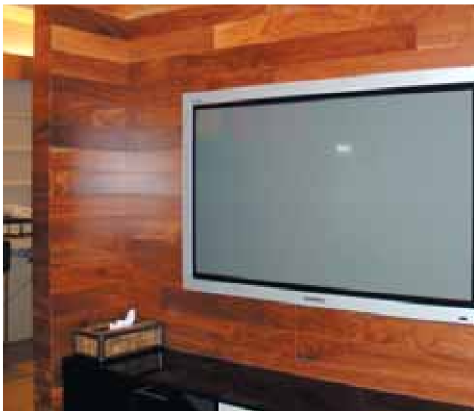
Prosperity International Holdings (H.K.) Limited

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)

Annual Report 05



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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
Mr. YUNG Ho

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
Mr. YUNG Ho

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
18th Floor
Two International Finance Centre
8 Finance Street
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
China Construction Bank

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 (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2005.

Financial year 2005 was again a challenging year for the Company. The competition of decorative sheet industry remained fierce. Many manufacturers and suppliers of decorative sheets in Mainland China adopted cut-throat pricing strategies to capture greater market share in the industry. The Group unavoidably cut the selling prices of its products so as to compete with other suppliers, including the low-end product manufacturers. After carrying out a thoughtful market investigation in mid 2004, the Group adjusted its product mix to high-end products by introducing metal-surfaced decorative sheets, including aluminum and stainless steel-surfaced decorative sheets. With higher profit margin of these high-end products, the Group's performance was slightly improved in mid 2004. However, the market prices of high-end products also dropped and the profit margin has started to decline since late 2004 due to the intense competition in the high-end market as well. As a result, the Group recorded a turnover and a net loss of approximately HK$59.8 million and approximately HK$35.0 million respectively during the year under review.

Having considered the significant impact arising from the price competition among domestic manufacturers and the macro-economic austerity measures in Mainland China, the Group believed that the business environment of decorative sheet industry would remain very difficult in the coming years. In view of this, the Group has considered diversifying its business other than the decorative sheet business. According to the Group's research on market demand for cement clinker in certain South East Asian countries and the Group's experienced management team in trading construction materials in the region, the Group found that there was a strong demand for cement clinker, particularly in Taiwan. After a comprehensive feasibility study on the business opportunity of exporting cement clinker from Mainland China to certain South East Asian countries, the Group concluded that the profit margin of this potential business is promising. Accordingly, the Group has commenced the business of trading cement clinker since June 2005. To prevent any business risk to the Group, a purchase order is placed to a supplier only after receiving a sales contract from customer. A purchase order of approximately 32,000 tons of cement clinker was placed to a supplier in Mainland China in June 2005.

In fact, the Group has in the past three years weathered the austerity measures in Mainland China. The recent focus on the property market further seriously aggravated the business environment of decorative sheet industry. Under the current difficult business environment, the Group finds it unrealistic to turn around the performance of its decorative sheet business in the foreseeable future. Given the golden opportunity of a strong demand for cement clinker in certain overseas markets and the existing relevant expertise in the Group, the Group intends to place more resources on developing the business of exporting cement clinker from Mainland China to overseas countries and providing related logistics services. The management is strongly confident that the business of trading cement clinker will generate positive financial contribution and strong cashflow to the Group in the forthcoming financial year 2006.

The management would like to take this opportunity to thank supportive shareholders, business partners and dedicated staff for their efforts and contributions during the year. We will strive to overcome the current difficulties and bring fruitful returns to our shareholders in coming years.

Wong Ben Koon
Chairman

Hong Kong, 27 June 2005

BUSINESS REVIEW

The Company has been listed on the GEM of the Stock Exchange for over three years. With ten years of experience in the manufacture and sale of decorative sheets, the Company, despite strong competition both at home and abroad, has maintained as one of the top largest decorative sheet manufacturers in Mainland China during the past several years by adopting modern enterprise management model with marketing focus on both high-end and low-end products.

In order to strengthen its competitive edge, the Group placed more emphasis on research and development in chemical raw materials, production formula and selection of material for draft paper. The Group chose high quality domestically made paper to reduce production costs while still ensuring the quality of its products.

Faced with intense competition and high fuel cost, the Group will continue to strengthen its marketing strategy and tighten cost control measures so as to improve its financial performance. In view of the macro-economic austerity measures in Mainland China and its recent focus on property market, the Group believed that the business environment of decorative sheet industry would remain very difficult in the coming years.

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 for the year ended 31 March 2005 and the related notes in this report.

Results

During the year under review, the Group recorded a turnover of approximately HK$59.8 million, representing a decrease of approximately 10.0% as compared with the previous year. The Group recorded a gross loss of approximately HK$9.0 million as compared to a gross loss of HK$10.0 million for the previous year. Net loss attributable to shareholders of the Company for the year was approximately HK$35.0 million, an increase by approximately 19.2% as compared to HK$29.3 million for the previous year.

