



Prosperity International Holdings (H.K.) Limited

(incorporated in Bermuda with limited liability)



Interim Report 2002

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This report, for which the directors (the "Directors") of Prosperity International Holdings (H.K.) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. 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.

HIGHLIGHTS

- **Consolidated turnover for the six months ended 30 September 2002 was HK\$50,155,000 representing a decrease of 19% as compared with the corresponding period in 2001.**
- **Achieved a net profit of approximately HK\$651,000 for the six months ended 30 September 2002.**
- **The Board of Directors (the "Board") of Prosperity International Holdings (H.K.) Limited does not recommend the payment of an interim dividend for the six months ended 30 September 2002.**

INTERIM RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 September 2002 together with the comparative figures for the corresponding period ended 30 September 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	25,421	30,034	50,155	61,873
Cost of sales		(20,674)	(24,533)	(40,240)	(46,953)
Gross profit		4,747	5,501	9,915	14,920
Other revenue		201	278	229	451
Selling and distribution costs		(431)	(686)	(959)	(1,437)
Administrative expenses		(2,973)	(3,505)	(5,943)	(6,263)
Profit from operating activities	4	1,544	1,588	3,242	7,671
Finance costs	5	(1,082)	(1,120)	(2,022)	(2,197)
Profit before tax		462	468	1,220	5,474
Tax	6	(191)	(150)	(468)	(1,480)
Profit before minority interests		271	318	752	3,994
Minority interests		(34)	(14)	(101)	(386)
Net profit from ordinary activities attributable to shareholders		237	304	651	3,608
Dividend		-	-	-	-
Earnings per share	7	0.05 cent	0.07 cent	0.13 cent	0.90 cent
– Basic (in cents)		0.05 cent	0.07 cent	0.13 cent	0.90 cent
– Diluted (in cents)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital	Share premium account	Contributed surplus	Goodwill reserve	Asset revaluation reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2001	200	-	14,878	(1,522)	20,823	4,168	38,547
Revaluation surplus	-	-	-	-	4,768	-	4,768
Minority equity holder's share of asset revaluation reserve	-	-	-	-	(477)	-	(477)
Net profit for the period	-	-	-	-	-	3,304	3,304
At 30 June 2001 and at 1 July 2001	200	-	14,878	(1,522)	25,114	7,472	46,142
New issue on public listing	1,200	-	-	-	-	-	1,200
Capitalisation issue	3,400	-	-	-	-	-	3,400
Premium arising from placing of new shares	-	28,800	-	-	-	-	28,800
Share issuing expenses	-	(15,000)	-	-	-	-	(15,000)
Transfer to share capital to pay up nil-paid shares allotted to shareholders	-	(3,400)	-	-	-	-	(3,400)
Net profit for the period	-	-	-	-	-	304	304
At 30 September 2001	<u>4,800</u>	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>25,114</u>	<u>7,776</u>	<u>61,446</u>
At 1 April 2002	4,800	10,400	14,878	(1,522)	26,255	5,809	60,620
Net profit for the period	-	-	-	-	-	414	414
At 30 June 2002 and at 1 July 2002	4,800	10,400	14,878	(1,522)	26,255	6,223	61,034
Net profit for the period	-	-	-	-	-	237	237
At 30 September 2002	<u>4,800</u>	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>26,255</u>	<u>6,460</u>	<u>61,271</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2002 (unaudited) HK\$'000	As at 31 March 2002 (audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	8	81,478	84,171
Long term deposits		697	1,476
		82,175	85,647
CURRENT ASSETS			
Inventories		40,382	37,510
Accounts receivable	9	27,432	23,384
Prepayments, deposits and other receivables		5,528	2,446
Cash and bank balances		5,568	1,794
Pledged bank deposits		–	1,000
		78,910	66,134
CURRENT LIABILITIES			
Accounts and bills payable	10	12,634	13,771
Tax payable		10,582	10,450
Accrued liabilities and other payables		6,524	3,867
Interest-bearing bank loans, secured		20,582	16,022
Trust receipt loans		6,121	2,768
Current portion of finance lease payables		2,027	2,027
		58,470	48,905
NET CURRENT ASSETS		20,440	17,229

		As at	As at
		30 September 2002	31 March 2002
		(unaudited)	(audited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		102,615	102,876
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured		32,692	32,692
Finance lease payables		1,351	2,364
		<u>34,043</u>	<u>35,056</u>
MINORITY INTERESTS		<u>7,301</u>	<u>7,200</u>
		<u>61,271</u>	<u>60,620</u>
CAPITAL AND RESERVES			
Issued capital	11	4,800	4,800
Reserves		56,471	55,820
		<u>61,271</u>	<u>60,620</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
(UNAUDITED)**

