leased assets

Leases that transfer substantially all of 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 is 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 are 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 profit and loss account 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. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. 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 overheads. Net realisable value is based on estimated selling prices less any further costs incurred to completion and disposal.

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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, 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.

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as liabilities.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as liabilities when they are proposed and declared.

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 profit and loss account.

On consolidation, the financial statements of subsidiaries outside Hong Kong 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.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet, cash and bank balances represent assets which are not restricted as to use.

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:

(a) 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

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all 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 profit and loss account 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 will be refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in this scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited contributions.

The Company's subsidiary in the People's Republic of China except Hong Kong and Macau (the "PRC") is a member of the state-managed retirement benefits scheme (the "PRC Scheme") operated by the PRC government. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by this subsidiary to the PRC Scheme.

4. RELATED PARTY TRANSACTIONS

During the year, the Group paid operating lease rentals on certain leasehold land and buildings of approximately HK$150,000 (2001: HK$89,000) to Cheong Sing Merchandise Agency Limited ("CMAL") of which Mr. Wong Ben Koon and Madam Hon Ching Fong, two directors and beneficial shareholders of the Company, are directors and in which they have beneficial interests. In the opinion of the directors, the operating rentals were determined with reference to the open market rental value of the leasehold land and buildings.

During the year ended 31 March 2001, the Group purchased raw materials of approximately HK$9,964,000 from Prosperity Materials (International) Limited ("PMIL"), of which Mr. Wong Ben Koon and Madam Hon Ching Fong are directors and in which they have beneficial interests. Such purchases were made according to PMIL's cost plus an average mark-up of approximately 4%.

Details of a guarantee entered into for the benefit of the Group by Mr. Wong Ben Koon are set out in note 21 to the financial statements.

5. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold, net of valued added tax ("VAT"), and after allowances for returns and trade discounts where applicable. All significant intra-group transactions have been eliminated on consolidation.

6. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements.

No separate analysis of segment information is presented as the Group's sole business is engaged in the manufacture and trading of decorative sheets, comprising high pressure laminates with over 90% of the Group's sales/assets are derived from/attributed to customers located in the PRC.

7. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	HK$'000
Cost of inventories sold	**84,486**	96,089
Depreciation	**6,223**	4,906
Minimum lease payments in respect of operating lease rentals on land and buildings	**150**	89
Staff costs (excluding directors' remuneration – note 9)		
Wages and salaries	**8,831**	6,883
Pension costs	**63**	221
	8,894	7,104
Auditors' remuneration	**600**	600
Exchange gains, net	**(195)**	(86)
Interest income	**(43)**	(288)

The cost of inventories sold includes HK$7,965,000 (2001: HK$4,159,000) relating to direct staff costs and depreciation of the manufacturing activities, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

8. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	**3,032**	2,455
Other loans	**511**	280
Trust receipt loans	**312**	157
Finance lease payables	**313**	–
	4,168	2,892

9. DIRECTORS' REMUNERATION

Particulars of directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**104**	–
	104	–
Other emoluments:		
Salaries, allowances and benefits in kind for executive directors	**900**	360
Pension scheme contributions for executive directors	**46**	–
	1,036	360
	1,140	360

The three (2001: nil) independent non-executive directors received individual fees of approximately nil, HK$90,000 and HK$14,000 during the year ended 31 March 2002. The three (2001: one) executive directors received individual emoluments of approximately HK$540,000, HK$90,000 and HK$360,000 (2001: HK$360,000, nil and nil) during the year ended 31 March 2002.

The remuneration of each director fell within the nil – HK$1,000,000 band. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: one) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2001: four) non-director, highest paid employees are set out below:

	2002 HK$'000	2001 HK$'000
Salaries, other allowances and benefits in kind	**1,886**	1,441

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2002	2001
	Number of individuals	
Nil – HK$1,000,000	**3**	4

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employee as an inducement to join, or upon joining, the Group, or as compensation for the loss of office (2001: nil).