The increase in net loss was mainly attributed to the other operating expenses totaling HK$11.3 (2004: Nil) incurred during the year under review. The other operating expenses for the year were composed of a provision for doubtful debts of HK$8.1 million, a provision for impairment of fixed assets of HK$1.7 million and a provision for impairment of goodwill of HK$1.5 million.

Due to the impact arising from the price competition among domestic manufacturers and the macro-economic austerity measures, the average selling prices of the Group's major products have dropped since the second half of the financial year 2005. The recent focus of the austerity measures on the property market in major cities in Mainland China further aggravated the business environment of decorative sheet industry. Under the current difficult environment, the Group finds it unrealistic to achieve a positive result from this decorative sheet business in the foreseeable future. Accordingly, a conservative provision on inventories, fixed assets and goodwill was made in accordance with the relevant accounting standards and was charged against the profit and loss account for the year ended 31 March 2005.

FINANCIAL REVIEW *(continued)*

Results *(continued)*
As a result of tighter control over existing resources, administrative expenses incurred during the year decreased by approximately 28.4% as compared with the previous year.

Since there is no significant change in the scale of operations of the Group during the year, the selling and distribution costs and finance costs were comparable with the previous year.

Financial Resources, Liquidity and Gearing Ratio
The Group generally finances its operations and settle 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 ("Mr. Wong"), a director and the major shareholder of the Company.

As at 31 March 2005, the Group had cash and bank balances of approximately HK$1.5 million and bank and other borrowings of approximately HK$40.0 million. The Group's gearing ratio measured in terms of total borrowings divided by total assets, was 69.8% as at 31 March 2005 (2004: 45.9%). The increase in gearing ratio was mainly due to the substantial amount of additional financial support of approximately HK$5.5 million granted by Mr. Wong during the year. The Group recorded a net deficiency in assets of HK$19.1 million as at 31 March 2005 (2004: Net assets of HK$18.9 million). The significant decrease in net assets was mainly attributed to the net loss of HK$35.0 million incurred during the year under review.

The Group recorded a net current liabilities of HK$53.9 million (2004: HK$36.2 million) as at 31 March 2005. The increase was mainly due to the provision for inventories and the provision for doubtful debts of HK$8.2 million and HK$8.1 million respectively during the year. Included in the net current liabilities of HK$53.9 million were bank loans of HK$38.5 million, other loans of HK$1.5 million and trade creditors of HK$17.2 million (collectively, the "Financial Creditors"). Subsequent to 31 March 2005, the following debts rescheduling exercises have been carried out:

(i) partial settlement of approximately HK$4.7 million was made, which was financed by Mr. Wong. Mr. Wong has undertaken not to demand repayment of the amount during the year ending 31 March 2006. According to the in-principle consent obtained from with relevant banks, the remaining balances totaling HK$33.8 million will be rescheduled to be repayable during the year ending 31 March 2007. The Group is confident that the relevant official agreements will be secured in July 2005.;

(ii) although other loans (unsecured) totaling HK$1.5 million was overdue as at 31 March 2005, the Group successfully entered into an agreement with a loan provider, which is an independent third party, whereby the loan provider agreed not to demand for repayment of a total amount of HK$1.3 million during the year ending 31 March 2006. In accordance with the relevant agreements, no penalty is required when the other loans become overdue. The directors are confident that continuous support from these loan providers will be forthcoming; and

(iii) The Group entered into agreements with various trade creditors which have solid business relationship with the Group to settle the outstanding balance owed to those creditors totaling HK$11.0 million from 30 June 2006 onwards.

FINANCIAL REVIEW *(continued)*

Financial Resources, Liquidity and Gearing Ratio *(continued)*

Given the Group's reputation in the industry and its long-established business relationship with the Financial Creditors, the Directors are confident that the ongoing support from the Financial Creditors will be forthcoming.

On 8 April 2005, the Company completed a placement of 115,200,000 new shares of HK$0.033 per share. The net proceeds of approximately HK$3.6 million was used for general working capital purpose.

Having been adjusted as if all the abovementioned debt rescheduling measures and placement of new shares had become successful and had taken place on 31 March 2005, the net current assets of the Group as at 31 March 2005 prepared on a proforma basis will be approximately HK$500,000. Nevertheless, the rescheduling of bank loans repayment dates is still under finalisation as of the date of this report. The management is strongly confident that the relevant official agreements will be secured in July 2005.

In order to improve the Group's working capital position, profitability and net financial position, the Group is implementing the following effective measures:

(i) In June 2005, the Group commenced a business of trading cement clinker in addition to the manufacture and sale of decorative sheets. Given the strong demand for cement clinker in certain South East Asian countries, particularly in Taiwan, the management is confident that the trading of cement clinker from Mainland China to the above region will be a profitable business and will improve the Group's cash flow position and financial performance. Leveraging on the Group's experienced management team in trading construction materials in the region, the management is confident that long term contracts with customers will be secured. When there is a positive track record built up from this new business, the management is confident that more banking facilities will be secured to support the on-going expansion of this business;

(ii) The Group will continue to implement measures to tighten cost control over various general and administrative expenses and will attain other opportunities of profitable and positive cash flow operations; and

(iii) The Group will explore other alternatives to strengthen its capital base.

