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Prosperity International

ANNUAL REPORT 2003

Prosperity International Holdings (H.K.) Limited

(Incorporated in Bermuda with limited liability)

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This report, for which the directors (the "Director") 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 ("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
Hong Cheng Chang
Lam Hei Shing, Joseph

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

COMPANY SECRETARY

Ng Wai To, FCCA, AHKSA

QUALIFIED ACCOUNTANT

Ng Wai To, FCCA, AHKSA

COMPLIANCE OFFICER

Wong Ben Koon

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor
Prosperity Industrial Building
89 Wai Yip Street
Kwun Tong
Kowloon
Hong Kong

SHARE REGISTRARS 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
28th Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Wong Ben Koon
Ng Hon Fai

AUDIT COMMITTEE

Mo Kwok Choi
Yuen Kim Hung, Michael

LEGAL ADVISERS 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

CHAIRMAN'S STATEMENT

Despite intense market competition, Prosperity International Holdings (H.K.) Limited and its subsidiaries (collectively the "Group") maintained stable performance and profits for the first and second quarters of last year, a result mainly attributable to the joint efforts made by the management and other staff members, as well as other actions taken by the Group, which include tightening control on spending, relinquishment of price-cutting competition, adoption of flexible price negotiation mechanism, active participation in trade fairs, development of new products, upgrading of decorative sheets (formally known as high pressure laminates) and other products, the building of a more extensive sales network in the People's Republic of China ("PRC") and expansion of overseas markets.

In the second half of the year, the operation of the Group was unexpectedly affected by the war in the Middle East, which drove up the price of chemical raw materials which accounted for one third of its production costs, and the subsequent outbreak of Severe Acute Respiratory Syndrome ("SARS"), which also increased costs and caused the Group to incur losses.

However, the show of the Group's products received good response from the trade fairs held in Beijing, Shanghai, Shenyang and Guangzhou, the PRC this year, and the newly built product web site of the Group has been visited extensively by its clients. The Group firmly believes that the sales of decorative sheets will have a potential bigger market in PRC and abroad.

After careful market investigation, the Group decided to produce high-end products by bringing to the market metal-surfaced decorative sheets, including aluminium and stainless steel-surfaced decorative sheets, and develop new products. Meanwhile, the Group will continue to promote its successfully developed special thick laminates, the "compact laminates," which does not need to be processed on and fixed to wooden board and can be directly utilized in high grade business centres, hotels, airports, railway stations and labs. When used as washroom partition boards, the compact laminates prove especially applicable and appealing. The Group is now actively promoting to newly built airports and high class premises within the PRC that the Group's compact laminates are not inferior in quality and better priced than those produced in North America and Europe. The Directors are of the view that there should be good market potential for the new product.

In exercising tighter control on spending, the management of the Group has reached consensus on salary reduction this year, and firmly believes that improvement of the Group's performance will generate profits which will ultimately benefit staff. As the quality of kraft paper produced by domestic companies in PRC reaches the standard of imported kraft paper, the Group is turning to purchase kraft paper in the domestic market, a move that helped the Group save approximately 35% kraft paper purchase costs.

The Group has successfully established its chain stores in Beijing, Shanghai, Tianjin, Wuhan, Shenzhen and Shengyang, the PRC and plans to look for agents and partners in Kunming, Chongqing, Harbin, Changchun, Nanchang, Xinjiang and Guiyang, the PRC next year.

Export performance of the Group has been enhanced and market promotion will continue next year in Japan, other Asia-Pacific regions, and the Middle East.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to extend my heartfelt thanks to our directors, the management and staff members for their years of support and contribution. I firmly believe that the Group will be able to perform well in the coming year by adopting new marketing strategies, developing new products, launching new projects and strengthening management.

I look forward to sharing with you the fruits of all our efforts.

Wong Ben Koon
Chairman

Hong Kong, 28 July 2003

Business Review

The Company has been listed on the GEM of the Stock Exchange for over two years. With nine years of experience in the manufacture and sales of decorative sheets (formally known as high pressure laminates), the Company, despite strong competition both at home and abroad, has maintained as one of the top largest decorative sheet manufacturers of China for the past two years by adopting modern enterprise management model with marketing focus on its "Pearl" and "Waika" brand products.

In order to strengthen its competitive edge, the Group places more emphasis on research and development in chemical raw materials, production formula and on selection of material for kraft paper. The Company has chosen high quality domestically made paper to reduce production costs while still ensuring the quality of the products and attaining the ISO9002 accreditation.

The Group produced lower-priced "Pearl Prince" series of products to compete with other low-end products by smaller factories in the PRC and for offering a full range of products to the market. But this strategy squeezed the gross profit margin this year though it retained the loyalty of majority of clients. The performance of the Company was further affected by the war in the Middle East and the outbreak of SARS in the second half of the year, which pushed up the price of most imported chemical raw materials, business was dampened consequently and led to losses for the latter half of the year.

Notwithstanding this short-term setback, the Group believes that such adversity will unite the management and staff members together in overcoming difficulties and actively improve management strategies. The strategies to be implemented are summarised as follows:

(1) tighten the control over expenditure, increase the purchase of high quality raw materials produced by domestic companies and endorse salary cut in order to get through this difficult time;

(2) relinquish price-cutting competition and reduce production of the "Pearl Prince" series of products;

(3) focus on the marketing of high-end metal decorative sheets;

(4) increase contact with major sellers to have better knowledge of market trend;

(5) actively promote the "compact laminates", the thick sheets successfully developed by the Group;

(6) substantially expand its franchised stores, and sponsor advertising facilities and Company product display shelves;

(7) expand export-sales business which has already recorded growth; and

(8) invite new members to join the Board and the management.