In the opinion of the directors of the Company, the Group had no 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, at 31 March 2002 and 2001.

11. TAX

	2002 HK$'000	2001 HK$'000
Current:		
Hong Kong	**–**	20
Elsewhere	**1,065**	4,668
Charge for the year	**1,065**	4,688

Hong Kong profit tax has not been provided (2001: provided at 16%) as the Group did not generate any assessable profits arising in Hong Kong during the year.

Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS"), a subsidiary of the Company established in PRC, is exempted from income tax for two years from its first profit-making year of operations and thereafter is eligible for 50% relief from income tax for the following three years under the Income Tax Law of the PRC. The first profit-making year of GXDS was the year ended 31 December 1996. The tax holiday of GXDS has expired by 31 December 2000. The current tax rate that is applicable to GXDS is 24%.

11. TAX *(continued)*

The revaluation of the Group's medium term leasehold land and buildings outside Hong Kong (note 15) does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

No deferred tax had been provided (2001: Nil) because as the Company and the Group had no significant timing differences at 31 March 2002.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK$805,000 (period ended 31 March 2001: net profit of HK$12,005,000).

13. DIVIDENDS

The dividends paid or declared by the Company and certain of its subsidiaries to their then shareholders/equity holder for the year ended 31 March 2001 were as follows:

	2002	2001
	HK$'000	HK$'000
Prosperity International Holdings (H.K.) Limited	–	12,000
Profit World Ventures Limited	–	17,710
Golden Tapestry Profits Limited	–	1,700
Xingda Decorative Sheets Company Limited	–	16,300
Guangzhou Xingda Decorative Sheets Co., Ltd.	–	16,500
	–	64,210
Less: Elimination of dividends from intra Group companies	–	(44,860)
Dividend paid to minority equity holder	–	(1,650)
	–	17,700

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$1,641,000 (2001: HK$18,044,000) and the weighted average of 439,562,000 (2001: 360,000,000) shares in issue during the year.

Diluted earnings per share for the year ended 31 March 2002 has not been calculated as no diluting events existed in current year.

15. FIXED ASSETS

Group

	Medium term leasehold land and buildings outside Hong Kong	Construction in progress	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:					
At 1 April 2001	41,533	2,741	31,454	3,106	78,834
Additions	310	6,041	10,002	724	17,077
Transfers	2,947	(2,947)	–	–	–
Surplus on revaluation	3,860	–	–	–	3,860
At 31 March 2002	48,650	5,835	41,456	3,830	99,771
At 31 March 2002					
At cost	–	5,835	41,456	3,830	51,121
At valuation	48,650	–	–	–	48,650
	48,650	5,835	41,456	3,830	99,771
At 31 March 2001					
At cost	2,633	2,741	31,454	3,106	39,934
At valuation	38,900	–	–	–	38,900
	41,533	2,741	31,454	3,106	78,834
Accumulated depreciation:					
At 1 April 2001	949	–	9,147	1,456	11,552
Provided during the year	2,109	–	3,520	594	6,223
Reversal upon revaluation	(2,175)	–	–	–	(2,175)
At 31 March 2002	883	–	12,667	2,050	15,600
Net book value:					
At 31 March 2002	47,767	5,835	28,789	1,780	84,171
At 31 March 2001	40,584	2,741	22,307	1,650	67,282

15. FIXED ASSETS *(continued)*

Certain of the Group's leasehold land and buildings were valued on an open market, existing use basis at 31 May 2001 by Sallmanns (Far East) Limited at HK$42,760,000. As advised by Sallmanns (Far East) Limited, there were no material differences between the values of the leasehold land and buildings as at 31 May 2001 and at the balance sheet date. A surplus, net of minority interest's share, of HK$5,432,000 arising therefrom, which represented the excess of the revalued amounts over the then carrying values of the leasehold land and buildings, on an individual assets basis, has been credited to the asset revaluation reserve (note 24).