As at 31 March 2005, the amount due to Mr. Wong amounted to HK$18.4 million. Subsequent to the same date, additional financing from Mr. Wong of HK$4.7 million was obtained. The financial support provided by Mr. Wong is unsecured and interest-free. There is no doubt that full support from Mr. Wong has been given to the operations of the Group since the beginning of its business. In view of the current financial position of the Group, Mr. Wong has undertaken not to demand repayment of the total amount of HK$23.1 million before September 2006 and is confident that continuous support from himself will be forthcoming to improve the Group's current financial position.

FINANCIAL REVIEW *(continued)*

Financial Resources, Liquidity and Gearing Ratio *(continued)*

Having considered the abovementioned measures and the continuous support from Mr. Wong and the Financial Creditors, the management is confident that the Group will have sufficient working capital to finance its operations and will effectively improve its net asset deficiency position in the foreseeable future.

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 Investment and Acquisition

During the year under review, the Group has no material or significant investment and acquisition activities.

Contingent Liabilities

The Group did not have any significant contingent liabilities at 31 March 2005 (2004: Nil).

The Company did not have any significant contingent liabilities as at 31 March 2005. As at 31 March 2004, the Company had provided corporate guarantees to banks for banking facilities of HK$6,898,000 granted to certain of its subsidiaries, which were released during the year.

Charge on Group Assets

As at 31 March 2005, the Group's interest-bearing bank and other borrowings 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$29,780,000 (2004: HK$44,261,000);

(b) the pledge of certain plant and machinery, and motor vehicles with an aggregate net book value of HK$15,814,000 (2004: HK$20,089,000); and

(c) corporate guarantee executed by a related company in which Mr. Wong is a director of the related company.

Commitment

The Group had contracted, but not provided for commitments in respect of acquisitions of plant and machinery amounting to HK$433,000 (2004: HK$82,000) as at 31 March 2005.

The Company did not have any significant commitments as at 31 March 2005 (2004: Nil).

FINANCIAL REVIEW *(continued)*

Human Resources

As at 31 March 2005, the Group had a total of 333 staff of which 324 are based in Mainland China and 9 are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	Mainland China	Hong Kong	Total
Management	14	5	19
Sales & marketing	35	2	37
Purchase & supplies	2	–	2
Production & quality control	266	–	266
Research and development	2	–	2
Finance and administration	5	2	7
	324	9	333

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 management believes that the Group has a good working relationship with its employees.

FUTURE PROSPECTS

In view of the current difficult market environment of decorative sheet industry in Mainland China, the Group has been seeking other business opportunities to strengthen its cashflow position and create value to its shareholders. After thorough consideration, the Group has commenced the business of trading cement clinker since June 2005. Leveraging on the Group's experienced management team in trading construction materials between Mainland China and overseas countries, the management is strongly confident in this new business operation and expects that it will generate positive financial results to the Group and bring fruitful rewards to the Company's shareholders in coming years.

EXECUTIVE DIRECTORS

Mr. WONG Ben Koon, aged 52, 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 10 years experience in the manufacture and sale of decorative sheets and has extensive experience in running business in Mainland China.

Mr. NG Hon Fai, aged 45, is one of the co-founders and an executive director of the Group. Mr. Ng is responsible for marketing and business development of the Group. Mr. Ng has over 10 years experience in the management of decorative sheets business.

Madam HON Ching Fong, aged 57, 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 38, 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 Mainland China. Mr. Choi holds a Master's degree in Business Administration. Mr. Choi joined the Group in January 2004 and has over 11 years experience in business development and management in Mainland China.

Mr. KONG Siu Keung, aged 36, 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 12 years experience in finance and accounting field.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. MO Kwok Choi, aged 70, 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 44, 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 12 years experience in auditing, tax and accounting field.

Mr. YUNG Ho, aged 61, was appointed as an independent non-executive director in September 2004, Mr. Yung has extensive experience in the industries of trading and property development in Mainland China.

SENIOR MANAGEMENT

Mr. KE Mei Hai, aged 40, joined the Group in September 1999 as the Chief Accountant of Guangzhou Xingda Decorative Sheets Co., Ltd. Mr. Ke holds a degree of finance and accounting from Zhongnan University of Economics and Finance in Mainland China. Mr. Ke has been a Certified Public Accountant of China since October 1994.

Mr. TOK Beng Tiong, aged 34, is the executive in charge of cement clinker trading business. Mr. Tok obtained his Bachelor Degree in Commerce from University of New South Wales in Australia. Mr. Tok has over 8 years experience in the trading of construction materials between Mainland China and overseas countries and the relevant logistics management. Mr. Tok had been an employee of the Group from December 2001 to February 2003 and joined the Group again in January 2005. Mr. Tok is a director of Yingde Dragon Mountain Cement Co. Ltd.