The Group will also make use of its existing business advantage and seek for new building material business opportunities, in an attempt to bring more value to the shareholders of the Company for the year to come.

Outlook

The Group's success in becoming one of the top largest decorative sheet manufacturers in the PRC from a small factory, raising the quality of its products to reach international standard and obtaining ISO 2002 accreditation are attributable to the in-depth market knowledge and support of the major shareholder, leadership of the management and cooperation of the staff members. With its almost ten years business experience and two years after listing, the Group's sales and profits have increased since the first day of operation. Only the unexpected market volatility this year, coupled with the war in the Middle East and the outbreak of SARS, caused the Group to report a loss in the second half of the year. The Group is now determined to resume its profit growth in response to the many years of support from its shareholders. The Group is poised to resume growth in the future due to the following reasons:

1. its major shareholder has confidence in the future of the Group and support the Group financially and in other aspects;

2. the Group has extensive knowledge of decorative sheet market trend and development because of its many years of operation, enabling it to follow closely the trend of the market, react promptly and make appropriate decisions;

3. this short-term setback will not revert the major development tendency of the Group. Since the Company's first day of listing two years ago, the Group's management and organisation have been modernized and rationalized to reach international standards. The Group is now able to learn from lessons, adapt itself to new situations, exercise tighter control on spending, and motivate its staff members in order to expand business and return to profitability;

4. the Group has been in close cooperation with Hong Kong Productivity Council for the purpose of enhancement of production quality, introduction of new materials, reduction of costs, development of new products and expansion of new market;

5. the Group is now recruiting new members to the management to modernise its management system. New plans are underway in staff training, especially to train sales persons in soliciting large volume buyers, in order to promote the Group's high-end products and newly developed products;

6. the Group has built a web site to introduce its business and products to its clients in general and to design institutes, architects and developers in the PRC;

7. the Group is negotiating with professional engineering contractors in relation to the feasibility of promoting the sales and installation of compact laminates in an attempt to take advantage of the competitiveness of the compact laminates which are developed in-house and are of high quality and competitively priced;

8. more franchised chain stores within the PRC will be set up, and marketing campaigns for its various products will be launched, and new products will be promoted;

Outlook *(continued)*

9. though affected by the war in the Middle East and the outbreak of SARS, export sales of the Group still recorded a substantial growth. The growth in export is due to the fact that the quality of its products are up to international standards and pricing is competitive. The Group aims to increase export market share and develop new export markets;

10. the Group will improve its inventory management system, and monitor closer the collection of accounts receivable;

11. the Group is now seeking for new building materials business opportunities to expand the business concerned and raise its profitability; and

12. the Group is in the process of discussing with domestic and international financial institutions to obtain financing for future business development.

Armed with years of business experience, a large clientele base, and closer co-operation of the management and staff members, and the firm support of the major shareholder, we are confident that the Group should be able to overcome the current short-term setback and reach for new platforms in the coming year.

Financial Review

Results

During the year under review, the Group posted a turnover of approximately HK$84.3 million, representing a decrease of approximately 23% compared with the previous year. The Group recorded a gross profit of approximately HK$5.5 million as compared to a gross profit of HK$25.1 million for the same period last year. Net loss attributable to shareholders of the Company for the year was approximately HK$14.5 million as compared to a net profit of HK$1.6 million for the preceding year.

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 due to intense price competition with domestic suppliers in Guangdong province and increased supply of high pressure laminates from other provinces and overseas was another factor that affected the lower gross profit margin. The new "Pearl Prince" brand which specially designed to meet demand in the low-end market has also a significant impact on the gross profit margin even the strategy is for maintain the customer base. As a result of these factors, selling prices fell drastically as compared to last year.

Selling and distribution costs incurred during the year declined by approximately 10.6% as compared with the same period of 2002. 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 decrease by approximately 3.2% as compared to same period of 2002.

A cut in the bank's interest rates resulted in the Group's finance cost for the year ended 31st March 2003 decrease by 13.6% as compared to same period of 2002.

Financial Review *(continued)*

Financial Resources, Liquidity and Gearing Ratio

The Group generally finances its operations and meets its debts with cash generated from its operations and banking facilities provided by its principal bankers. As at 31 March 2003, the Group had cash of approximately HK$1.5 million and bank loans of approximately HK$52 million. The total borrowing facilities of the Group amounted to approximately HK$64 million and it has been utilized approximately HK$57 million as at 31 March 2003. The interest rates for the bank borrowings of the Group are at market rate. According to the directors of the Company, the Group has adequate financial resources to meet its ongoing operations.

As at 31 March 2003, the net current assets of the Group amounted to approximately HK$4.6 million which represents 9.4% of the shareholder's equity.

The Group's gearing ratio measured in terms of total borrowings divided by total assets, was 40% as at 31 March 2003 (2002: 37%)

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 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 year ended 31 March 2003, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (2002: nil).

Details on the contingent liabilities are set out in note 30 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.

Financial Review *(continued)*

Employee

As at 31 March 2003, the Group had a total of 353 staff of which 342 are based in the PRC and 11 are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	PRC	Hong Kong	Total
Management	5	6	11
Sales & marketing	19	1	20
Purchase & supplies	2	–	2
Production & quality control	307	–	307
Research and development	3	–	3
Finance and administration	6	4	10
	342	11	353

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.

DIRECTORS

Executive directors

Mr. WONG Ben Koon, aged 50, is one of the co-founders of the Group and the chairman of the Company. 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 8 years' experience in the manufacture and trading of decorative sheets.

Mr. NG Hon Fai, aged 43, is one of the co-founders, the general manager and an executive director of the Company. Mr. Ng is responsible for the marketing and daily operation of the production facilities of the Group. He has over 8 years' experience in the management and sales of decorative sheets.