The directors believe that the carrying amount of the remaining medium leasehold land and buildings in the PRC of HK$5,890,000 approximates their fair value as at 31 March 2002.

Had the Group's land and buildings been carried at cost less accumulated depreciation, their carrying amount would have been approximately HK$14,589,000.

At 31 March 2002, certain medium term leasehold land and buildings outside Hong Kong, and plant and machinery of net book value of HK$41,958,000 were pledged to secure banking facilities granted to the Group (note 21).

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery at 31 March 2002 amounted to HK$7,217,000 (2001: nil).

Company

	Office equipment HK$'000
Cost:	
At 1 April 2001	–
Additions	16
At 31 March 2002	
Accumulated depreciation:	
At 1 April 2001	–
Provided during the year	1
At 31 March 2002	1
Net book value:	
At 31 March 2002	15
At 31 March 2001	–

16. LONG TERM DEPOSITS

Long term deposits represent deposits paid for acquisition of plant and machinery.

17. INVESTMENT IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted investment, at cost	**38,542**	38,542

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Except for an amount of HK$9,000,000 which bears interest at 7.2% per annum, the remaining balances are interest-free.

Particulars of the Company's subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Profit World Ventures Limited	British Virgin Islands	Ordinary US$20,000	100	–	Investment holding
Xingda Decorative Sheets Company Limited	Hong Kong	Ordinary HK$2 Deferred non-voting HK$15,000,002	–	100	Trading of decorative sheets, comprising high pressure laminates and investment holding
Guangzhou Xingda Decorative Sheets Co., Ltd.	People's Republic of China (the "PRC")	US$3,360,000	–	90	Manufacture and trading of decorative sheets, comprising high pressure laminates
Golden Tapestry Profits Limited	British Virgin Islands/ PRC/Hong Kong	Ordinary US$2	–	100	Trading of decorative sheets, comprising high pressure laminates

18. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**23,806**	33,956
Work in progress	**597**	325
Finished goods	**13,107**	8,792
	37,510	43,073

At the balance sheet date, no inventories (2001: nil) were stated at net realisable value.

19. ACCOUNTS RECEIVABLE

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoice amount. 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.

An aged analysis of the Group's accounts receivable as at 31 March 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0 – 90 days	**12,836**	14,023
91 – 180 days	**8,447**	257
181 – 365 days	**2,101**	189
Over 365 days	**–**	20
	23,384	14,489

20. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the Group's accounts and bills payable as at 31 March 2002 is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0 – 90 days	**9,131**	4,393
91 – 180 days	**3,037**	7,100
181 – 365 days	**1,603**	1,777
	13,771	13,270

21. INTEREST-BEARING BORROWINGS

	Group	
	2002	2001
	HK$'000	HK$'000
Secured bank loans repayable:		
Within one year	**16,022**	2,340
In the second year	**32,692**	40,187
	48,714	42,527
Portion classified as current liabilities	**(16,022)**	(2,340)
Long term portion	**32,692**	40,187
Unsecured other loan repayable within one year	**–**	4,673

At the balance sheet date, the Group's interest-bearing borrowings were supported by the following:

(a) first legal charges over certain medium term leasehold land and buildings of the Group with an aggregate net book value of RMB44,397,000 (equivalent to HK$41,492,000);

(b) pledge of plant and machinery with an aggregate net book value of RMB499,000 (equivalent to HK$466,000) (2001: RMB7,056,421 (equivalent to HK$6,594,786));

(c) pledged bank deposits of HK$1,000,000 (2001: HK$2,663,000); and

(d) a personal guarantee executed by a director of the Company.

The other loan was granted by an unrelated company, bore interest at Hong Kong Prime Rate plus 0.75% and was settled during the year.

22. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its business operation. This lease is classified as a finance lease and has remaining lease term of two years.