The directors of the Company (the "Directors") are pleased to present to the shareholders their report and the audited financial statements of Prosperity International Holdings (H.K.) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2005.

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

The Group's loss for the year ended 31 March 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 55.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the prospectus of the Group for the year ended 31 March 2001 and the audited financial statements of the Group for the four years ended 31 March 2005 is set out on page 56. 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 and share options during the year, together with the reasons therefor, are set out in notes 25 and 26, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2005, 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$20,696,000 as at 31 March 2005, 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 approximately 43% of the total sales for the year and sales to the largest customer included therein amounted to approximately 14%. Purchases from the Group's five largest suppliers accounted for approximately 53% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 18%.

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 or suppliers during the year.

DIRECTORS

The directors of the Company during the year and up to the date of the report were:

Executive directors:
Mr. Wong Ben Koon
Mr. Ng Hon Fai
Madam Hon Ching Fong
Mr. Choi Yat Choy
Mr. Kong Siu Keung
Mr. Lam Hei Shing, Joseph (resigned on 22 April 2004)

Independent non-executive directors:
Mr. Mo Kwok Choi
Mr. Yuen Kim Hung, Michael
Mr. Yung Ho (appointed on 21 September 2004)

DIRECTORS *(continued)*

Mr. Yung Ho was appointed as an Independent Non-executive Director of the Company on 21 September 2004. Bye-law 86(2) of the Company's bye-laws provides that any director appointed by the board of directors of the Company ("Board") shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Yung being the director so appointed, shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with bye-law 87(1) of the Company's bye-laws, Mr. Mo Kwok Choi and Madam Hon Ching Fong, will 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. Wong Ben Koon, Mr. Ng Hon Fai and Madam Hon Ching Fong have entered into service contracts with the Company commencing from 1 July 2001 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.

Mr. Choi Yat Choy and Mr. Kong Siu Keung 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.

Mr. Mo Kwok Choi and Mr. Yuen Kim Hung, Michael have entered into service contracts with the Company commencing from 18 July 2001 and 7 January 2002, respectively, which will continue thereafter until terminated by not less than two 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.

Mr. Yung Ho has entered into a service contract with the Company commencing from 21 September 2004 for a term of one year and is subject to termination by either party giving not less than one month's written notice.

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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

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, 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 2005, the interests and short positions of the directors in the shares and underlying shares 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 "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest			
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Wong Ben Koon ("Mr. Wong") *(Note 1&2)*	130,000,000	319,176,000	449,176,000	63.62%
Madam Hon Ching Fong ("Madam Hon") *(Note 1)*	–	319,176,000	319,176,000	45.21%
Mr. Ng Hon Fai ("Mr. Ng") *(Note 1)*	–	319,176,000	319,176,000	45.21%

Note:

1. 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 22.05% by Mr. Wong, 19.55% by Mr. Ng and 58.4% by Advance Success Limited ("Advance Success"). Advance Success is equally owned by Mr. Wong and Madam Hon.

2. 130,000,000 new shares of the Company were allotted to Mr. Wong on 11 January 2005 pursuant to the capitalisation of loan agreement dated 18 November 2004.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

At the Company's annual general meeting held on 30 July 2004, the Board of the Company were authorized to grant a share option to each of Mr. Choi Yat Choy ("Mr. Choi") and Mr. Kong Siu Keung ("Mr. Kong") to subscribe for 24,000,000 shares of the Company, representing approximately 4.17% of the issued share capital of the Company as at 30 July 2004 at the exercise price of HK$0.023 of each share of the Company. On 9 August 2004, both of Mr. Choi and Mr. Kong accepted such options. The options granted to Mr. Choi and Mr. Kong shall not be exercisable unless the Group achieved a positive net profit in any financial year from the date of grant of such options and in any event such options shall not be exercised within 18 months from 28 June 2004.

The interests of the directors in the share options of the Company are separately disclosed in note 26 to the financial statements.

Long position in ordinary shares of associated companies:

Name of director	Name of associated corporation	Relationship with the company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Wong	Xinda Decorative Sheets Company Limited	Company's subsidiary	Non-voting deferred shares	3,118,125	Directly beneficially owned	20.8%
Mr. Ng	Xinda 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, as at 31 March 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures 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 GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 26 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

With a view to improving the profitability and financial performance, the Group diversified its scope of business and commenced the trading of cement clinker in June 2005. It is the business plan of the Group to sell cement clinker purchased from manufacturers in Mainland China to certain South East Asian countries.

Mr. Wong and Madam Hon, are directors of and have beneficial interests in Prosperity Materials (International) Limited ("PMIL"). PMIL holds 25% interest in Yingde Dragon Mountain Cement Co., Ltd ("Yingde Cement") which is a Sino-foreign equity joint venture established in Mainland China in November 2004. Mr. Wong is a director of Yingde Cement. Yingde Cement is engaged in the manufacture, warehouse and sale of cement and cement clinker. Mr. Wong and Madam Hon confirmed that, up to the date of this report, all the products of Yingde Cement were sold in domestic market in Mainland China without any export to overseas countries.