	Six months ended	
	30 September	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	(3,941)	1,676
Net cash inflow/(outflow) from investing activities	943	(6,953)
Net cash inflow from financing activities	3,419	12,190
Increase in cash and cash equivalents	421	6,913
Cash and cash equivalents at beginning of the period	(974)	(5,901)
Cash and cash equivalents at end of the period	<u>(553)</u>	<u>1,012</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	5,568	2,179
Trust receipt loans	(6,121)	(1,167)
	<u>(553)</u>	<u>1,012</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2002

1. Basis of preparation and accounting policies

The unaudited condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounting policies adopted in the preparation of these unaudited condensed interim financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2002. The Group has for the first time adopted the following new and revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002.

SSAP 1 (Revised)	“Presentation of financial statements”
SSAP 11 (Revised)	“Foreign currency translation”
SSAP 15 (Revised)	“Cash flow statements”
SSAP 25 (Revised)	“Interim financial reporting”
SSAP 34	“Employee benefits”

The adoption of these new SSAPs does not make any changes to the accounting policies of the Group and has no major impacts on the unaudited condensed consolidated financial statements for the period, except for SSAP 1 (Revised) and SSAP 15 (Revised) which are summarised as follows:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 (Revised) is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The unaudited condensed consolidated statement of changes in equity for the period and the comparative figures have been presented in accordance with SSAP 1 (Revised).

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the period and the comparative figures have been presented in accordance with SSAP 15 (Revised).

2. Turnover

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

3. Segment information

No separate analysis of segment information is presented as the Group’s sole business is engaged in 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 People’s Republic of China (“PRC”).

4. Profit from operating activities

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

	For the three months ended 30 September		For the six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	20,674	24,533	40,240	46,953
Depreciation	1,811	1,069	3,529	3,102
Minimum lease payments in respect of operating lease rentals on land and buildings	23	45	45	90
Staff costs (including directors' remuneration)				
Wages and salaries	2,244	2,375	4,483	4,315
Pension costs	30	10	61	20
Provision for annual leave	20	—	20	—
	<u>2,294</u>	<u>2,385</u>	<u>4,564</u>	<u>4,335</u>
Exchange losses/(gains), net	67	(202)	121	(347)
Interest income	<u>(9)</u>	<u>(7)</u>	<u>(10)</u>	<u>(35)</u>

5. Finance costs

	Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	1,702	1,850
Trust receipt loans	192	191
Finance lease payables	128	156
	<u>2,022</u>	<u>2,197</u>

6. Tax

Hong Kong profit tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 September 2002 and the corresponding period in 2001.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operated, based on the existing legislation, interpretations and practices in respect thereof.

No deferred tax has been provided (30 September 2001: Nil) because the Group had no significant timing differences at 30 September 2002.

7. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the three months and six months ended 30 September 2002 of approximately HK\$237,000 and HK\$651,000 respectively (three months ended 30 September 2001: approximately HK\$304,000 and six months ended 30 September 2001: approximately HK\$3,608,000) divided by the 480,000,000 shares of the Company in issue (three months ended 30 September 2001: weighted average of approximately 437,000,000 shares and six months ended 30 September 2001: weighted average of approximately 399,000,000 shares) during the respective periods.

Diluted earnings per share for the six months ended 30 September 2002 has not been calculated as no diluting events existed during the period and the corresponding period in 2001.

8. Fixed assets

	Medium term leasehold land and buildings outside Hong Kong HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 April 2002	48,650	5,835	41,456	3,830	99,771
Additions	69	141	386	240	836
At 30 September 2002	<u>48,719</u>	<u>5,976</u>	<u>41,842</u>	<u>4,070</u>	<u>100,607</u>
Accumulated depreciation:					
At 1 April 2002	883	–	12,667	2,050	15,600
Provided during the period	965	–	2,254	310	3,529
At 30 September 2002	<u>1,848</u>	<u>–</u>	<u>14,921</u>	<u>2,360</u>	<u>19,129</u>
Net book value:					
At 30 September 2002	<u>46,871</u>	<u>5,976</u>	<u>26,921</u>	<u>1,710</u>	<u>81,478</u>
At 31 March 2002	<u>47,767</u>	<u>5,835</u>	<u>28,789</u>	<u>1,780</u>	<u>84,171</u>

9. Accounts receivables

An aged analysis of the Group's accounts receivable as at 30 September 2002 is as follows:

	Group	
	30 September 2002 (unaudited) <i>HK\$'000</i>	31 March 2002 (audited) <i>HK\$'000</i>
0-90 days	20,951	12,836
91-180 days	5,648	8,447
181-365 days	833	2,101
	<u>27,432</u>	<u>23,384</u>

The normal credit period granted by the Group ranges from 30-90 days from date of invoice.