At 31 March 2002, the Group's total future minimum lease payments under a finance lease and their present values were as follows:

	Minimum lease payments 2002 HK$'000	Minimum lease payments 2001 HK$'000	**Present value of minimum lease payments 2002 HK$'000**	Present value of minimum lease payments 2001 HK$'000
Amounts payable:				
Within one year	**2,234**	–	**2,027**	–
In the second year	**2,453**	–	**2,364**	–
Total minimum finance lease payments	**4,687**	–	**4,391**	–
Future finance charges	**(296)**	–		
Total net finance lease payables	**4,391**	–		
Portion classified as current liabilities	**(2,027)**	–		
Long term portion	**2,364**	–		

23. SHARE CAPITAL

	2002 HK$'000	2001 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
480,000,000 (2001: 20,000,000) ordinary shares of HK$0.01 each	**4,800**	200

23. SHARE CAPITAL *(continued)*

The following changes in the Company's authorised and issued share capital took place during the period from 17 August 2000 (date of incorporation) to 31 March 2002:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each. On 12 October 2000, 1,000,000 shares were allotted and issued nil paid to Well Success Group Limited.

(ii) Pursuant to a resolution in writing passed by the sole shareholder of the Company on 5 March 2001, each issued and unissued share of HK$0.10 was subdivided into 10 shares of HK$0.01 each.

(iii) Pursuant to resolutions in writing passed by the sole shareholder of the Company on 22 March 2001, the authorised share capital of the Company was increased to HK$100,000,000 by the creation of a further 9,990,000,000 shares.

(iv) On 22 March 2001, as part of the Group reorganisation, the Company issued an aggregate of 10,000,000 shares credited as fully paid, to Well Success Group Limited as consideration for the acquisition of the entire issued share capital of Profit World Ventures Limited ("PWV"). The excess of the fair value of the shares of PWV, determined on the basis of the consolidated net assets at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK$38,442,000 was credited to the Company's contributed surplus as set out in note 24.

(v) On 22 March 2001, an amount of HK$100,000, being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the shares of PWV as set out in (iv) above, was applied to pay up, in full at par value, the 10,000,000 shares allotted and issued nil paid on 12 October 2000.

(vi) On 22 March 2001, the Company issued 340,000,000 shares to the holders of the shares whose names appeared on the register of the members of the Company, in proportion to their then holdings, by way of capitalisation of the sum of HK$3,400,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new shares issued to the public. For the purpose of preparing the consolidated financial statements for the year ended 31 March 2001, these shares are deemed to have been in issue nil paid.

(vii) On 2 August 2001, 120,000,000 shares of HK$0.01 each were issued to the public at HK$0.25 each for a total cash consideration, before related issuing expenses, of HK$30,000,000.

23. SHARE CAPITAL *(continued)*

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	Number of authorised shares '000	Number of shares issued '000	Par value HK$'000
Shares allotted and issued nil paid on incorporation	(i)	1,000	1,000	–
Share sub-division (each issued share subdivided into 10 shares)	(ii)	9,000	9,000	–
Increase on authorised share capital	(iii)	9,990,000	–	
Shares issued as consideration for acquisition of the entire issued share capital of PWV	(iv)	–	10,000	100
Application of contributed surplus to pay up nil paid shares issued on incorporation	(v)	–	–	100
Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the share offer to the public	(vi)	–	340,000	–
Balance at 31 March 2001 and 1 April 2001		10,000,000	360,000	200
New issue on public listing	(vii)	–	120,000	1,200
Capitalisation of the share premium account as set out above	(vi)	–	–	3,400
At 31 March 2002		10,000,000	480,000	4,800

Details of the Company's share option scheme are set under the section "Share option scheme" in the Report of the Directors.