In view of the completely different target markets between the Group and Yingde Cement, the Directors consider that there is no direct or indirect competition in business between the Group and Yingde Cement during the year under review and up to the date of this report.

During the year under review and up to the date of this report, the Group did not have any transactions with Yingde Cement.

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

At 31 March 2005, 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**
Mr. Wong Ben Koon		Directly beneficially owned	130,000,000	18.41%
Well Success	*(a)*	Directly beneficially owned	319,176,000	45.21%
Advance Success	*(b)*	Through Well Success	319,176,000	45.21%
Lamex Investment Limited ("Lamex")	*(c)*	Directly beneficially owned	76,920,000	10.90%
Mr. Lam Ching Wah	*(c)*	Through a controlled corporation	76,920,000	10.90%
Mr. Lam Andy Siu Wing	*(c)*	Through a controlled corporation	76,920,000	10.90%

Notes:

(a) The entire issued share capital of Well Success is beneficially owned as to 22.05% (represented by 2,205 shares of US$1 each) by Mr. Wong, as to 19.55% (represented by 1,955 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 Investment Limited 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, as at 31 March 2005, 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 or any of its associated corporations that was required to be recorded pursuant to Section 336 of the SFO.

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

The financial impact of the share options granted 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 the 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.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted to the directors of the Company during the year because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the Directors were unable to arrive at an accurate assessment of the value of these share options.

CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 31 to the financial statements in compliance with the requirements of Chapter 20 of the GEM Listing Rules.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 March 2005.

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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 March 2005. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 5.28 of the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. Mr. Mo Kwok Choi is the chairman of the audit committee. The audit committee had convened four meetings during the year.

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, 27 June 2005

Ernst & Young
安永會計師事務所

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

We have audited the financial statements on pages 21 to 55 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 Institute of Certified Public 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.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

The Group recorded consolidated net current liabilities of HK$53.9 million and consolidated net deficiency in assets of HK$19.1 million as at 31 March 2005. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the basis of presentation of these financial statements prepared by the directors of the Company. As explained in note 2, the financial statements have been prepared on a going concern basis, the validity of which depends on the continuous support from the Group's financial creditors and the successful implementation of other measures with a view to improve its working capital position, profitability and net financial position. The financial statements do not include any adjustments that may be necessary if the Group fails to obtain continuous support from its financial creditors or to successfully implement the other measures. We consider that appropriate disclosures have been made, but because of the significant uncertainty relating to whether the going concern basis adopted in the financial statements is appropriate, we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether 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 2005 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
27 June 2005

	Notes	2005 HK$'000	2004 HK$'000
TURNOVER	6	**59,808**	66,499
Cost of sales		**(68,830)**	(76,537)
Gross loss		**(9,022)**	(10,038)
Other revenue	6	**33**	131
Selling and distribution costs		**(2,985)**	(2,888)
Administrative expenses		**(11,292)**	(15,776)
Other operating expenses		**(11,299)**	–
LOSS FROM OPERATING ACTIVITIES	7	**(34,565)**	(28,571)
Finance costs	8	**(3,501)**	(3,692)
LOSS BEFORE TAX		**(38,066)**	(32,263)
Tax	11	**–**	–
LOSS BEFORE MINORITY INTERESTS		**(38,066)**	(32,263)
Minority interests		**3,112**	2,930
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	**(34,954)**	(29,333)
LOSS PER SHARE	13		
Basic		**HK5.62 cents**	HK5.53 cents
Diluted		**N/A**	N/A

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**56,542**	78,400
CURRENT ASSETS			
Inventories	17	**14,024**	27,003
Trade receivables	18	**6,865**	14,209
Prepayments, deposits and other receivables		**4,733**	6,826
Pledged time deposits		**–**	1,210
Cash and bank balances	19	**1,540**	2,539
		27,162	51,787
CURRENT LIABILITIES			
Trade creditors	20	**17,196**	18,472
Tax payable		**10,104**	10,104
Accrued liabilities and other payables		**13,768**	12,502
Due to a director	21	**–**	65
Interest-bearing bank and other borrowings	22	**40,000**	46,468
Finance lease payable	23	**–**	338
		81,068	87,949
NET CURRENT LIABILITIES		**(53,906)**	(36,162)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,636**	42,238
NON-CURRENT LIABILITIES			
Due to a director	21	**18,436**	12,910
Deferred tax liabilities	24	**3,300**	7,333
		21,736	20,243
MINORITY INTERESTS		**–**	3,112
		(19,100)	18,883
CAPITAL AND RESERVES			
Issued capital	25	**7,060**	5,760
Reserves	27(a)	**(26,160)**	13,123
		(19,100)	18,883