Mr. HONG Cheng Chang, aged 42, is the deputy general manager and an executive director of the Company. He is in charge of the Finance and Administration Department in Guangzhou Xingda Decorative Sheets Co., Ltd. Before joining the Group in November 1998, Mr. Hong 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, the PRC in 1993, majoring in finance.

Mr. LAM Hei Shing, Joseph, aged 60, is an executive director of the Company. He is responsible for pioneering the Group's business development and marketing activities as well as strategies for its corporate affairs and investment opportunities. Mr. Lam graduated from the Hong Kong Polytechnic University in 1964 with a Higher Diploma in Electrical Engineering and obtained a Diploma in Management Studies from the University of Hong Kong in 1971. He qualified as a Chartered Electrical Engineer from the Institution of Electrical Engineers in 1974. He has over 20 years' experience in building materials.

Madam HON Ching Fong, aged 55, is an executive director of the Company. 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 68, was appointed as an independent non-executive director in October 2000. Mr. Mo had served as a 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 42, 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' experience in auditing, tax and accounting field.

SENIOR MANAGEMENT

Ms. NG Wai To, aged 43, joined the Company in February 2003 and she is the financial controller, qualified accountant and company secretary of the Company. Ms. Ng is primarily responsible for overseeing the accounting and financial affairs of the Company. She holds a bachelor degree in Business Administration majoring in accounting from Chinese University of Hong Kong. She is also a member of the Hong Kong Society of Accountants and fellow member of the Association of Chartered Certified Association. Ms. Ng has extensive experience in financial planning and management in the Greater China Region.

Mr. KE Mei Hai, aged 38, joined the Group in September 1999 as the accounting manager of Guangzhou Xingda Decorative Sheets Co., Ltd. He holds a degree of finance and accounting from Zhongnan University of Economics and Finance in the PRC. 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 initial public offering on the GEM of the Stock Exchange, after deduction of related expenses pursuant to the initial public offering, were HK$15 million. 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 HK$ million	**Actual use of net proceeds as of 31 March 2002** 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	15.0

COMPARISON OF BUSINESS PROGRESS

Business Objectives as set out in the prospectus of the Company dated 24 July 2001	**Actual Business Progress for the Year**
A. Sales	
To obtain 20 new customers	The Group secured 152 new customers. The high number of new customers was due mainly to the launch of "Pearl Prince" brand of high pressure laminates
To develop 30 new colours or patterns	As a result of the launch of the "Pearl Prince" brand of high pressure laminates, the Group developed an additional 158 new colours and patterns

COMPARISON OF BUSINESS PROGRESS *(continued)*

B. Market expansion

To expand the sales team and develop the domestic markets in four cities located in Jiangxi, Hunan, Tianjin and Jiangsu provinces in the PRC	The Group opened additional chain stores in Beijing, Shanghai, Wuhan, Shenyang, Tianjin and Shenzhen, the PRC
To continue the overseas market expansion and seek suitable distribution agency in Asia Pacific region	During the period under review the Group has contacted potential clients in the Middle East and East Europe. The Group intends to take every opportunity 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 has selectively advertised its products, mainly "Waika" brand, in the mass media

C. Production capacity (no. of pieces)

Target to produce 4,858,000 pieces	The total production capacity for the period was approximately 4 million pieces. However the actual total production for the period was 3,008,941 pieces. As operation of a planned fifth and sixth product lines were deferred due to intense price competition, actual production was lower than estimated
To finish the installation of the fifth 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 sixth production line mainly for manufacturing the standard decorative sheets	Since installation of the fifth production was deferred, the installation of the 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

COMPARISON OF BUSINESS PROGRESS *(continued)*

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 laminated 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 sheets industry	The Group participated in exhibitions held in Beijing, Shanghai, Shenyang and Guangzhou, the PRC during the year

F. Human Resources (no. of staff)

	Planned as at 31.3.2003	**Actual as at 31.3.2003**
Sales and marketing	25	20
Research and development	5	3
Finance and administration	10	10
Production	370	309
Management	9	11
Total headcount	419	353

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 53.

The directors do not recommend the payment of any dividend in respect of the year ended 31 March 2003.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results for the last four financial years and of the assets, liabilities and minority interest of the Group at the end of the last three years, as extracted from the annual reports of the Company, is set out on page 54 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

No movements in share capital and no share options in issue during the year. Details of the Company's share capital and share option scheme are set out in note 24 and 25, respectively, 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 26 to the financial statements and in the consolidated summary statement of changes in equity.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

As at 31 March 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$33,042,000, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the share premium account balance of HK$10,400,000 as at 31 March 2003 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 51% of the total sales for the year and sales to the largest customer included therein amount to 14%.

Purchases attributable to the five largest suppliers of the Group accounted for 45% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 15%.

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.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:

Mr. Wong Ben Koon	
Mr. Ng Hon Fai	
Madam Hon Ching Fong	
Mr. Cheung Sui Sing	(appointed on 12 September 2002)
Mr. Hong Cheng Chang	(appointed on 12 September 2003)

Independent non-executive directors:

Mr. Mo Kwok Choi
Mr. Yuen Kim Hung, Michael

Subsequent to the balance sheet date, on 30 April 2003, Mr. Cheung Sui Sing resigned as a director of the Company. On 5 May, 2003, Mr. Lam Hei Shing, Joseph was appointed as a director of the Company.

In accordance with the Company's bye-laws, Madam Hon Ching Fong and Mr. Mo Kwok Choi will retire by rotation and, being eligible, will offer herself/himself for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, Mr. Hong Cheng Chang will retire and, being eligible, will offer himself 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 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Hong Cheng Chang has entered into a service contract with the Company commencing from 12 September 2002, 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 contracts.

