

ANNUAL REPORT **2004**



Prosperity International Holdings (H.K.) Limited

昌興國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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BOARD OF DIRECTORS

Executive Directors

Mr. WONG Ben Koon, *Chairman*
Mr. NG Hon Fai
Madam HON Ching Fong
Mr. CHOI Yat Choy
Mr. KONG Siu Keung

Independent Non-Executive Directors

Mr. MO Kwok Choi
Mr. YUEN Kim Hung, Michael

COMPLIANCE OFFICER

Mr. WONG Ben Koon

QUALIFIED ACCOUNTANT

Mr. KONG Siu Keung, *FCCA*

COMPANY SECRETARY

Mr. KONG Siu Keung, *FCCA*

AUTHORISED REPRESENTATIVES

Mr. WONG Ben Koon
Mr. NG Hon Fai

MEMBERS OF AUDIT COMMITTEE

Mr. MO Kwok Choi
Mr. YUEN Kim Hung, Michael

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

10th Floor
Prosperity Industrial Building
89 Wai Yip Street
Kwun Tong
Kowloon
Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
28th Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK EXCHANGE LISTING

The Growth Enterprise Market of
The Stock Exchange of
Hong Kong Limited

STOCK CODE

8139

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

SOLICITORS

Sidley Austin Brown & Wood
39th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Taiwan Business Bank
Bank of China (Hong Kong) Limited

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Directors"), I am pleased to present the annual results of Prosperity International Holdings (H.K.) Limited ("Prosperity International" or the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2004.

For the year under review, the Group's turnover and net loss were approximately HK\$66,499,000 and approximately HK\$29,333,000, representing a decrease of 21.1% and increase of 101.8%, respectively, as compared with the previous year.

Year 2003 was a challenging year for Prosperity International. The Group was mainly engaged in manufacturing and trading of decorative sheets, formally known as high pressure laminates, under our own brand names "Waika", "Pearl" and "Pearl Prince". In the first half of the financial year, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in China affected various industries across the country and the operation of the Group was unexpectedly affected of no exception. The outbreak of SARS held up domestic traffic and delayed the delivery of goods. Moreover, marketing and sales activities were seriously affected. Many trade fairs were postponed or cancelled.

The outbreak of SARS also intensified the competition in the high pressure laminates industry. In order to maximize the market share in the highly versatile industry, the manufacturers and suppliers of high pressure laminates launched cut-throat pricing strategies. The Group continued to cut the selling price and the lower gross profit margin on lower-end "Pearl Prince" brand so as to compete with other low-end products in Mainland China.

After carrying out a careful market investigation, the Group decided to shift the product focus to high-end products by bringing to the market metal-surfaced decorative sheets, including aluminum and stainless steel-surfaced decorative sheets, and development of 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 classed business centres, hotels, airports, railway stations and labs. The Group is now actively promoting to newly built airports and high classed premises within Mainland China. The compact laminates are not inferior in quality and better price than those imported from North America and Europe. The Directors are of the view that there is a strong market potential for these classes of product.

Wong Ben Koon

Chairman

Hong Kong, 24 June 2004

BUSINESS REVIEW

The Company has been listed on the GEM of the Stock Exchange for almost three years. With ten years of experience in the manufacture and sales of high pressure laminates, the Company, despite strong competition both at home and abroad, has maintained as one of the top largest decorative sheet manufacturers in China for the past three 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 draft paper. The Company has chosen high quality domestically made paper to reduce production costs while still ensuring the quality of products.

The Group ceased to promote "Pearl Prince" starting from late June 2003 as this brand of high pressure laminates had caused unfavorable gross margin.

The Direct Sales Division, established since June 2003, continues targeting manufacturing plants and other bulk end-users. The direct sales team can sell and promote our focal products to our customers directly and more effectively. On the other hand, the Group continues to identify strategic distributors in the cities which we plan to explore our market. Distributors in the cities of Jiangmen, Zhongshan, Nanjing, Taiyuan, Zhengzhou, Baoding, Hunan and Nanning have been evaluated and selected during the year and they will serve as channels for generating additional sales.

The Group also raises market awareness of its brand product by participating in the decoration and furniture exhibitions held in Beijing, Guangzhou and Zhengzhou during the year.

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the audited financial statements of 2004 and the related notes in this report.

Results

During the year under review, the Group recorded a turnover of approximately HK\$66.5 million, representing a decrease of approximately 21.1% compared with the previous year. The Group recorded a gross loss of approximately HK\$10.0 million as compared to a gross profit of HK\$5.5 million for the previous year. Net loss attributable to shareholders of the Company for the year was approximately HK\$29.3 million as compared to approximately HK\$14.5 million for the previous year.

FINANCIAL REVIEW *(continued)***Results** *(continued)*

The decline in the Group's gross margin was mainly due to (i) the lower average selling price arising from the intense price competition with domestic suppliers in other provinces; (ii) the increase in average cost of chemical raw materials purchased during the year as a result of supply shortage in the region; and (iii) a provision of approximately HK\$8.5 million for slow-moving inventories.

Administrative expenses incurred during the year increased by approximately 4.8% as compared with the previous year. Selling and distribution cost incurred during the year increased by approximately 4.8% as compared with the previous year.

Financial Resources, Liquidity and Gearing Ratio

The Group generally finances its operations and settles its debts with cash generated from its operations, banking facilities provided by its principal bankers and the interest-free and non-secured financial support provided by Mr. Wong Ben Koon, chairman and a major shareholder of the Company. As at 31 March 2004, the Group had cash of approximately HK\$2.5 million and bank borrowings of approximately HK\$46.8 million. Taking into consideration the continuing support from Mr. Wong and our major bankers, the Directors believe that the Group has adequate financial resources to meet its ongoing operations.

The Group's gearing ratio measured in terms of total borrowings divided by total assets, was 47.4% as at 31 March 2004 (2003: 40.8%). The increase was mainly due to the substantial amount of additional financial support of approximately HK\$12.3 million granted by Mr. Wong during the year.

Foreign Exchange

During the year under review, the Group used the internally generated funds, bank loans and loans from Mr. Wong 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 2004, the Group made no significant investments or acquisitions or disposals of subsidiaries.

FINANCIAL REVIEW *(continued)***Contingent Liabilities**

The Group did not have any significant contingent liabilities at 31 March 2004.

As at 31 March 2004, the Company had provided corporate guarantees to banks for banking facilities amounting to approximately HK\$6,898,000 granted to certain of its subsidiaries. These banking facilities had been utilized to the extent of approximately HK\$1,385,000 as at 31 March 2004.