Wong Ben Koon
Director

Ng Hon Fai
Director

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Goodwill reserve HK$'000	Asset revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2003		4,800	10,400	14,878	(1,522)	22,228	(8,728)	42,056
Issue of shares	25	960	4,032	–	–	–	–	4,992
Share issue expenses	25	–	(236)	–	–	–	–	(236)
Revaluation surplus		–	–	–	–	1,404	–	1,404
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 and at 1 April 2004		5,760	14,196*	14,878*	(1,522)*	23,632*	(38,061)*	18,883
Issue of shares	25	1,300	6,500	–	–	–	–	7,800
Revaluation deficit		–	–	–	–	(12,351)	–	(12,351)
Net gains and losses not recognised in the profit and loss account		–	–	–	–	(12,351)	–	(12,351)
Impairment of goodwill remaining in consolidated reserves	15	–	–	–	1,522	–	–	1,522
Net loss for the year		–	–	–	–	–	(34,954)	(34,954)
At 31 March 2005		7,060	20,696*	14,878*	–*	11,281*	(73,015)*	(19,100)

* *These reserve accounts comprise the consolidated reserves of debit balance of HK$26,160,000 (2004: credit balance of HK$13,123,000) in the consolidated balance sheet.*

	Notes	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(38,066)**	(32,263)
Adjustments for:			
Finance costs	8	**3,501**	3,692
Interest income	6	**(7)**	(18)
Depreciation	7	**5,508**	7,612
Provision for inventories	7	**8,221**	8,474
Provision for doubtful debts	7	**8,084**	–
Provision for impairment of fixed assets	7	**1,693**	–
Provision for impairment of goodwill	7	**1,522**	–
Loss on disposal of fixed assets	7	**44**	–
Operating loss before working capital changes		**(9,500)**	(12,503)
Decrease in long term deposits		**–**	308
Decrease in inventories		**4,758**	7,545
Decrease/(increase) in trade receivables		**(413)**	2,433
Decrease/(increase) in prepayments, deposits and other receivables		**1,766**	(46)
Increase/(decrease) in trade creditors		**(1,276)**	9,938
Increase in accrued liabilities and other payables		**1,266**	4,040
Decrease in long term payables		**–**	(9,787)
Cash generated from/(used in) operations		**(3,399)**	1,928
Interest received		**7**	18
Interest paid		**(3,498)**	(3,583)
Interest element on finance lease rental payments		**(3)**	(109)
Overseas taxes paid		**–**	(35)
Net cash outflow from operating activities		**(6,893)**	(1,781)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**(2,232)**	(1,169)
Decrease in pledged bank deposits		**1,210**	457
Proceeds from disposal of fixed assets		**461**	–
Net cash outflow from investing activities		**(561)**	(712)

	Note	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	421
New other loans		**1,308**	–
Repayment of bank loans and trust receipt loans		**(7,589)**	(11,775)
Repayment of other loans		**(187)**	–
Capital element of finance lease rental payments		**(338)**	(2,195)
Advance from a director	28	**13,261**	12,340
Proceeds from issue of shares		–	4,992
Share issue expenses		–	(236)
Net cash inflow from financing activities		**6,455**	3,547
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(999)**	1,054
Cash and cash equivalents at beginning of year		**2,539**	1,485
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,540**	2,539
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**1,540**	2,539

Balance Sheet

31 March 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**5**	8
Interests in subsidiaries	16	**–**	3,640
		5	3,648
CURRENT ASSETS			
Prepayments and deposits		**156**	168
Due from subsidiaries	16	**–**	16,989
Cash and bank balances		**4**	1,510
		160	18,667
CURRENT LIABILITIES			
Accrued liabilities		**2,339**	1,642
Due to a subsidiary	16	**–**	90
		2,339	1,732
NET CURRENT ASSETS/(LIABILITIES)		**(2,179)**	16,935
TOTAL ASSETS LESS CURRENT LIABILITIES		**(2,174)**	20,583
NON-CURRENT LIABILITY			
Due to a director	21	**200**	1,700
		(2,374)	18,883
CAPITAL AND RESERVES			
Issued capital	25	**7,060**	5,760
Reserves	27(b)	**(9,434)**	13,123
		(2,374)	18,883

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 2005, the principal place of business of the Company was located at 10th 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 sale of decorative sheets.

2. BASIS OF PRESENTATION

As at 31 March 2005, the Group recorded consolidated net current liabilities of HK$53.9 million (2004: HK$36.2 million), consolidated accumulated losses of HK$73.0 million (2004: HK$38.1 million) and consolidated net deficiency in assets of HK$19.1 million (2004: consolidated net assets of HK$18.9 million).

Included in the net current liabilities of HK$53.9 million were bank loans of HK$38.5 million, other loans of HK$1.5 million and trade creditors of HK$17.2 million (collectively, the "Financial Creditors").

Of the total bank loans, HK$4.7 million was overdue as at 31 March 2005. The remaining balance became due subsequent to the balance sheet date. As of the date of issue of these financial statements, partial settlement of HK$4.7 million of the total bank loans was made, which was financed by the Company's director, Mr. Wong Ben Koon ("Mr. Wong"). The Group is currently in discussion with the respective borrowing banks to reschedule the remaining outstanding principal amounts of HK$33.8 million with repayment due date to be extended to 1 April 2006 onwards. The directors of the Company are confident that the loan refinancing will be successful.