None of the directors 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, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2003, 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
Mr. Cheung Sui Sing	–	9,360,000	9,360,000
(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 a 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 interests 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 29 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 on the GEM of the Stock Exchange.

Subsequent to the balance sheet date, on 5 May 2003, Mr. Lam Hei Shing, Joseph was appointed as a director and at that date owned 8,000,000 shares of the Company.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as set out in note 25 to the financial statements, 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, its holding company or any of its 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.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

During the year and up to date of the report, Mr. Hong Cheng Chang is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, as set out below.

– Mr. Hong Cheng Chang is also a director and has a beneficial interest in of 上海昌興國際貿易公司(「上海昌興」), which is also involved in the trading of decorative sheets.

As the board of directors of the Company is independent from the board of directors of 上海昌興 and the above director does not control the board of the Company, the Group is capable of carrying on its business independently of, and at arm's length from, the business of 上海昌興.

SHARE OPTION SCHEME

Due to the adoption of Hong Kong Statement of Standard Accounting Practice 34 "Employee benefits" during the year, the disclosures relating the Company's share option scheme have been moved to note 25 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, 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, 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 GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year.

AUDIT COMMITTEE

The Company has an audit committee (the "Committee") established with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises the two independent non-executive directors of the Company. During the year, the Committee met four times to review and supervise the financial reporting process, and to provide advice and recommendations to the board of directors. The financial statements of the Group for the year ended 31 March 2003 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

Neither the Company's sponser, Oriental Patron Asia Limited (the "Sponsor"), nor its respective directors, employees and associates, as at 31 March 2003, had 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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 31 to the financial statements.

CHANGE OF COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tok Beng Tiong ("Mr. Tok") resigned as the company secretary and qualified accountant of the Company, effect from 21 February 2003, and Ms. Ng Wai To ("Ms. Ng") was appointed to both positions, both with effect from the same date.

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
28 July 2003

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 53 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 2003 and of the loss 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
28 July 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2003

	Notes	2003 HK$'000	2002 HK$'000
TURNOVER	5	**84,254**	109,576
Cost of sales		**(78,729)**	(84,486)
Gross profit		**5,525**	25,090
Other revenue		**655**	576
Selling and distribution costs		**(2,757)**	(3,085)
Administrative expenses		**(15,048)**	(15,547)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	**(11,625)**	7,034
Finance costs	8	**(3,602)**	(4,168)
PROFIT/(LOSS) BEFORE TAX		**(15,227)**	2,866
Tax	11	**(175)**	(1,065)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(15,402)**	1,801
Minority interests		**865**	(160)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	**(14,537)**	1,641
EARNINGS/(LOSS) PER SHARE	13		
– Basic		**HK(3.03) cents**	HK0.37 cents
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 March 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**82,823**	84,171
Long term deposits	15	**308**	1,476
		83,131	85,647
CURRENT ASSETS			
Inventories	17	**43,022**	37,510
Trade receivables	18	**16,642**	23,384
Prepayments, deposits and other receivables		**6,780**	2,446
Cash and bank balances		**1,485**	1,794
Pledged bank deposits	21	**1,667**	1,000
		69,596	66,134
CURRENT LIABILITIES			
Trade creditors and bills payable	19	**8,534**	13,771
Tax payable		**10,139**	10,450
Accrued liabilities and other payables		**8,462**	3,867
Due to a director	20	**635**	–
Interest-bearing bank loans, secured	21	**28,834**	16,022
Interest-bearing other loans, secured	21	**374**	–
Trust receipt loans	21	**5,867**	2,768
Current portion of finance lease payables	23	**2,195**	2,027
		65,040	48,905
NET CURRENT ASSETS		**4,556**	17,229
TOTAL ASSETS LESS CURRENT LIABILITIES		**87,687**	102,876
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	21	**22,747**	32,692
Long term payables	22	**9,787**	–
Finance lease payables	23	**338**	2,364
		32,872	35,056
MINORITY INTERESTS		**6,573**	7,200
		48,242	60,620

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CONSOLIDATED BALANCE SHEET

31 March 2003

	Notes	2003 HK$'000	2002 HK$'000
CAPITAL AND RESERVES			
Issued capital	24	**4,800**	4,800
Reserves	26	**43,442**	55,820
		48,242	60,620

Wong Ben Koon
Director

Ng Hon Fai
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGE IN EQUITY

Year ended 31 March 2003

	Notes	2003 HK$'000	2002 HK$'000
Total equity at 1 April 2002		**60,620**	38,547
Surplus on revaluation of leasehold land and buildings	26	**2,159**	5,432
Net gains not recognised in the profit and loss account		**2,159**	5,432
Placing of shares		**–**	28,800
Capitalisation issues of shares		**–**	(3,400)
Share issue expenses		**–**	(15,000)
Issue of share capital		**–**	4,600
Net profit/(loss) from ordinary activities attributable to shareholders	26	**(14,537)**	1,641
Total equity at 31 March 2003		**48,242**	60,620

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(15,227)**	2,866
Adjustments for:			
Finance costs	8	**3,602**	4,168
Interest income	7	**(14)**	(43)
Gain on disposal of fixed assets	7	**(184)**	–
Depreciation	7	**7,030**	6,223
Operating profit/(loss) before working capital changes		**(4,793)**	13,214
Decrease in long term deposits		**533**	–
(Increase)/decrease in inventories		**(5,512)**	5,563
(Increase)/decrease in trade receivables		**6,742**	(8,895)
(Increase)/decrease in prepayments, deposits and other receivables		**(4,334)**	4,392
Increase/(decrease) in trade creditors and bills payable		**(5,237)**	501
Increase/(decrease) in long term payables		**9,787**	(8,058)
Increase/(decrease) in accrued liabilities and other payables		**4,595**	(2,533)
Cash generated from operations		**1,781**	4,184
Interest received		**14**	43
Interest paid		**(3,389)**	(3,855)
Interest element on finance lease rental payments		**(213)**	(313)
Overseas taxes paid		**(486)**	(930)
Net cash outflow from operating activities		**(2,293)**	(871)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	14	**(3,450)**	(16,770)
(Pledge of)/release of pledged bank deposits		**(667)**	1,663
Proceeds from disposal of fixed assets		**984**	–
Net cash outflow from investing activities		**(3,133)**	(15,107)

continued/...