Charge on Group Assets

As at 31 March 2004, the Group's interest-bearing bank and other loans were secured 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 HK\$44,261,000;
- (b) pledge of plant and machinery and motor vehicles with an aggregate net book value of HK\$20,089,000;
- (c) pledge of time deposits of HK\$1,210,000;
- (d) corporate guarantee executed by an independent third party; and
- (e) personal guarantee executed by a director of the Company.

Commitment

The Group had total future minimum lease payments under non-cancellable operating leases falling due within one year of HK\$90,000 as at 31 March 2004.

The Group also had contracted, but not provided for, commitments in respect of acquisition of plant and machinery of HK\$82,000 as at 31 March 2004.

The Company did not have any significant commitments as at 31 March 2004 (2003: Nil).

FINANCIAL REVIEW *(continued)*

Human Resources

As at 31 March 2004, the Group had a total of 300 staff of which 290 are based in Mainland China and 10 are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	Mainland China	Hong Kong	Total
Management	10	5	15
Sales and marketing	14	2	16
Production and quality control	233	–	233
Research and development	8	–	8
Finance and administration	25	3	28
	290	10	300

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. With the view to retaining certain important employees who will continue to make valuable contribution to the Group, share options to subscribe for shares of the Company in accordance with the New Share Option Scheme adopted on 25 August 2003 may be granted.

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.

FUTURE PROSPECTS

The Group's success in becoming one of the top largest decorative sheet manufacturers in Mainland China from a small factory, raising the quality of its products to reach international standard and obtaining ISO9002 accreditation are attributable to the in-depth market knowledge and support of the major shareholder, leadership of the management and cooperation of the staff.

Looking ahead, the Group will seek for new marketing strategies, develop new products and strengthen organization and management team. In addition, we endeavor to seek more potential clients both in domestic market and international markets, in order to enlarge base to provide impetus for the further growth of the Group with the aim to create profit to our investor and shareholders.

FUTURE PROSPECTS *(continued)*

Furthermore, we will actively provide training to create the best working environment for our staff and to improve their sense of belonging. Management will work hand in hand with all staff to promote the business of the Company, with the aim of establishing the leading position of Prosperity International within the industry and to achieve outstanding results and bring fruitful rewards to shareholders.

The management would like to take this opportunity to express our heartfelt gratitude to all shareholders and staff for their support in the past year. In view of the fact that the Group experienced a difficult business environment in the past two years, more senior professional management executives have been invited to join the Group to improve its performance. We look forward to achieving our brilliant results to the shareholders in the future.

EXECUTIVE DIRECTORS

Mr. WONG Ben Koon, aged 51, is one of the co-founders of the Group and the chairman of the Company. Mr. Wong is responsible for the corporate culture and strategic planning of the Group. Mr. Wong has over 9 years experience in the manufacture and trading of decorative sheets and has extensive experience in running business in Mainland China.

Mr. NG Hon Fai, aged 44, is one of the co-founders and an executive director of the Company. Mr. Ng is responsible for marketing and business development of the Group. Mr. Ng has over 9 years experience in the management and sales of decorative sheets.

Madam HON Ching Fong, aged 56, is an executive director of the Company. Madam Hon is responsible for the Group's human resources management and administration. Madam Hon joined the Group as a director in July 1997.

Mr. CHOI Yat Choy, aged 37, is an executive director and the Chief Operating Officer of the Company. Mr. Choi is responsible for exploring business opportunities and monitoring the Group's operations in the PRC. Mr. Choi holds a Master's degree in Business Administration. Mr. Choi joined the Group in January 2004 and has over 10 years experience in business development and management in the PRC.

Mr. KONG Siu Keung, aged 35, is an executive director and the Chief Financial Officer of the Company. Mr. Kong holds a Master's degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants. Mr. Kong joined the Group in January 2004 and has over 11 years experience in finance and accounting field.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. MO Kwok Choi, aged 69, 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 43, was appointed as an independent non-executive director in January 2002. Mr. Yuen 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. Mr. Yuen has over 11 years experience in auditing, tax and accounting field.

SENIOR MANAGEMENT

Mr. KE Mei Hai, aged 39, joined the Group in September 1999 as the accounting manager of Guangzhou Xingda Decorative Sheets Co., Ltd. Mr. Ke holds a degree of finance and accounting from Zhongnan University of Economics and Finance in the PRC. Mr. Ke has been a Certified Public Accountant of China since October 1994.

COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

COMPARISON OF BUSINESS PROGRESS

For the year ended 31 March 2004

	Business objectives set out in the prospectus	Actual business progress
A. Sales		
	20	112
	20	32
B. Market expansion	<p>To expand the sales team and develop the domestic market of 3 city located in Jiangsu and Zhejiang provinces in the PRC.</p> <p>To continue the overseas market expansion and seek suitable distribution agency in the Asia Pacific region.</p> <p>To promote the brand names of the product through advertisement in the newspaper published in the major cities in the PRC.</p>	<p>The Group successfully identified distributors in the cities of Jiangmen, Zhongshan, Nanjing, Taiyuan, Zhengzhou and Baoding.</p> <p>During the year 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 network in the Asia Pacific region.</p> <p>The Group has published product catalog and produced product sampling in promoting its products, mainly "Waika" and "Pearl" brand.</p>

COMPARISON OF BUSINESS PROGRESS (continued)

For the year ended 31 March 2004

	Business objectives set out in the prospectus	Actual business progress
C. Production capacity (no. of pieces)	2,976,000	3,000,000
	To finish the installation of the 6th production line and commence production after the performance of quality testing by the Company.	The installation of the sixth production line was deferred.
D. Research and development	To conduct research and development on new products.	The Group commenced the research and development of chemical resistant laminates since last year. This laminate is widely used in hospital and school laboratory table as it is chemical and stain resistant. The product successfully passed the product tests conducted by National Center for Testing of Chemical Building Materials.
	To send staff to relevant exhibitions and conferences to obtain the latest knowledge and technology of decorative sheet industry.	The Group sent staff to participate in decoration and furniture exhibitions held in Beijing, Guangzhou and Zhengzhou.
E. Human Resources (no. of staff)		
– Sales and marketing	30	16
– Research and development	5	8
– Finance and administration	10	28
– Production	420	233
– Management	9	15
	<hr/>	<hr/>
Total headcount	474	300
	<hr/>	<hr/>

USE OF PROCEEDS FROM THE GROUP'S INITIAL PUBLIC OFFERING

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 approximately HK\$15.0 million. The net proceeds applied up to 31 March 2004 were as follows:

	Intended use of proceeds as set out in the Prospectus <i>HK\$ million</i>	Actual use of net proceeds up to 31 March 2004 <i>HK\$ million</i>
Purchase of production facilities	12.6	9.6
Purchase of land and buildings	9.6	5.2
Marketing and sales	3.0	0.2
Working capital	2.8	Nil
	<hr/>	<hr/>
Total	28.0	15.0
	<hr/>	<hr/>

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2004.