24. RESERVES

Group	Share premium account	Contributed surplus	Goodwill reserve	Asset revaluation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2000	–	14,878	(1,522)	–	3,824	17,180
Revaluation surplus	–	–	–	23,137	–	23,137
Minority equity holder's share of revaluation surplus	–	–	–	(2,314)	–	(2,314)
Net profit for the year	–	–	–	–	18,044	18,044
Dividends – note 13	–	–	–	–	(17,700)	(17,700)
At 31 March 2001 and 1 April 2001	–	14,878	(1,522)	20,823	4,168	38,347
Revaluation surplus	–	–	–	6,035	–	6,035
Minority equity holder's share of revaluation surplus	–	–	–	(603)	–	(603)
Placing of shares	28,800	–	–	–	–	28,800
Capitalisation issue of shares	(3,400)	–	–	–	–	(3,400)
Share issue expenses	(15,000)	–	–	–	–	(15,000)
Net profit for the year	–	–	–	–	1,641	1,641
At 31 March 2002	10,400	14,878	(1,522)	26,255	5,809	55,820

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to 1 January 2001, is HK$1,522,000 as at 1 April 2001 and 31 March 2002. This amount of goodwill is stated at cost which arose in the prior year.

The contributed surplus of the Group arose as a result of the Group reorganisation implemented in the preparation for listing of the Company's shares in 2001 and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired under the reorganisation scheme, over the nominal value of the share capital of the Company issued in exchange therefor.

24. RESERVES *(continued)*

Company	Share premium account HK$'000	Contributed surplus HK$'000	Retained profit/ (accumulated loss) HK$'000	Total HK$'000
Arising on acquisition of subsidiaries	–	38,442	–	38,442
Contributed surplus applied to pay up 10,000,000 nil paid shares – note 23	–	(100)	–	(100)
Net profit for the period	–	–	12,005	12,005
Dividend – note 13	–	–	(12,000)	(12,000)
At 31 March 2001 and 1 April 2001	–	38,342	5	38,347
Placing of shares	28,800	–	–	28,800
Capitalisation issue of shares	(3,400)	–	–	(3,400)
Share issue expenses	(15,000)	–	–	(15,000)
Net loss for the year	–	–	(805)	(805)
At 31 March 2002	10,400	38,342	(800)	47,942

The contributed surplus of the Company arose as a result of the Group reorganisation in preparation for listing of the Company's shares in 2001 and represents the excess of the then consolidated net assets of the subsidiaries acquired, over the nominal value of the share of the Company issued in exchange therefor.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 HK$'000	2001 HK$'000
Profit from operating activities	**7,034**	27,827
Interest income	**(43)**	(288)
Depreciation	**6,223**	4,906
Decrease/(increase) in inventories	**5,563**	(20,251)
Increase in accounts receivable	**(8,895)**	(3,611)
Decrease/(increase) in prepayments, deposits and other receivables	**4,392**	(1,633)
Decrease in an amount due from a related company	**–**	3,161
Decrease in an amount due to a minority equity holder	**–**	(1,967)
Decrease in amounts due to related companies	**–**	(214)
Increase in accounts and bills payable	**501**	3,292
Increase/(decrease) in long term payables	**(8,058)**	8,058
Increase/(decrease) in accrued liabilities and other payables	**(2,533)**	1,330
Net cash inflow from operating activities	**4,184**	20,610

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued share capital and share premium account HK$'000	Minority interests HK$'000	Bank and other loans HK$'000	Finance lease payable HK$'000
Balance at 1 April 2000	200	2,980	44,860	–
Share of profit after tax	–	2,203	–	–
Dividend distributed to a minority equity holder	–	(1,650)	–	–
Minority interest's share of revaluation surplus	–	2,314	–	–
Capital contribution from minority interest	–	590	–	–
Cash outflow from financing activities, net	–	–	2,340	–
Balance at 31 March 2001 and 1 April 2001	200	6,437	47,200	–
Share of profit after tax	–	160	–	–
Minority interest's share of Revaluation surplus	–	603	–	–
Inception of finance lease contract	–	–	–	6,080
Cash inflow/(outflow) from financing activities, net	15,000	–	1,514	(1,689)
Balance at 31 March 2002	15,200	7,200	48,714	4,391

(c) Major non-cash transaction

(i) During the year, the Group entered into a finance lease arrangement in respect of fixed assets with a capital value at the inception of the lease of approximately HK$6,080,000 (2001: nil).