10. Accounts and bills payable

An aged analysis of the Group's accounts and bills payable as at 30 September 2002 is as follows:

	Group	
	30 September 2002 (unaudited) <i>HK\$'000</i>	31 March 2002 (audited) <i>HK\$'000</i>
0-90 days	9,159	9,131
91-180 days	2,662	3,037
181-365 days	813	1,603
	<u>12,634</u>	<u>13,771</u>

11. Share capital

	30 September 2002 (unaudited) <i>HK\$'000</i>	31 March 2002 (audited) <i>HK\$'000</i>
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
480,000,000 ordinary shares of HK\$0.01 each	<u>4,800</u>	<u>4,800</u>

There was no movement in the share capital of the Company for the six months ended 30 September 2002.

12. Related party transactions

During the period under review, the Group paid operating lease rentals on certain leasehold land and buildings of approximately HK\$45,000 (30 September 2001: HK\$90,000) to Cheong Sing Merchandise Agency Limited of which Mr. Wong Ben Koon ("Mr. Wong") and Madam Hon Ching Fong ("Madam Hon"), 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 value of the leasehold land and buildings.

13. Operating lease arrangements

At 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating lease due as follows:

	30 September 2002 (unaudited) <i>HK\$'000</i>	31 March 2002 (audited) <i>HK\$'000</i>
Within one year	90	90
In the second to fifth years	15	60
	<u>105</u>	<u>150</u>

14. Contingent liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

At 30 September 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\$13 million as at balance sheet date.

15. Commitments

In addition to the operating lease commitments detailed in note 13 above, at the balance sheet date, the Group had contracted commitments in respect of acquisitions of plant and machinery of HK\$1,378,000 (31 March 2002: HK\$357,000).

The Company did not have any significant commitments as at 30 September 2002 (31 March 2002: nil).

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 September 2002 (30 September 2001: Nil).

FINANCE RESOURCES, LIQUIDITY AND GEARING RATIO

Generally, the Group continued to finance its operations and meet its debts by utilising cash generated from its operations and banking facilities provided by its principal bankers. At 30 September 2002, cash and bank balances amounted to approximately HK\$5.57million and bank loans amounted to approximately HK\$59 million.

Total borrowing facilities of the Group amounted to approximately HK\$70 million, of which HK\$63 million was utilized by 30 September 2002. Interest rates for bank borrowings are at market rates. According to the directors, the Group has adequate financial resources to meet its ongoing operations.

The net current assets of the Group at 30 September 2002 amounted to approximately HK\$20 million which represents 33% of the shareholder's equity.

The Group's gearing ratio, measured in terms of total borrowings divided by total assets, was 38% at 30 September 2002 (31 March 2002: 37%).

FOREIGN EXCHANGE

During the period 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 considers 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 period ended 30 September 2002, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

CONTINGENT LIABILITIES

As at 30 September 2002, the Group did not have any significant contingent liabilities. Details of the Company's contingent liabilities are set out in note 14 to the financial statements.

CHARGE ON GROUP ASSETS

Certain Group assets are pledged to banks as security for general banking facilities granted to the Group. As at 30 September 2002, the pledged assets of the Group included certain medium term leasehold land and buildings and plant and machinery of approximately HK\$47 million.

EMPLOYEES

As at 30 September 2002, the Group had a total of 349 staff of which 339 are based in the PRC and 10 are based in Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The Group will pay discretionary bonus to its employees based on individual performance in recognition of their contribution and hard work. Other benefits include the Company's share option scheme.

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.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the six months ended 30 September 2002 was approximately HK\$50,155,000, representing a decrease of approximately 19% as compared to the corresponding six months period in 2001. The drop in turnover was directly attributable to continued intensive competition among the manufacturers and suppliers of high pressure laminates that affected the entire high pressure laminates industry.