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of bank loans		**7,477**	6,187
Drawdown of other loan		**374**	–
Repayment of bank loans		**(4,610)**	–
Repayment of other loans		**–**	(4,673)
Cash inflow from sales and leaseback transaction		**–**	6,080
Capital element of finance lease rental payments		**(1,858)**	(1,689)
Increase in amount due to a director		**635**	–
Increase/(decrease) of trust receipts loans		**3,099**	(3,953)
Issue of share capital		**–**	30,000
Share issue expenses		**–**	(15,000)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**5,117**	16,952
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(309)**	974
Cash and cash equivalents at beginning of year		**1,794**	820
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,485**	1,794
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,485**	1,794

BALANCE SHEET

31 March 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**11**	15
Investments in subsidiaries	16	**35,862**	38,542
		35,873	38,557
CURRENT ASSETS			
Prepayments and deposits		**414**	540
Due from subsidiaries	16	**14,493**	14,644
Cash and bank balances		**2**	5
		14,909	15,189
CURRENT LIABILITIES			
Accrued liabilities		**2,450**	1,004
Due to a subsidiary	16	**90**	–
		2,540	1,004
NET CURRENT ASSETS		**12,369**	14,185
		48,242	52,742
CAPITAL AND RESERVES			
Issued capital	24	**4,800**	4,800
Reserves	26	**43,442**	47,942
		48,242	52,742

Wong Ben Koon
Director

Ng Hon Fai
Director

1. Corporate information

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

At 31 March 2003, the principal place of business of Prosperity International Holdings (H.K.) Limited was located at 11/F Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. During the year, the Group's principal activities were 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 which in turn is a subsidiary of 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 ("SSAPs")

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

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

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 these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 26 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

2. Impact of new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") *(continued)*

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. The definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and in note 27(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 25 to the financial statements. These disclosures are similar to those previously required to be disclosed in the Report of the Directors by the Rules Governing the Listing of Securities (the "Listing Rules") on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and which are now included in the notes to the financial statements as a consequence of the SSAP.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. Summary of significant accounting policies *(continued)*

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. 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, directly or indirectly, over the joint venture company.

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 permitted goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the 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.

3. Summary of significant accounting policies *(continued)*

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 buildings and plants under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this 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. Any subsequent revaluation surplus is credited to profit and loss account to the extent of the deficit previously charged.

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

Depreciation is calculated on the straight-line basis to write off the cost of or valuation 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%

Land use rights are amortised over the unexpired lease terms.

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.

3. Summary of significant accounting policies *(continued)*

Impairment of assets *(continued)*

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.

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.

3. Summary of significant accounting policies *(continued)*

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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 a liability.

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 exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 27(a) to the financial statements.

3. Summary of significant accounting policies *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 27(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

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 2003 and 2002.

3. Summary of significant accounting policies *(continued)*

Employee benefits *(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. 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.

The Company's subsidiary in the mainland of the People's Republic of China, ("Mainland China") is a member of the state-managed retirement benefits scheme operated by the local municipal government. The retirement scheme contributions, which are based on a certain percentage of the salaries of this subsidiary's 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 this scheme.

Share option scheme

The Company operates a share option 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.

The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. Related party transactions

The Group had the following transactions with related parties during the year:

	Notes	2003 HK$'000	2002 HK$'000
Rental expenses paid to Cheong Sing Merchandise Agency Limited ("CMAL")	(a)	**90**	150
Sales to 上海昌興國際貿易公司	(b)	**1,118**	–

Notes:

(a) Rental expenses paid to CMAL, of which Mr. Wong Ben Koon and Madam Hon Ching Fong are directors and in which they have beneficial interests, were calculated with reference to open market rental values as determined by the directors.

(b) The directors consider that the sales to上海昌興國際貿易公司(「上海昌興」) constituted related party transactions in the current year as Mr. Hong Cheng Chang, who was appointed as a director of the Company effective from 12 September 2002, is a director of and has a beneficial interest in上海昌興.

The sales to 上海昌興 for the period from 12 September 2002 to 31 March 2003 were made according to the published prices and conditions offered to the major customers of the Group.

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

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

7. Profit/(loss) from operating activities

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

	2003 HK$'000	2002 HK$'000
Cost of inventories sold	78,729	84,486
Depreciation and amortisation (note 14)	7,030	6,223
Minimum lease payments in respect of operating lease rentals for land and buildings	90	150
Staff costs (excluding directors' remuneration - note 9)		
Wages and salaries	7,847	8,831
Retirement benefits scheme contributions	56	63
	7,903	8,894
Auditors' remuneration	520	600
Gain on disposal of fixed assets	(184)	–
Exchange gains, net	(1)	(195)
Interest income	(14)	(43)

The cost of inventories sold includes HK$8,155,000 (2002: HK$7,965,000) 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

	2003 HK$'000	2002 HK$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	2,977	3,032
Other loans	11	511
Trust receipt loans	401	312
Finance lease payables	213	313
	3,602	4,168

9. Directors' remuneration

Particulars of the directors' remuneration, disclosed pursuant to the GEM Listing Rules of the GEM of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**183**	104
	183	104
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**1,499**	990
Retirement benefits scheme contributions	**67**	46
	1,566	1,036
	1,749	1,140

The two (2002: three) independent non-executive directors received individual fees of approximately HK$120,000 and HK$63,000 (2002: HK$90,000 and HK$14,000) during the year ended 31 March 2003. The five (2002: three) executive directors received individual emoluments of approximately HK$756,000, HK$450,000, HK$126,000, HK$137,000 and HK$97,000 (2002: HK$567,000, HK$95,000 and HK$374,000) during the year ended 31 March 2003.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors in respect of their services to the Group. Further details of the share option scheme of the Company are set out in note 25 to the financial statements.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining, the Group, or as compensation for the loss of office (2002: Nil).