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 significant 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 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 60.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results of the Group for the last five financial years and of the assets, liabilities and minority interests of the Group at the end of the last four years, as extracted from the prospectus of the Company for the two years ended 31 March 2001 and the annual reports of the Company for the three years ended 31 March 2004, is set out on pages 61 to 62 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

Details of the movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 26 to the financial statements.

For the year ended 31 March 2004, no share options were granted. Details of the Company's share option schemes are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2004, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is thereafter able to pay off its debts as and when they fall due. The Company's share premium account, in the amount of HK\$14,196,000 as at 31 March 2004, 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 44% of the total sales for the year and sales to the largest customer included therein amounted to 16%. Purchases from the Group's five largest suppliers accounted for 37% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Wong Ben Koon

Mr. Ng Hon Fai

Madam Hon Ching Fong

Mr. Cheung Sui Sing (resigned on 30 April 2003)

Mr. Hong Cheng Chang (resigned on 16 February 2004)

Mr. Lam Hei Shing, Joseph (appointed on 5 May 2003 and resigned on 22 April 2004)

Mr. Choi Yat Choy (appointed on 12 February 2004)

Mr. Kong Siu Keung (appointed on 12 February 2004)

Independent non-executive directors:

Mr. Mo Kwok Choi

Mr. Yuen Kim Hung, Michael

In accordance with the Company's bye-laws, Mr. Choi Yat Choy and Mr. Kong Siu Keung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with clause 87 of the Company's bye-law, Mr. Yuen Kim Hung, Michael and Mr. Ng Non Fai retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 page 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Kong Siu Keung and Mr. Choi Yat Choy have entered into service contracts with the Company commencing from 12 February 2004 which will continue thereafter until terminated by not less than three months' prior notice in writing 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.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interest and short positions of the Directors in the shares capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Mr. Wong Ben Koon ("Mr. Wong")#	–	319,176,000	319,176,000	55.41
Madam Hon Ching Fong ("Madam Hon")#	–	319,176,000	319,176,000	55.41
Mr. Ng Hon Fai ("Mr. Ng")#	–	319,176,000	319,176,000	55.41

Mr. Wong, Madam Hon and Mr. Ng are interested in the shares of the Company through their interests in Well Success Group Limited ("Well Success"), which is owned as to 20.8% by Mr. Wong, 20.8% by Mr. Ng and 58.4% by Advance Success Limited ("Advance Success"). Advance Success is equally owned by Mr. Wong and Madam Hon.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES*(continued)***Long position in ordinary shares of associated companies:**

Name of director	Name of associated corporations	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporations' issued share capital
Mr. Wong	Well Success	Company's holding company	Ordinary shares	7,920	Directly beneficially owned	79.2
Mr. Ng	Well Success	Company's holding company	Ordinary shares	2,080	Directly beneficially owned	20.8
Madam Hon	Well Success	Company's holding company	Ordinary shares	5,840	Directly beneficially owned	58.4
Mr. Wong	Xingda Decorative Sheets Company Limited	Company's subsidiary	Non-voting deferred shares	3,118,125	Directly beneficially owned	20.8
Mr. Ng	Xingda Decorative Sheets Company Limited	Company's subsidiary	Non-voting deferred shares	3,118,125	Directly beneficially owned	20.8

In addition to the above, Mr. Wong has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 27 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 granted to any director or their respective spouse or minor children, 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 to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of the report, Mr. Hong Cheng Chang, who resigned as a director of the Company during the year, was 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 Listing Rules, as set out below:

- Mr. Hong Cheng Chang is also a director of and has a beneficial interest in 上海昌興國際貿易有限公司(「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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Well Success	(a)	Directly beneficially owned	319,176,000	55.41
Advance Success	(b)	Through Well Success	319,176,000	55.41
Lamex Investment Limited ("Lamex")	(c)	Directly beneficially owned	76,920,000	13.35
Mr. Lam Ching Wah	(c)	Through a controlled corporation	76,920,000	13.35
Mr. Lam Andy Siu Wing	(c)	Through a controlled corporation	76,920,000	13.35

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Long positions: *(continued)*

Notes:

- (a) The entire issued share capital of Well Success is beneficially owned as to 20.8% (represented by 2,080 shares of US\$1 each) by Mr. Wong, as to 20.8% (represented by 2,080 shares of US\$1 each) by Mr. Ng and as to 58.4% (represented by 5,840 shares of US\$1 each) by Advance Success.
- (b) The entire issued share capital of Advance Success is beneficially owned as to 50% (represented by 5,500 shares of US\$1 each) by Mr. Wong, and as to 50% (represented by 5,500 shares of US\$1 each) by Madam Hon. The interests of Mr. Wong and Madam Hon in the shares of the Company are disclosed under the heading "Directors' Interests and Short Positions in Shares and Underlying Shares" above.
- (c) The entire issued share capital of Lamex is beneficially owned as to 50% (represented by 1 share of US\$1) by Mr. Lam Ching Wah, and as to 50% (represented by 1 share of US\$1) by Mr. Lam Andy Siu Wing.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SPONSOR'S INTEREST

As at 31 March 2004, neither Oriental Patron Asia Limited ("the Sponsor"), nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the Listing Rules) had any interests in the securities of the Company or of any members of the Group, or had any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE LISTING RULES

In the opinions of the directors, the Company has complied with the board practices and procedures of Rules 5.34 to 5.45 of the Listing Rules throughout the year ended 31 March 2004.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 33 to the financial statements.