(ii) During the year, the Group transferred HK$307,000 (2001: HK$1,907,000) of long term deposits as additions to fixed assets upon receiving the related fixed assets.

(iii) During the year, the Group's share premium of HK$3,400,000 (2001: nil) was capitalised into share capital.

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these land and buildings range from 1 to 3 years.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating lease due as follows:

	2002	2001
	HK$'000	HK$'000
Within one year	**90**	180
In the second to fifth years	**60**	105
	150	285

The Company did not have any operating lease arrangements as at 31 March 2002 (2001: nil).

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases have been restated to accord with the current year's presentation.

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26 above, at the balance sheet date the Group had contracted commitments in respect of acquisitions of plant and machinery of HK$357,000 (2001: HK$4,311,000).

The Company did not have any significant commitments as at 31 March 2002 (2001: nil).

28. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2001: nil).

At 31 March 2002, the Company had provided corporate guarantees to banks for banking facilities granted to its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$14,538,000 (2001: nil) as at the balance sheet date.

29. COMPARATIVE AMOUNTS

As further explained in notes 2 and 26 to the financial statements, due to the adoption of SSAP 14 (Revised) during the current year, the presentation of certain items and balances in the financial statements has been revised to comply with the new requirements. Accordingly, the comparative amounts have been revised to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 June 2002.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Prosperity International Holdings (H.K.) Limited (the "**Company**") will be held at Room 4201-07, COSCO Tower, 183 Queen's Road Central, Hong Kong on 25 July, 2002 (Thursday) at 11:00 a.m. for the following purposes:

1. to consider and receive the audited consolidated financial statements of the Company and the reports of the directors and auditors for the year ended 31st March, 2002;

2. to re-elect the retiring directors and to authorise the Board of Directors to fix the directors' remuneration;

3. to re-appoint auditors and to authorise the Board of Directors to fix their remuneration; and

4. by way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (c) of this Resolution, the directors of the Company (the "**Directors**") be and are hereby granted an unconditional general mandate to exercise during the Relevant Period (as hereinafter defined in this Resolution) all the power of the Company to allot, issue and deal with additional shares in the Company (the "**Shares**") and to allot, issue or grant securities convertible or exchangeable into Shares, or options, warrants or similar rights to subscribe for Shares or such convertible or exchangeable securities and to make or grant offers, agreements and options in respect thereof;

(b) the mandate referred to in paragraph (a) shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted or issued or dealt with (whether pursuant to options or otherwise) by the Directors pursuant to the mandate referred to in paragraph (a) above, otherwise than pursuant to:

(i) a Rights Issue;

(ii) the exercise of rights of subscription or conversion under the terms of any warrants or convertible securities (including, without limitation, the Notes) issued by the Company or any securities which are convertible or exchangeable into Shares;

(iii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment and issue of Shares or other securities of the Company in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

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

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"Rights Issue" means an offer of Shares or warrants, options or other securities of the Company giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register of shareholders of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

5. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of all powers of the Company during the Relevant Period (as hereinafter defined in this Resolution) to repurchase its own shares (the "**Shares**") be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), or any other stock exchange or any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

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

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest."

6. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT** conditional upon the passing of Ordinary Resolutions No. 4 and 5 set out in this notice, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 4 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the shares in the Company repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 5 since the granting of such repurchase mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution."

By Order of the Board
Prosperity International Holdings (H.K.) Limited
WONG Ben Koon
Chairman

Hong Kong, 25 June, 2002

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.