10. Five highest paid employees

The five highest paid employees during the year included three (2002: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2002: three) non-director, highest paid employees are set out below:

	2003	2002
	HK$'000	HK$'000
Salaries, other allowances and benefits in kind	**986**	1,886

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

	Number of individuals	
	2003	2002
Nil - HK$1,000,000	**2**	3

During the year, no share options were granted to the two non-director, highest paid employees in respect of their services to the Group. Further details of the share option scheme of the Company are set out in note 25 to the financial statements.

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining, the Group, or as compensation for the loss of office (2002: nil).

11. Tax

	2003	2002
	HK$'000	HK$'000
Current:		
Hong Kong	**–**	–
Elsewhere	**175**	1,065
Charge for the year	**175**	1,065

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The revaluation of the Group's medium term leasehold land and buildings outside Hong Kong (note 14) 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 because as the Company and the Group had no significant timing differences as at 31 March 2003 (2002: Nil).

12. Net profit/(loss) from ordinary activities attributable to shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company is HK$4,500,000 (2002: HK$805,000).

13. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$14,537,000 (2002: net profit of HK$1,641,000) and the weighted average of 480,000,000 (2002: 439,562,000) shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 31 March 2002 and 2003 have not been calculated as no diluting events existed during either years.

14. Fixed assets

Group

	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	344	863	2,233	645	4,085
Disposals	(886)	–	–	(303)	(1,189)
Revaluation	(351)	–	–	–	(351)
At 31 March 2003	47,757	6,698	43,689	4,172	102,316
At 31 March 2003					
At cost	–	6,698	43,689	4,172	54,559
At valuation	47,757	–	–	–	47,757
	47,757	6,698	43,689	4,172	102,316
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

14. Fixed assets *(continued)*

	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
Accumulated depreciation:					
At 1 April 2002	883	–	12,667	2,050	15,600
Provided during the year	1,981	–	4,434	615	7,030
Disposals	(116)	–	–	(273)	(389)
Reversal upon revaluation	(2,748)	–	–	–	(2,748)
At 31 March 2003	–	–	17,101	2,392	19,493
Net book value:					
At 31 March 2003	47,757	6,698	26,588	1,780	82,823
At 31 March 2002	47,767	5,835	28,789	1,780	84,171

Certain of the Group's leasehold land and buildings were valued on an open market, existing use basis at 31 March 2003 by Sallmanns (Far East) Limited, independent professionally qualified valuers, at HK$46,500,000. A surplus, net of minority interest's share, of HK$2,159,000 arising therefrom, which represents the excess of the revaluated 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 26).

The directors believe that the carrying amount of the remaining medium leasehold land and buildings in the Mainland China of HK$1,257,000 approximates their fair value as at 31 March 2003.

Had the Group's land and buildings been carried at cost less accumulated depreciation, their carrying amount would have been approximately HK$17,864,000.

As at 31 March 2003, certain medium term leasehold land and buildings outside Hong Kong, plant and machinery with a total net book value of HK$2,264,000, and certain motor vehicles with net book value of HK$312,000 were pledged to secure banking and other loan 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 as at 31 March 2003 amounted to HK$6,369,000 (2002: HK$7,217,000).

14. Fixed assets *(continued)*

Company

	Office equipment HK$'000
Cost:	
At 1 April 2002 and at 31 March 2003	16
Accumulated depreciation:	
At 1 April 2002	1
Provided during the year	4
At 31 March 2003	5
Net book value:	
At 31 March 2003	11
At 31 March 2002	15

15. Long term deposits

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

16. Investments in subsidiaries

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted investments, at cost	**38,542**	38,542
Provision for impairment	**(2,680)**	–
	35,862	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.

16. Investments in subsidiaries *(continued)*

Particulars of the Company's subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Profit World Ventures Limited	British Virgin Islands/ Hong Kong	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.	Mainland China	US$3,360,000	–	90	Manufacture and trading of decorative sheets, comprising high pressure laminates
Golden Tapestry Profits Limited	British Virgin Islands/ Mainland China/ Hong Kong	Ordinary US$2	–	100	Trading of decorative sheets, comprising high pressure laminates

Note: Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS") is a Sino-foreign equity joint venture company established in Mainland China. The registered and paid-up capital of GXDS was HK$25 million as at 31 March 2003.

17. Inventories

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**22,211**	23,806
Work in progress	**1,814**	597
Finished goods	**18,997**	13,107
	43,022	37,510

At the balance sheet date, no inventories were stated at net realisable value (2002: Nil).

18. Trade receivables

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at the 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 trade receivables as at 31 March 2003 is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0 - 90 days	**5,828**	12,836
91 - 180 days	**5,672**	8,447
181 - 365 days	**5,142**	2,101
	16,642	23,384

The above analysis of trade receivables is based on the invoice date.