CHANGE OF COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Madam Ng Wai To resigned as the company secretary and qualified accountant of the Company, with effect from 12 February 2004, and Mr. Kong Siu Keung 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

24 June 2004



To the members

Prosperity International Holdings (H.K.) Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 60 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2004 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
24 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	6	66,499	84,254
Cost of sales		<u>(76,537)</u>	<u>(78,729)</u>
Gross profit/(loss)		(10,038)	5,525
Other revenue and gains	6	131	655
Selling and distribution costs		(2,888)	(2,757)
Administrative expenses		<u>(15,776)</u>	<u>(15,048)</u>
LOSS FROM OPERATING ACTIVITIES	7	(28,571)	(11,625)
Finance costs	8	<u>(3,692)</u>	<u>(3,602)</u>
LOSS BEFORE TAX		(32,263)	(15,227)
Tax	11	<u>–</u>	<u>(175)</u>
LOSS BEFORE MINORITY INTERESTS		(32,263)	(15,402)
Minority interests		<u>2,930</u>	<u>865</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u>(29,333)</u>	<u>(14,537)</u>
LOSS PER SHARE	13		
– Basic		<u>HK5.53 cents</u>	<u>HK3.03 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	78,400	82,823
Long term deposits	15	–	308
		78,400	83,131
CURRENT ASSETS			
Inventories	17	27,003	43,022
Trade receivables	18	14,209	16,642
Prepayments, deposits and other receivables		1,774	6,780
Cash and bank balances	19	2,539	1,485
Pledged time deposits	22	1,210	1,667
		46,735	69,596
CURRENT LIABILITIES			
Trade creditors and bills payable	20	18,472	8,534
Tax payable		10,104	10,139
Accrued liabilities and other payables		7,450	8,462
Due to a director	21	65	635
Interest-bearing bank loans, secured	22	45,924	28,834
Interest-bearing other loans, secured	22	374	374
Trust receipt loans	22	170	5,867
Current portion of finance lease payables	23	338	2,195
		82,897	65,040
NET CURRENT ASSETS/(LIABILITIES)		(36,162)	4,556
TOTAL ASSETS LESS CURRENT LIABILITIES		42,238	87,687
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	22	–	22,747
Long term payables	25	–	9,787
Finance lease payables	23	–	338
Due to a director	21	12,910	–
Deferred tax liabilities	24	7,333	6,873
		20,243	39,745
MINORITY INTERESTS		3,112	5,886
		18,883	42,056

CONSOLIDATED BALANCE SHEET

31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
CAPITAL AND RESERVES			
Issued capital	26	5,760	4,800
Reserves	28(a)	13,123	37,256
		<hr/> 18,883	<hr/> 42,056

Wong Ben Koon
Director

Ng Hon Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2004

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002							
As previously reported	4,800	10,400	14,878	(1,522)	26,255	5,809	60,620
Prior year adjustment:							
SSAP12 – restatement of deferred tax (<i>note 24</i>)	-	-	-	-	(6,761)	-	(6,761)
Effect of deferred tax restated attributable to minority interests	-	-	-	-	676	-	676
As restated	4,800	10,400	14,878	(1,522)	20,170	5,809	54,535
Revaluation surplus	-	-	-	-	2,285	-	2,285
Minority equity holder's share of revaluation surplus	-	-	-	-	(227)	-	(227)
Net gains and losses not recognised in the profit and loss account	-	-	-	-	2,058	-	2,058
Net loss for the year	-	-	-	-	-	(14,537)	(14,537)
At 31 March 2003	4,800	10,400	14,878	(1,522)	22,228	(8,728)	42,056

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2004

	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003							
As previously reported	4,800	10,400	14,878	(1,522)	28,414	(8,728)	48,242
Prior year adjustment:							
SSAP12 – restatement of deferred tax (note 24)	-	-	-	-	(6,873)	-	(6,873)
Effect of deferred tax restated attributable to minority interests	-	-	-	-	687	-	687
As restated	4,800	10,400	14,878	(1,522)	22,228	(8,728)	42,056
Issue of share capital (notes 26 and 28)	960	4,032	-	-	-	-	4,992
Share issue expenses (note 28)	-	(236)	-	-	-	-	(236)
Revaluation surplus	-	-	-	-	1,560	-	1,560
Minority equity holder's share of revaluation surplus	-	-	-	-	(156)	-	(156)
Net gains and losses not recognised in the profit and loss account	-	-	-	-	1,404	-	1,404
Net loss for the year	-	-	-	-	-	(29,333)	(29,333)
At 31 March 2004	5,760	14,196*	14,878*	(1,522)*	23,632*	(38,061)*	18,883

* These reserve accounts comprise the consolidated reserves of HK\$13,123,000 (2003: HK\$37,256,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(32,263)	(15,227)
Adjustments for:			
Finance costs	8	3,692	3,602
Interest income	6	(18)	(14)
Gain on disposal of fixed assets	6	–	(184)
Provision for inventories	7	8,474	–
Depreciation	7	7,612	7,030
Operating loss before working capital changes		(12,503)	(4,793)
Decrease in long term deposits		308	533
Decrease/(increase) in inventories		7,545	(5,512)
Decrease in trade receivables		2,433	6,742
Decrease/(increase) in prepayments, deposits and other receivables		5,006	(4,334)
Increase/(decrease) in trade creditors and bills payable		9,938	(5,237)
Increase/(decrease) in long term payables		(9,787)	9,787
Increase/(decrease) in accrued liabilities and other payables		(1,012)	4,595
Cash generated from operations		1,928	1,781
Interest received		18	14
Interest paid		(3,583)	(3,389)
Interest element on finance lease rental payments		(109)	(213)
Overseas taxes paid		(35)	(486)
Net cash outflow from operating activities		(1,781)	(2,293)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	14	(1,169)	(3,450)
Decrease/(increase) in pledged bank deposits		457	(667)
Proceeds from disposal of fixed assets		–	984
Net cash outflow from investing activities		(712)	(3,133)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2004

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of bank loans		421	7,477
Drawdown of other loans		–	374
Repayment of bank loans		(6,078)	(4,610)
Capital element of finance lease rental payments		(2,195)	(1,858)
Increase in amounts due to a director		12,340	635
Increase/(decrease) of trust receipts loans		(5,697)	3,099
Issue of share capital		4,992	–
Share issue expenses		(236)	–
		<hr/>	<hr/>
NET CASH INFLOW FROM FINANCING ACTIVITIES		3,547	5,117
		<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,054	(309)
Cash and cash equivalents at beginning of year		1,485	1,794
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,539	1,485
		<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,539	1,485
		<hr/>	<hr/>