The unaudited consolidated gross profit and net profit from ordinary activities attributable to shareholders of the Group for the six months ended 30 September 2002 were approximately HK\$9,915,000 and HK\$651,000, respectively. The decline in the Group's gross profit margin was mainly due to the appreciation of Euro as some of the materials used to manufacture high pressure laminates, namely decorative papers, are purchased in Europe. A lower average selling price of these high pressure laminates was another factor that affected the lower gross profit margin.

Selling and distribution costs incurred during the six months ended 30 September 2002 declined by approximately 33% as compared with the same period of 2001. Such decline in selling and distribution costs was partially attributed to the Group's lower turnover. The decrease was also due to the management's tight control over the sales promotion and marketing budget. The administrative expenses decreased by approximately 5% as compared to the same period of 2001.

A cut in bank interest rates resulted in the Group's finance cost for the six months ended 30 September 2002 decreasing to HK\$2,022,000 (30 September 2001: HK\$2,197,000).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group continued to manufacture and trading in decorative sheets, formally known as high pressure laminates bearing the Group's own brand names – "Waika," "Pearl," and "Pearl Prince."

The implementation of several measures has helped to counter the negative effects resulting from the continued intense competition among manufacturers and suppliers in the high pressure laminates industry. The Group decided to generate more sales revenue and to expand the product range by the addition of a new product category, building a more extensive sales network, and strengthening the long-term marketing strategy.

As part of the product range expansion, the “Pearl Prince” brand entered the market at the beginning of September 2002. The new brand offers various new patterns, specially designed to meet demand in the low-end market. The market responds positively, with repeat orders from customers commencing just one month after the launch of “Pearl Prince”.

The launch of “Pearl Prince” means the Group is now capable to provide a comprehensive range of products to cover all market segments. By market sector, “Waika” covers the high-end, “Pearl” the middle, and “Pearl Prince” the low-end.

Apart from launching the “Pearl Prince”, the Group’s Research and Development Department continues to develop new products – Chemical Resistant Laminate (“CRL laminates”). CRL laminates are highly resistant to chemicals, stains, and are ideal for table surfaces used in laboratories, hospitals, schools, factories, darkrooms, product testing facilities and beauty salons.

Recognising the importance of reaching a wider market, the Group has strengthened its presence in the PRC by successfully opening five additional chain stores in Shanghai, Wuhan, Shenyang, Chongqing and Shenzhen in addition to the existing chain stores in Beijing, Tianjin and Humen. Furthermore, negotiations with prospective partners in Nanhai and Linyi continue on an optimistic note.

The opening of chain stores in these major cities has established a stronger foothold and sales network for the Group and should lead to an increase market share in this highly competitive industry. The chain stores network is best positioned to benefit from China’s accession to WTO and hosting of the 2008 Olympics, which should become a profitable source of revenue.

Apart from market reach, the Group recognises the need to raise market awareness of its three main brands. Participating in exhibitions forms an important long-term marketing strategy that helps to increase brand and product awareness in both China and the international arena. Accordingly, in December 2002, the Group will take part in “International Building Materials Expo 2002” in Shanghai.

COMPARISON OF BUSINESS PROGRESS

From 1 April 2002 to 30 September 2002

**Business Objectives as disclosed in
the Prospectus dated 24 July 2001**

Actual Business Progress

A. Sales

- | | |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| – To obtain 10 new customers | The Group successfully secured 76 new customers. The high number of new customers was due mainly to the launching of “Pearl Prince” brand name high pressure laminates |
| – To increase 20 new colour or pattern | As a result of the launching of the “Pearl Prince” high pressure laminates, the Group developed an additional 158 new colours and patterns |

B. Market expansion

To expand the sales team and develop the domestic market of 2 cities located in Jiangxi and Hunan provinces in the PRC

The Group successfully opened five additional chain stores in Shanghai, Wuhan, Shenyang, Chongqing and Shenzhen

To continue the oversea market expansion and seek suitable distribution agency in the Asia Pacific region

During the period under review, the Group has contacted potential clients in the Middle East and Indo-China market, particularly Vietnam. The Group intends to take every opportunity to develop a wider network in the Asia Pacific region

To promote the brand names of the product through advertisement in the newspaper published in the major cities in the PRC

The Group has selectively advertised its products, mainly “Waika” brand, in the mass media

C. Production capacity (no. of pieces)

– Target is 2,352,000 pieces

The total production capacity for the period was approximately 2 million pieces. However, the actual total production for the period was 1,476,246 pieces. As operation of a planned fifth production line was deferred, actual production for the period was lower than estimated