19. Trade creditors and bills payable

An aged analysis of the Group's trade creditors and bills payable as at 31 March 2003 is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
0 - 90 days	**4,793**	9,131
91 - 180 days	**2,846**	3,037
181 - 365 days	**755**	1,603
Over 365 days	**140**	–
	8,534	13,771

The above analysis of trade creditors and bills payable is based on the date of receipt of the goods.

20. Due to a director

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

21. Interest-bearing bank and other loans

	Group	
	2003	2002
	HK$'000	HK$'000
Secured bank loans repayable:		
Within one year	**28,834**	16,022
In the second year	**22,747**	32,692
	51,581	48,714
Portion classified as current liabilities	**(28,834)**	(16,022)
Long term portion	**22,747**	32,692
Secured other loan repayable within one year	**374**	–

At the balance sheet date, the Group's interest-bearing bank loans and other loan 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 RMB18,404,000 (equivalent to approximately HK$17,055,000) (2002: RMB44,397,000 (equivalent to approximately HK$41,492,000));

(b) the pledge of certain plant and machinery, and motor vehicles with an aggregate net book value of RMB2,756,000 (equivalent to approximately HK$2,575,700) (2002: RMB499,000 (equivalent to approximately HK$466,000)); and

(c) pledged bank deposits of HK$1,667,000 (2002: HK$1,000,000).

22. Long term payables

Long term payables represent amounts due to certain third party suppliers in respect of purchases of raw materials which are repayable from 30 June 2004 onwards in accordance with the terms agreed with the suppliers.

23. Finance lease payables

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

At 31 March 2003, the Group's total future minimum lease payments under the finance lease and their present values were as follows:

	Minimum lease payments 2003 HK$'000	Minimum lease payments 2002 HK$'000	**Present value of minimum lease payments 2003 HK$'000**	Present value of minimum lease payments 2002 HK$'000
Amounts payable:				
Within one year	**2,293**	2,234	**2,195**	2,027
In the second year	**340**	2,453	**338**	2,364
Total minimum finance lease payments	**2,633**	4,687	**2,533**	4,391
Future finance charges	**(100)**	(296)		
Total net finance lease payables	**2,533**	4,391		
Portion classified as current liabilities	**(2,195)**	(2,027)		
Long term portion	**338**	2,364		

24. Share capital

	2003 HK$'000	2002 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
480,000,000 ordinary shares of HK$0.01 each	**4,800**	4,800

25. Share option scheme

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Share option scheme" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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 full-time 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 terminated or amended, will remain in force for 10 years from that date.

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 options which exceeds 25% of the aggregate number of shares issued and issuable under the Scheme.

The offer of a grant of an option may be accepted by the employee in writing within three business days from the date of the offer of the grant of the option, upon payment of a nominal consideration of HK$1 in total by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors to each grantee, and the period within which the shares must be taken up must not be less than three years and not more than 10 years from the date of grant of the option. The directors may provide restrictions on the exercise of an option during the period in which an option may be exercised.

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 sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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 its directors or 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.

25. Share option scheme *(continued)*

The directors propose to terminate the Scheme and adopt a new share option scheme which will be in line with the changes made to the Listing Rules in relation to share option schemes, at the forthcoming annual general meeting of the Company. Details of the proposed new share option scheme will be set out in a circular of the Company to its shareholders dated 28 July 2003.

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

26. Reserves

Group	Share premium account HK$'000	Contributed surplus HK$'000	Goodwill reserve HK$'000	Asset revaluation reserve HK$'000	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 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 and 1 April 2002	10,400	14,878	(1,522)	26,255	5,809	55,820
Revaluation surplus	–	–	–	2,397	–	2,397
Minority equity holder's share of revaluation surplus	–	–	–	(238)	–	(238)
Net loss for the year	–	–	–	–	(14,537)	(14,537)
At 31 March 2003	10,400	14,878	(1,522)	28,414	(8,728)	43,442

Goodwill arising on the acquisition of a subsidiary in prior years of HK$1,522,000 remained eliminated against consolidated reserves. This amount of goodwill is stated at cost.

The contributed surplus of the Group arose as a result of the Group reorganisation implemented in preparation for the 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.

26. Reserves *(continued)*

Company	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 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 and 1 April 2002	10,400	38,342	(800)	47,942
Net loss for the year		–	(4,500)	(4,500)
At 31 March 2003	10,400	38,342	(5,300)	43,442

The contributed surplus of the Company arose as a result of the Group reorganisation in preparation for the 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.

27. Notes to consolidated cash flow statement

(a) Reclassifications

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes and interest received and paid are now included in cash flows from operating activities, and dividends paid are now included in cash flows from financial activities. The presentation of the 2002 comparative cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove trust receipt loans amounting to HK$2,768,000, previously included as cash and cash equivalents at that date. The current year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative consolidated cash flow statement has been changed accordingly.

27. Notes to consolidated cash flow statement *(continued)*

(b) Major non-cash transaction

During the year, the Group transferred long term deposits of HK$635,000 (2002: HK$307,000) as additions to fixed assets upon receiving the related fixed assets.

28. Operating lease arrangements

The Group leased certain leasehold land and buildings under operating lease arrangements. The original lease terms for these land and buildings ranged from one to three years at 31 March 2002.

The Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	2003	2002
	HK$'000	HK$'000
Within one year	–	90
In the second to fifth years	–	60
	–	150

The Company did not have any operating lease arrangements as at 31 March 2003 (2002: Nil).

29. Commitments

In addition to the operating lease commitments detailed in note 28 above, at the balance sheet date, the Group had contracted, but not provided for, commitments in respect of acquisitions of plant and machinery of HK$1,280,000 (2002: HK$357,000).

The Company did not have any significant commitments as at 31 March 2003 (2002: Nil).