BALANCE SHEET

31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	8	11
Interests in subsidiaries	16	3,640	35,862
		<u>3,648</u>	<u>35,873</u>
CURRENT ASSETS			
Prepayments and deposits		168	414
Due from subsidiaries	16	16,989	14,493
Cash and bank balances	19	1,510	2
		<u>18,667</u>	<u>14,909</u>
CURRENT LIABILITIES			
Accrued liabilities		1,642	2,450
Due to a subsidiary	16	90	90
		<u>1,732</u>	<u>2,540</u>
NET CURRENT ASSETS		<u>16,935</u>	<u>12,369</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>20,583</u>	<u>48,242</u>
NON-CURRENT LIABILITY			
Due to a director	21	1,700	–
		<u>1,700</u>	<u>–</u>
		<u>18,883</u>	<u>48,242</u>
CAPITAL AND RESERVES			
Issued capital	26	5,760	4,800
Reserves	28(b)	13,123	43,442
		<u>18,883</u>	<u>48,242</u>

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 2004, the principal place of business of the Company was located at 11th Floor 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 A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements and prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- A deferred tax liability has been recognised on the revaluation of the Group's leasehold land and buildings.

Disclosures:

- The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 24 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 4 and in note 24 to the financial statements.

31 March 2004

3. BASIS OF PRESENTATION

As at 31 March 2004, the Group had significant net current liabilities of approximately HK\$36,162,000. The Group also incurred a loss from operating activities of HK\$28,571,000 and reported a net cash outflow from operating activities of HK\$1,781,000 for the year ended 31 March 2004.

In order to improve the Group's financial position, immediate liquidity and cash flow and otherwise to sustain the Group as a going concern, the Group has adopted the following measures subsequent to the balance sheet date:

(a) Additional financial support from a director

In addition to advances granted to the Group of HK\$12,975,000 at the balance sheet date, in view of the Group's tight liquidity, Mr. Wong Ben Koon ("Mr. Wong"), a director, a shareholder and a founder of the Company repaid approximately HK\$5,140,000 of bank loans and HK\$639,000 of trade payables on behalf of the Group and advanced funds of a total of approximately HK\$283,000 to the Group subsequent to the year end date. Mr. Wong has undertaken not to demand repayment of the foregoing aggregate amounts made subsequent to the balance sheet date of HK\$6,062,000 (the "Advances") before September 2005. The Advances are unsecured and interest-free.

(b) Reschedule repayment of indebtedness

In addition to the repayments of the above bank loans by Mr. Wong, the Group entered into certain reschedule agreements with the Industrial and Commercial Bank of China (the "Reschedule Agreements") subsequent to the year end. According to the Reschedule Agreements, the repayment dates of the outstanding bank loans of HK\$33,832,000 (net of the partial repayments by Mr. Wong as mentioned in (a) above), which at the balance date were repayable within one year as at 31 March 2004, have been rescheduled to be repayable during the year ending 31 March 2006.

The Group also entered into agreements with various creditors to settle the outstanding trade payables of the Group owed to those creditors of approximately HK\$15,196,000 from 30 June 2005 onwards.

31 March 2004

3. BASIS OF PRESENTATION (continued)

A summary pro forma unaudited adjusted consolidated net assets statement of the Group as at 31 March 2004, which is prepared based on the audited consolidated net assets of the Group as at 31 March 2004, adjusted as if the financing measures as set out above had taken place on 31 March 2004, is presented below:

	Audited consolidated net assets as at 31 March 2004 <i>HK\$'000</i>	Pro forma adjustments		Pro forma unaudited adjusted consolidated net assets as at 31 March 2004 <i>HK\$'000</i>
		Additional financial support from a director <i>HK\$'000</i>	Reschedule repayment of the Group's indebtedness <i>HK\$'000</i>	
Non-current assets	78,400	–	–	78,400
Current assets	46,735	283	–	47,018
Current liabilities	(82,897)	5,779	49,028	(28,090)
Net current assets/(liabilities)	<u>(36,162)</u>	<u>6,062</u>	<u>49,028</u>	<u>18,928</u>
Non-current liabilities	(20,243)	(6,062)	(49,028)	(75,333)
Minority interests	<u>(3,112)</u>	<u>–</u>	<u>–</u>	<u>(3,112)</u>
Net assets	<u>18,883</u>	<u>–</u>	<u>–</u>	<u>18,883</u>

Having regard to the above measures, the directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future and be able to operate as a commercially viable concern. Accordingly, these financial statements have been prepared on a going concern basis.

4. 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 its subsidiaries for the year ended 31 March 2004. 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.

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 interests 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 Company 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.

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

Goodwill *(continued)*

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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill 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.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Impairment of assets** *(continued)*

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.

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.

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 the 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 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%

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.

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 incurred in the periods of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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

Leased assets

Leases that transfer substantially all of the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and 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 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 estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or construction) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits which are not restricted as to use.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

31 March 2004

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***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 2004 and 2003.

Retirement benefits schemes

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.

Staff in the Group's subsidiary established in Mainland China are members of a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its covered payroll to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Employee benefits** *(continued)**Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes 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.

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 into 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.

5. SEGMENT INFORMATION

No 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.

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6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Sale of goods	<u>66,499</u>	<u>84,254</u>
Other revenue		
Interest income	18	14
Others	<u>113</u>	<u>456</u>
	<u>131</u>	<u>470</u>
Gains		
Gain on disposal of fixed assets	-	184
Exchange gains, net	<u>-</u>	<u>1</u>
	<u>-</u>	<u>185</u>
	<u>131</u>	<u>655</u>

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7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	62,214	61,672
Depreciation (<i>note 14</i>)	7,612	7,030
Minimum lease payments under operating lease in respect of land and buildings	90	90
Auditors' remuneration	540	520
Provision for inventories	8,474	–
Staff costs (excluding directors' remuneration – <i>note 9</i>)		
Wages and salaries	7,220	7,847
Retirement benefits scheme contributions	58	56
	<hr/> 7,278 <hr/>	<hr/> 7,903 <hr/>
Exchange losses, net	30	–
	<hr/> 30 <hr/>	<hr/> – <hr/>

The cost of inventories sold includes provision for inventories of HK\$8,474,000 (2003: Nil).

8. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	3,210	2,977
Other loans	125	11
Trust receipt loans	248	401
Finance lease payables	109	213
	<hr/> 3,692 <hr/>	<hr/> 3,602 <hr/>

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9. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	183	183
	<hr/>	<hr/>
	183	183
	<hr/>	<hr/>
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	1,730	1,499
Retirement benefits scheme contributions	72	67
	<hr/>	<hr/>
	1,802	1,566
	<hr/>	<hr/>
	1,985	1,749
	<hr/>	<hr/>

The independent non-executive directors received individual fees of approximately HK\$120,000 and HK\$63,000 (2003: HK\$120,000 and HK\$63,000), respectively. The executive directors received individual emoluments of approximately HK\$756,000, HK\$470,000, HK\$126,000, HK\$24,000, HK\$97,000, HK\$228,000, HK\$34,000, and HK\$67,000 (2003: HK\$756,000, HK\$450,000, HK\$126,000, HK\$137,000, HK\$97,000, Nil, Nil and Nil), respectively.

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

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 (2003: Nil).

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2003: two) non-director, highest paid employee for the year are as follows:

	Group	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Salaries, other allowances and benefits in kind	<u>530</u>	<u>986</u>

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

	Number of individuals	
	2004	2003
Nil – HK\$1,000,000	<u>1</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join, or upon joining, the Group, or as compensation for loss of office (2003: Nil).

11. TAX

	Group	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Current:		
Hong Kong	–	–
Elsewhere	–	175
	<u>–</u>	<u>175</u>
Total tax charge for the year	<u>–</u>	<u>175</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil). The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. TAX (continued)

For the year ended 31 March 2004, the tax rate applicable to a subsidiary established and operating in Mainland China is 24%, however no provision for tax has been made for the year as this subsidiary did not generate any assessable profits arising in Mainland China during the year.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(3,839)</u>		<u>(28,424)</u>		<u>(32,263)</u>	
Tax at the applicable tax rate	(672)	17.5	(9,380)	33.0	(10,052)	31.2
Lower tax rate for specific provinces or local authority	–	–	2,486	(8.7)	2,486	(7.7)
Income not subject to tax	(262)	6.8	–	–	(262)	0.8
Expenses not deductible for tax	280	(7.3)	514	(1.9)	794	(2.5)
Tax losses for the year not recognised	<u>654</u>	<u>(17.0)</u>	<u>6,380</u>	<u>(22.4)</u>	<u>7,034</u>	<u>(21.8)</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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11. TAX (continued)

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(4,682)</u>		<u>(10,545)</u>		<u>(15,227)</u>	
Tax at the applicable tax rate	(749)	16.0	(3,480)	33.0	(4,229)	27.8
Lower tax rate for specific provinces or local authority	–	–	779	(7.4)	779	(5.1)
Income not subject to tax	(239)	5.1	–	–	(239)	1.6
Expenses not deductible for tax	724	(15.5)	874	(8.3)	1,598	(10.5)
Tax losses for the year not recognised	<u>264</u>	<u>(5.6)</u>	<u>2,002</u>	<u>(19.0)</u>	<u>2,266</u>	<u>(14.9)</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>175</u>	<u>(1.7)</u>	<u>175</u>	<u>(1.1)</u>

The Group has tax losses arising in Hong Kong and Mainland China of HK\$9,300,000 (2003: HK\$2,266,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$34,115,000 (2003: HK\$4,500,000) (note 28(b)).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$29,333,000 (2003: HK\$14,537,000) and the weighted average of 530,360,655 (2003: 480,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2004 and 2003 have not been calculated because no diluting events existed during these years.

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14. FIXED ASSETS

Group

	Medium term leasehold land and buildings outside Hong Kong <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:					
At 1 April 2003	47,757	6,698	43,689	4,172	102,316
Additions	7	234	627	301	1,169
Transfers	6,932	(6,932)	-	-	-
Revaluation	(596)	-	-	-	(596)
	<u>54,100</u>	<u>-</u>	<u>44,316</u>	<u>4,473</u>	<u>102,889</u>
At 31 March 2004	54,100	-	44,316	4,473	102,889
At 31 March 2004:					
At cost	-	-	44,316	4,473	48,789
At valuation	54,100	-	-	-	54,100
	<u>54,100</u>	<u>-</u>	<u>44,316</u>	<u>4,473</u>	<u>102,889</u>
At 31 March 2003:					
At cost	-	6,698	43,689	4,172	54,559
At valuation	47,757	-	-	-	47,757
	<u>47,757</u>	<u>6,698</u>	<u>43,689</u>	<u>4,172</u>	<u>102,316</u>
Accumulated depreciation:					
At 1 April 2003	-	-	17,101	2,392	19,493
Provided during the year	2,616	-	4,432	564	7,612
Reversal upon revaluation	(2,616)	-	-	-	(2,616)
	<u>-</u>	<u>-</u>	<u>21,533</u>	<u>2,956</u>	<u>24,489</u>
At 31 March 2004	-	-	21,533	2,956	24,489
Net book value:					
At 31 March 2004	54,100	-	22,783	1,517	78,400
At 31 March 2003	47,757	6,698	26,588	1,780	82,823

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14. FIXED ASSETS *(continued)*

The Group's entire leasehold land and buildings were revalued at 31 March 2004 at open market value, based on the comparison approach by BMI Appraisals Limited, independent professionally qualified valuers, at HK\$54,100,000. A surplus, net of minority interest's share and deferred tax liabilities, of HK\$1,404,000 arising therefrom, which represents the excess of the revalued amounts over the then carrying values of the leasehold land and buildings, on an individual assets basis, has been credited to the asset revaluation reserve.

Had the Group's land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been approximately HK\$23,546,000.

As at 31 March 2004, certain medium term leasehold land and buildings outside Hong Kong with an aggregate carrying value of HK\$44,261,000 (2003: HK\$17,055,000), plant and machinery with an aggregate carrying value of HK\$19,856,000 (2003: HK\$2,264,000), and certain motor vehicles with an aggregate carrying value of HK\$233,000 (2003: HK\$312,000) were pledged to secure bank and other loans granted to the Group as set out in note 22 to the financial statements.

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery as at 31 March 2004 amounted to HK\$5,522,000 (2003: HK\$6,369,000).

Company

	Office equipment <i>HK\$'000</i>
Cost:	
At 1 April 2003 and at 31 March 2004	16
Accumulated depreciation:	
At 1 April 2003	5
Provided during the year	3
At 31 March 2004	8
Net book value:	
At 31 March 2004	8
At 31 March 2003	11

15. LONG TERM DEPOSITS

Long term deposits as at 31 March 2003 represented deposits paid for the acquisition of plant and machinery.