As at 31 March 2005, other loans of HK$1.5 million were overdue. Subsequent to the balance sheet date, HK$1.3 million of the total other loans was rescheduled with repayment due date extended to 30 June 2006 onwards.

As of the date of issue of these financial statements, the Group also entered into agreements with various trade creditors to settle the outstanding trade payables of the Group owed to those creditors of approximately HK$11.0 million from 30 June 2006 onwards. The directors of the Company are confident that in addition to the above settlement arrangement, these trade creditors will continue the normal trading arrangement with the Group to support its continuous operations.

2. BASIS OF PRESENTATION *(continued)*

The Group recorded an amount due to a director, Mr. Wong, of HK$18.4 million as at 31 March 2005. Subsequent to the balance sheet date, additional financing from Mr. Wong of HK$4.7 million was obtained, which is not repayable before 1 September 2006 pursuant to the respective loan agreements. Mr. Wong has undertaken not to demand repayment of the amount of HK$18.4 million before 1 September 2006. The directors of the Company believe that ongoing support from Mr. Wong will be forthcoming.

On 8 April 2005, the Company completed a placement of its 115,200,000 shares of HK$0.01 each, at HK$0.033 per share. Proceeds from the placement net of the share issue expenses amounted to HK$3.6 million.

In order to improve the Group's working capital position, profitability and net financial position, the Group is implementing the following measures:

(a) To diversify its scope of business from the manufacture and sale of decorative sheets to include the trading of cement clinker. The directors believe that there is high demand for cement clinker, particularly in Taiwan and certain South East Asian countries and that competition in the cement clinker market is less intense as compared to the decorative sheets market. As such, the directors consider that the diversification of its business scope to include trading of cement clinker will improve the Group's profitability and financial performance;

(b) Continues to implement measures to tighten cost control measures over various general and administrative expenses and to attain other profitable and positive cash flow operations; and

(c) To explore other alternatives to strengthen its capital base and generate positive cash flow.

The directors of the Company believe that ongoing support from the Financial Creditors and Mr. Wong is forthcoming and that it will be successful in the implementation of the above measures with a view to improve its working capital position, profitability and net financial position.

On this basis, the directors of the Company consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis was not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKFRS 3 "Business combinations" applies to accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group did not have any business combinations during the year and accordingly, this HKFRS has had no impact on these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with the HKFRSs (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA, 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 2005. 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 are eliminated on consolidation.

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

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 ventures 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 ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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

Joint venture companies *(continued)*

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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.

Goodwill

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

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

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 such 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.

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

Goodwill *(continued)*

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 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 and its net selling price.

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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 asset 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
Furniture, fixtures, equipment and motor vehicles	10% to 20%
Plant and machinery	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 at the time of disposal.

Construction in progress represents 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. 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 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.

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.

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 directly in equity in the same or a different period.

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.

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

Income tax *(continued)*

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.

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, as at 31 March 2005 and 2004.

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 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 scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the 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 sale of decorative sheets, with over 90% of the Group's sales/assets being derived from/attributed to customers located in Mainland China.

6. TURNOVER AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**59,808**	66,499
Other revenue		
Interest income	**7**	18
Others	**26**	113
	33	131

7. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	2005	2004
	HK$'000	*HK$'000*
Cost of inventories sold	**45,969**	53,740
Depreciation	**5,508**	7,612
Minimum lease payments under operating lease in respect of land and buildings	**90**	90
Auditors' remuneration	**600**	540
Provision for inventories*	**8,221**	8,474
Provision for doubtful debts**	**8,084**	–
Provision for impairment of fixed assets**	**1,693**	–
Provision for impairment of goodwill**	**1,522**	–
Staff costs (excluding directors' remuneration – *note 9*):		
Wages and salaries	**5,101**	7,220
Retirement benefits scheme contributions	**325**	368
	5,426	7,588
Loss on disposal of fixed assets	**44**	–
Exchange losses, net	**–**	30

* *Included in "Cost of sales" on the face of the consolidated profit and loss account.*

** *Included in "Other operating expenses" on the face of the consolidated profit and loss account.*

8. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**3,328**	3,210
Other loans	**170**	125
Trust receipt loans	**–**	248
Finance lease payable	**3**	109
	3,501	3,692

9. DIRECTORS' REMUNERATION

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

	Group 2005 HK$'000	Group 2004 HK$'000
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**261**	183
	261	183
Other emoluments for executive directors:		
Salaries and allowances	**920**	1,730
Retirement benefits scheme contributions	**32**	72
	952	1,802
	1,213	1,985

9. DIRECTORS' REMUNERATION *(continued)*

The executive directors received individual emoluments of approximately HK$532,000 (2004: HK$67,000), HK$273,000 (2004: HK$34,000), HK$126,000 (2004: HK$126,000), HK$21,000 (2004: HK$228,000), nil (2004: HK$756,000), nil (2004: HK$470,000), nil (2004: HK$97,000) and nil (2004: HK$24,000).