30. Contingent liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (2002: Nil).

As at 31 March 2003, the Company had provided corporate guarantees to banks for banking facilities amounted to HK$13,677,000 granted to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$10,581,000 (2002: HK$14,538,000) as at the balance sheet date.

31. Post balance sheet event

Subsequent to the balance sheet date, Mr. Wong Ben Koon ("Mr. Wong"), a director of the Company, advanced approximately HK$7,040,000 to the Group. The advance is unsecured and interest-free. The Company does not expect to have to repay such advance before August 2004.

32. Comparative amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

33. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 28 July 2003.

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the published results of the Group for the four years ended 31 March 2003 and the assets, liabilities and minority interests of the Group as at 31 March 2001, 2002 and 2003, prepared on the basis set out in notes 1 and 2 below.

	Year ended 31 March			
	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS				
Turnover	**84,254**	109,576	137,589	115,812
Profit/(loss) before tax	**(15,227)**	2,866	24,935	19,676
Tax	**(175)**	(1,065)	(4,688)	(2,875)
Profit/(loss) before minority interests	**(15,402)**	1,801	20,247	16,801
Minority interests	**865**	(160)	(2,203)	(1,528)
Net profit/(loss) from ordinary activities attributable to shareholders	**(14,537)**	1,641	18,044	15,273

	As at 31 March		
	2003	2002	2001
	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS			
Fixed assets	**82,823**	84,171	67,282
Long term deposits	**308**	1,476	1,783
Net current assets	**4,556**	17,229	24,164
Non-current liabilities	**(32,872)**	(35,056)	(48,245)
Minority interests	**(6,573)**	(7,200)	(6,437)
	48,242	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. The published results of the Group for the two years ended 31 March 2003 were extracted from the audited financial statements of the Company.

2. The only consolidated balance sheets that have been prepared to date are those as at 31 March 2001, 2002 and 2003.

NOTICE IS HEREBY GIVEN that the annual general meeting (the "**AGM**") 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 August, 2003 (Monday) at 11:00 a.m. for the following purposes:

1. to receive and consider the audited consolidated financial statements of the Company and reports of the directors and auditors for the year ended 31 March, 2003;

2. to re-elect the retiring directors and authorise the board of directors to fix the remuneration of the directors of the Company;

3. to re-appoint auditors and to authorise the board of directors to fix the remuneration of auditors;

and, as special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company respectively, with or without modifications:

ORDINARY RESOLUTIONS

4. "**THAT** conditional upon the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting approval of the listing of, and permission to deal in, the shares of HK$0.01 each in the share capital of the Company which may fall to be issued pursuant to the exercise of options which may be granted under the New Share Option Scheme (as defined in the Circular), the rules of which are set out in the document marked "A" produced to this meeting and signed for the purpose of identification by the Chairman of the meeting:

   (A) the Existing Share Option Scheme (as defined in the Circular) be terminated immediately upon the New Share Option Scheme becoming unconditional; and

   (B) the New Share Option Scheme be and is hereby approved and adopted and the board of directors of the Company (or any committee thereof) be and are hereby authorised, at their absolute discretion, to grant options to subscribe for shares in the Company thereunder and to allot, issue and deal with shares in the Company pursuant to the exercise of subscription rights under any options which may be granted under the New Share Option Scheme and to do all such acts as they may in their absolution discretion consider necessary or expedient to give effect to the New Share Option Scheme."

5. "**THAT**:

   (A) subject to paragraph (C) of this Resolution, the directors of the Company be and are hereby granted an unconditional general mandate to exercise during the Relevant Period (as hereinafter defined in this Resolution) to exercising 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 or acquire 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 of the Company 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 to be 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 of the Company pursuant to the mandate referred to in paragraph (A) above, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined in this Resolution);

(ii) the exercise of rights of subscription or conversion under the terms of any options, warrants or similar rights or convertible securities issued by the Company or any securities which are 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 any applicable law or the bye-laws of the Company 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 other securities of the Company open for a period fixed by the directors of the Company to holders of Shares registered on the register of members 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 of the Company 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 recognised regulatory body or any stock exchange in, any territory applicable to the Company); and

(E) the general mandate of the kind referred to in paragraph (A) of this Resolution which was granted to the directors of the Company previously and is still in effect prior to the conclusion of this Meeting be and is hereby revoked."

6. "**THAT**:

(A) subject to paragraph (B) of this Resolution, the exercise by the directors of the Company 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 on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose pursuant to the approval in paragraph (A) of this Resolution 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;

(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 any applicable law or the bye-laws of association of the Company 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

(D) the general mandate of the kind referred to in paragraph (A) of this Resolution which was granted to the directors of the Company previously and is still in effect prior to the conclusion of this meeting be and is hereby revoked."

7. "**THAT** conditional upon the passing of Ordinary Resolutions No. 5 and 6 set out in the notice convening this annual general meeting, 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 of the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 5 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 repurchase mandate granted under Ordinary Resolution No. 6 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 this Resolution."

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

Hong Kong, 28 July, 2003

Notes:

1. A member entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxy(ies), to attend and, subject to the provisions of the bye-laws of the Company, vote on his behalf. A proxy need not be a member of the Company. A proxy form for use at the AGM is enclosed.

2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority at the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited, 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less that 48 hours before the time appointed for the holding of the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. In the case of joint registered holders of any shares of the Company ("Shares"), any one of them may vote at the meeting, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto; but if more than one of such joint registered holders be present at the meeting, either personally or by proxy, that one of them so present whose name stands first in the register of members in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holders.

4. A circular containing further details regarding Resolutions No. 4 to 7 as required by the GEM Listing Rules will be despatched to shareholders of the Company together with the 2003 Annual Report.