To finish the installation of the 5th production line mainly manufacturing the metal-foil and postforming grade decorative sheets and commence production after the performance of quality testing by the Company

As mentioned in the annual report for 2002, installation of the fifth production line was deferred to a later date

To commence the installation of the 6th production line mainly for manufacturing the standard decorative sheets

Since installation of the fifth production was deferred, the installation of sixth production line was deferred accordingly

D. Synergetic integration and investment

To commence the production of the decorative paper if the business venture is confirmed to start

As mentioned in the annual report for 2002, the decorative paper business venture was aborted

To explore the opportunities of synergetic integration business and investment

The Group will continue to explore any synergetic integration business and investment

E. Research and development

To conduct research and development on new products

The Group commenced the research and development of chemical resistant laminates. This laminate is widely used in hospital and school laboratory table as it is chemical and stain resistant

To send staff to relevant exhibitions and conferences to obtain the latest knowledge and technology of decorative sheet industry

The Group participated in Guangzhou International Furniture Fair held in August 2002

F. Human resources (no. of staff)

	Planned as at 30 September 2002	Actual as at 30 September 2002
– Sales and marketing	25	23
– Research and development	5	3
– Finance and administration	10	10
– Production	370	303
– Management	9	10
	<hr/>	<hr/>
– Total headcount	419	349
	<hr/> <hr/>	<hr/> <hr/>

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 only HK\$15 million. The net proceeds were applied as follows:

	Intended use of net proceeds as set out in the Prospectus <i>HK\$ million</i>	Actual use of net proceeds as of 30 September 2002 <i>HK\$ million</i>
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
	<hr/>	<hr/>
Total	21.9	15
	<hr/> <hr/>	<hr/> <hr/>

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following entity had or deemed to have interests of 10% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”):

Name	Number of shares held	Percentage of voting power
Well Success Group Limited “Well Success”)	319,680,000	66.60

Well Success is beneficially owned as to 20.8% by Mr. Wong, 20.8% by Mr. Ng Hon Fai (“Mr. Ng”) and 58.4% by Advance Success Limited which is equally owned by Mr. Wong and Madam Hon.

DIRECTORS’ INTEREST IN SHARES

At 30 September 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 SDI Ordinance were as follows:

	Number of shares		
	Corporate interest	Personal interest	Total interest
(A) The Company			
Mr. Wong (<i>Note 1</i>)	319,680,000	–	319,680,000
Madam Hon (<i>Note 1</i>)	319,680,000	–	319,680,000
Mr. Cheung Sui Sing	–	9,360,000	9,360,000
(B) Xingda Decorative Sheets Company Limited (“Xingda”)			
Mr. Wong (<i>Note 2</i>)	–	3,118,125	3,118,125
Mr. Ng (<i>Note 2</i>)	–	3,118,125	3,118,125

Notes:

1. Mr. Wong and Madam Hon are interested in these shares through their interests in Well Success, which is owned as to 20.8% by Mr. Wong, 20.8% by Mr. Ng and 58.4% by Advance Success Limited. Advance Success Limited is equally owned by Mr. Wong and Madam Hon.
2. Mr. Wong and Mr. Ng are the registered and beneficial owners of 3,118,125 deferred shares each of HK\$1.00 each in Xingda, which is a wholly-owned subsidiary of the Company. In addition, Mr. Wong also has non-beneficial personal equity interest in Xingda held for the benefit of the Group.

Save as disclosed above, as at 30 September 2002, 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 GEM Listing Rules.

SHARE OPTION SCHEME

As at 30 September 2002, no options had been granted or agreed to be granted to any Director or employee of the Company under the share option scheme which was approved by a written resolution of all the Shareholders of the Company on 18 July 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Other than the share option scheme as described above, at no time during the six months ended 30 September 2002 was the Company or any of its holding companies, fellow subsidiaries and subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights.

INTERESTS OF THE SPONSOR

The Company's sponsor, Oriental Patron Asia Limited, its respective directors, employees and associates 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 as at 30 September 2002.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in a business which competes or might compete with the business of the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 (where applicable) of the GEM Listing Rules during the period under review.

AUDIT COMMITTEE

The Company has established an audit committee comprising of two members, Mr. Mo Kwok Choi, and Mr. Yuen Kim Hung, Michael, both being independent non-executive directors of the Company since July 2001 and January 2002, respectively, with written terms of reference complying with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial process and internal control systems of the Group and provide advice and comments to the Board.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2002.

By order of the Board

Wong Ben Koon

Chairman

Hong Kong, 12 November 2002