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	38,542	38,542
Provision for impairment	(34,902)	(2,680)
	<u>3,640</u>	<u>35,862</u>
Due from subsidiaries	16,989	14,493
Due to a subsidiary	(90)	(90)
	<u>20,539</u>	<u>50,265</u>

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured and have no fixed terms of repayment. Except for an amount due from a subsidiary of HK\$9,000,000 which bears interest at a rate of 7.2% per annum, the remaining balances are interest-free.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Profit World Ventures Limited	British Virgin Islands/ Hong Kong	Ordinary US\$20,000	100	–	Investment holding
Xingda Decorative Sheets Company Limited ("XDSL")	Hong Kong	Ordinary HK\$2 Deferred non-voting HK\$15,000,002	–	100	Trading of decorative sheets, comprising high pressure laminates, and investment holding

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16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS")*	Mainland China	US\$3,360,000	–	90	Manufacture and trading of decorative sheets, comprising high pressure laminates
Golden Tapestry Profits Limited	British Virgin Islands	Ordinary US\$2	–	100	Dormant
Prosperity Trading Limited	Hong Kong	Ordinary HK\$2	–	100	Dormant

* GXDS is an equity joint venture company established by XDSL and a joint venture partner in Mainland China for a period of 20 years commencing from 7 June 1993.

GXDS has been accounted for as a subsidiary of the Group as the Group has unilateral control over the financial and operating policies of GXDS.

17. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	18,761	22,211
Work in progress	–	1,814
Finished goods	8,242	18,997
	27,003	43,022

As at 31 March 2004, no inventories were stated at net realisable value (2003: Nil).

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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 the balance sheet date, based on the invoice date, is as follows:

	2004 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
0 – 90 days	6,842	5,828
91 – 180 days	2,830	5,672
181 – 365 days	3,147	5,142
Over 365 days	1,390	–
	<hr/> 14,209 <hr/>	<hr/> 16,642 <hr/>

19. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$833,000 (2003: HK\$1,353,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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20. TRADE CREDITORS AND BILLS PAYABLE

An aged analysis of the Group's trade creditors and bills payable as at the balance sheet date, based on the date of the receipt of goods, is as follows:

	2004 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
0 – 90 days	13,524	4,793
91 – 180 days	3,064	2,846
181 – 365 days	1,119	755
Over 365 days	765	140
	<hr/> 18,472 <hr/>	<hr/> 8,534 <hr/>

21. DUE TO A DIRECTOR

As at 31 March 2004 and 2003, the amounts due to a director are interest-free and unsecured. At 31 March 2004, except for an amount of HK\$12,910,000 which the director has undertaken not to demand repayment before September 2005, the remaining amount due to a director has no fixed terms of repayment. At 31 March 2003, the whole amount due to a director had no fixed terms of repayment.

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22. INTEREST-BEARING BANK AND OTHER LOANS

	2004 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Secured bank loans	45,924	51,581
Secured trust receipt loans	170	5,867
Secured other loans	374	374
	<u>46,468</u>	<u>57,822</u>
Secured bank loans repayable:		
Within one year	45,924	28,834
In the second year	–	22,747
	<u>45,924</u>	51,581
Secured trust receipt loans repayable within one year	170	5,867
Secured other loans repayable within one year	374	374
	<u>46,468</u>	<u>57,822</u>
Portion classified as current liabilities	<u>(46,468)</u>	<u>(35,075)</u>
Long term portion	<u>–</u>	<u>22,747</u>

At 31 March 2004, the Group's interest-bearing bank and other loans were secured 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 HK\$44,261,000 (2003: HK\$17,055,000);
- (b) the pledge of certain plant and machinery, and motor vehicles with an aggregate net book value of HK\$20,089,000 (2003: HK\$2,576,000);
- (c) the pledge of the Group's time deposits amounting to HK\$1,210,000 (2003: HK\$1,667,000);
- (d) corporate guarantee executed by an independent third party; and
- (e) personal guarantee executed by a director of the Company.

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23. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its business operations under a finance lease. The lease has a remaining lease term of one year.

At 31 March 2004, the total future minimum lease payments under finance lease and their present values were as follows:

	Minimum lease payments 2004 <i>HK\$'000</i>	Minimum lease payments 2003 <i>HK\$'000</i>	Present value of minimum lease payments 2004 <i>HK\$'000</i>	Present value of minimum lease payments 2003 <i>HK\$'000</i>
Amounts payable:				
Within one year	341	2,293	338	2,195
In the second year	-	340	-	338
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	341	2,633	338	2,533
	<hr/>	<hr/>	<hr/>	<hr/>
Future finance charges	(3)	(100)		
	<hr/>	<hr/>		
Total net finance lease payables	338	2,533		
	<hr/>	<hr/>		
Portion classified as current liabilities	(338)	(2,195)		
	<hr/>	<hr/>		
Long term portion	-	338		
	<hr/>	<hr/>		

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24. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the year is as follows:

	Revaluation of leasehold land and buildings <i>HK\$'000</i>
At 1 April 2003	
As previously reported	–
Prior year adjustment:	
SSAP12 – restatement of deferred tax	6,873
	<hr/>
As restated	6,873
Deferred tax debited to asset revaluation reserve during the year	460
	<hr/>
At 31 March 2004	<u>7,333</u>
At 1 April 2002	
As previously reported	–
Prior year adjustment:	
SSAP12 – restatement of deferred tax	6,761
	<hr/>
As restated	6,761
Deferred tax debited to asset revaluation reserve during the year	112
	<hr/>
At 31 March 2003	<u>6,873</u>

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts remitted.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 March 2004 and 2003 by HK\$7,333,000 and HK\$6,873,000, respectively. As a consequence, the consolidated asset revaluation reserve at 1 April 2003 and 2002 have been reduced by HK\$6,186,000 and HK\$6,085,000, respectively, as detailed in the consolidated statement of changes in equity.

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25. LONG TERM PAYABLES

Long term payables as at 31 March 2003 represented amounts due to certain third party suppliers in respect of purchases of raw materials which were repayable from 30 June 2004 onwards in accordance with the terms agreed with the suppliers.

26. SHARE CAPITAL

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
576,000,000 (2003: 480,000,000) ordinary shares of HK\$0.01 each	<u>5,760</u>	<u>4,800</u>

On 18 September 2003, the Company and Oriental Patron Asia Limited entered into a placing agreement in respect of the placing of 96,000,000 shares of HK\$0.01 each issued to independent investors at a price of HK\$0.052 per share. The placement was completed on 22 September 2003 and the premium on the issue of shares, amounting to approximately HK\$3,796,000, net of share issue expenses, was credited to the Company's share premium account (note 28(b)).

27. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries.

Pursuant to the share option scheme adopted by the Company on 18 July 2001 (the "Old Scheme"), the maximum number of unexercised share options permitted to be granted is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Old Scheme is limited to 25% of the shares of the Company in issue at any time.

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27. SHARE OPTION SCHEMES *(continued)*

The exercise price of the share options under the Old Scheme 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 quotation sheet on the date of the offer of the options, 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 quotation sheets for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer. There was no share option granted under the Old Scheme which remained outstanding as at 31 March 2004.

In order to comply with the new requirements of Chapter 23 of the Listing Rules on granting options under share option schemes, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted pursuant to the resolutions passed by the shareholders at the annual general meeting of the Company held on 25 August 2003. Upon adoption of the New Scheme, no options will be granted under the Old Scheme from 25 August 2003.

Under the New Scheme, eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The New Scheme became effective on 25 August 2003 and, unless otherwise cancelled 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 New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

27. SHARE OPTION SCHEMES *(continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

As of the date of those financial statements, no share options have been granted under the New Scheme.

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

28. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 25 and 26 of the financial statements.

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.

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28. RESERVES (continued)

(b) Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	10,400	38,342	(800)	47,942
Net loss for the year	—	—	(4,500)	(4,500)
At 31 March 2003 and 1 April 2003	10,400	38,342	(5,300)	43,442
Issue of share capital	4,032	—	—	4,032
Share issue expenses	(236)	—	—	(236)
Net loss for the year	—	—	(34,115)	(34,115)
At 31 March 2004	14,196	38,342	(39,415)	13,123

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 shares of the Company issued in exchange therefor.

29. OPERATING LEASE ARRANGEMENTS

The Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for term of two years.

At 31 March 2004, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	90	—

31 March 2004

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 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\$82,000 (2003: HK\$1,280,000).

The Company did not have any significant commitments as at 31 March 2004 (2003: Nil).

31. RELATED PARTY TRANSACTIONS

In addition to those transactions and balance disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2004 HK\$'000	2003 HK\$'000
Rental expenses paid to Prosperity Materials (International) Limited ("PMIL")	(a)	90	–
Rental expenses paid to Cheong Sing Merchandise Agency Limited ("CMAL")	(a)	–	90
Sales to 上海昌興國際貿易公司	(b)	–	1,118
Advances from Mr. Wong	(c)	12,975	635

Notes:

- (a) The rental expenses paid to PMIL and CMAL during the years ended 31 March 2004 and 2003 were calculated with reference to open market rental values as determined by the directors. Mr. Wong and Madam Hon Ching Fong are also directors of and have beneficial interests in PMIL and CMAL.
- (b) The directors consider that the sales to 上海昌興國際貿易公司 (「上海昌興」) during the year ended 31 March 2003 constituted related party transactions as Mr. Hong Cheng Chang, who was appointed as a director of the Company from 12 September 2002, was also 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. There were no sales made to 上海昌興 for the year ended 31 March 2004.
- (c) The amounts due to Mr. Wong of HK\$12,975,000 as at 31 March 2004 are interest-free, unsecured and have no fixed terms of repayment, except for an amount of HK\$12,910,000 which Mr. Wong has undertaken not to demand repayment before September 2005. At 31 March 2003, the amount of HK\$635,000 due to Mr. Wong was unsecured, interest free and had no fixed terms of repayment.

32. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

As at 31 March 2004, the Company had provided corporate guarantees to banks for banking facilities amounting to HK\$6,898,000 granted to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$1,385,000 (2003: HK\$10,581,000) as at the balance sheet date.

33. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, Mr. Wong repaid approximately HK\$5,140,000 of bank loans and HK\$639,000 of trade payables on behalf of the Group and advanced funds of a total of approximately HK\$283,000 to the Group subsequent to the year end date. Mr. Wong has undertaken not to demand repayment of the foregoing amounts owed by the Group before September 2005. The foregoing amounts owed by the Group to Mr. Wong are unsecured and interest-free.
- (b) Subsequent to the balance sheet date, in addition to the repayments of bank loans by Mr. Wong, the Group had entered into the Reschedule Agreements with the Industrial and Commercial Bank of China. According to the Reschedule Agreements, the repayment periods of the outstanding bank loans of HK\$33,832,000 (net of the partial repayments by Mr. Wong as mentioned in (a) above), which are repayable within one year as at 31 March 2004, are extended and will be repayable during the year ending 31 March 2006.
- (c) Subsequent to the balance sheet date, the Group had entered into agreements with various creditors to settle the outstanding trade payables of the Group owed to those creditors of approximately HK\$15,196,000 from 30 June 2005 onwards.

34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of SSAP 12 (Revised) during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 June 2004.

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the published results of the Group for the five years ended 31 March 2004 and the assets, liabilities and minority interests of the Group as at 31 March 2001, 2002, 2003 and 2004. The amounts of the assets, liabilities and minority interests of the Group as at 31 March 2001, 2002, 2003 and 2004 have been adjusted for the effect of the retrospective changes in accounting policy affecting income tax, as detailed in note 2 to the financial statements.

	Year ended 31 March				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
Turnover	66,499	84,254	109,576	137,589	115,812
Profit/(loss) before tax	(32,263)	(15,227)	2,866	24,935	19,676
Tax	-	(175)	(1,065)	(4,688)	(2,875)
Profit/(loss) before minority interests	(32,263)	(15,402)	1,801	20,247	16,801
Minority interests	2,930	865	(160)	(2,203)	(1,528)
Net profit/(loss) from ordinary activities attributable to shareholders	(29,333)	(14,537)	1,641	18,044	15,273

SUMMARY OF FINANCIAL INFORMATION

	2004 HK\$'000	As at 31 March		
		2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
ASSETS, LIABILITIES AND MINORITY INTERESTS				
Fixed assets	78,400	82,823	84,171	67,282
Long term deposits	–	308	1,476	1,783
Net current assets/(liabilities)	(36,162)	4,556	17,229	24,164
Non-current liabilities	(20,243)	(39,745)	(41,817)	(53,341)
Minority interests	(3,112)	(5,886)	(6,524)	(5,927)
	<u>18,883</u>	<u>42,056</u>	<u>54,535</u>	<u>33,961</u>

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 three years ended 31 March 2004 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, 2003 and 2004.