The independent non-executive directors received remuneration of HK$120,000 (2004: HK$120,000), HK$85,000 (2004: HK$63,000) and HK$56,000 (2004: Nil).

During the year, Mr. Wong and Mr. Ng Hon Fai, executive directors of the Company, have agreed to waive their remunerations of HK$720,000 and HK$240,000, respectively. Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted share options in respect of their services to the Group under the share options scheme of the Company, further details of which are set out in note 26 the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss accounts, or is otherwise included in the above directors' remuneration disclosure.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2004: one) non-director, highest paid employee for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries and allowances	**183**	530

During the year, no emolument was paid by the Group to the non-director, highest paid employee as an inducement to join, or upon joining, the Group, or as compensation for loss of office (2004: Nil).

11. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil). 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.

For the year ended 31 March 2005, the tax rate applicable to a subsidiary established and operating in Mainland China is 24% (2004: 24%). No provision for corporate income tax has been made for the year as this subsidiary did not generate any assessable profits arising in Mainland China during the year (2004: Nil).

11. TAX *(continued)*

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 is as follows:

Group – 2005

	Hong Kong *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*
Loss before tax	**(7,636)**	**(30,430)**	**(38,066)**
Tax at the applicable tax rate	**(1,336)**	**(7,303)**	**(8,639)**
Income not subject to tax	**(149)**	**–**	**(149)**
Tax losses for the year not recognised	**1,485**	**7,303**	**8,788**
Tax charge at the Group's effective rate	**–**	**–**	**–**

Group – 2004

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Loss before tax	(3,839)	(28,424)	(32,263)
Tax at the applicable tax rate	(672)	(6,894)	(7,566)
Income not subject to tax	(262)	–	(262)
Expenses not deductible	280	514	794
Tax losses for the year not recognised	654	6,380	7,034
Tax charge at the Group's effective rate	–	–	–

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK$29,057,000 (2004: HK$34,115,000) (note 27(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$34,954,000 (2004: HK$29,333,000) and the weighted average of 622,021,858 (2004: 530,360,655) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 March 2005 has not been disclosed because the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

Diluted loss per share amount for the year ended 31 March 2004 has not been disclosed because no diluting event existed during the prior year.

14. FIXED ASSETS

Group

	Medium term leasehold land and buildings outside Hong Kong	Furniture, fixtures, equipment and motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:					
At 1 April 2004	54,100	4,473	44,316	–	102,889
Additions	–	341	1,097	794	2,232
Disposals	–	(165)	(821)	–	(986)
Deficit on revaluation	(17,700)	–	–	–	(17,700)
At 31 March 2005	36,400	4,649	44,592	794	86,435
At 31 March 2005:					
At cost	–	4,649	44,592	794	50,035
At valuation	36,400	–	–	–	36,400
	36,400	4,649	44,592	794	86,435
Accumulated depreciation and impairment:					
At 1 April 2004	–	2,956	21,533	–	24,489
Provided during the year	1,316	507	3,685	–	5,508
Impairment during the year recognised in the profit and loss account	–	–	1,693	–	1,693
Disposals	–	(164)	(317)	–	(481)
Written back on revaluation	(1,316)	–	–	–	(1,316)
At 31 March 2005	–	3,299	26,594	–	29,893
Net book value:					
At 31 March 2005	36,400	1,350	17,998	794	56,542
At 31 March 2004	54,100	1,517	22,783	–	78,400

14. FIXED ASSETS *(continued)*

As at 31 March 2005, no fixed asset of the Group was held under finance lease. 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 was HK$5,522,000.

All of the Group's leasehold land and buildings were revalued at 31 March 2005 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$36,400,000 on open market value, comparison approach basis. A revaluation deficit of HK$16,384,000 arising therefrom, which represents the excess of the revalued amounts over the then carrying values of the leasehold land and buildings, on an individual asset basis less the effect of deferred taxation of HK$4,033,000 (note 24), has been debited to the asset revaluation reserve.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amount would have been approximately HK$22,648,000 (2004: HK$23,546,000).

As at 31 March 2005, certain leasehold land and buildings of the Group with an aggregate carrying value of HK$29,780,000 (2004: HK$44,261,000), certain plant and machinery with an aggregate carrying value of HK$15,685,000 (2004: HK$19,856,000), and certain motor vehicles with an aggregate carrying value of HK$129,000 (2004: HK$233,000) were pledged to secure bank and other loans granted to the Group as set out in note 22 to the financial statements.

Company

	Equipment
	HK$'000
Cost:	
At 1 April 2004 and at 31 March 2005	16
Accumulated depreciation:	
At 1 April 2004	8
Provided during the year	3
At 31 March 2005	11
Net book value:	
At 31 March 2005	5
At 31 March 2004	8

15. GOODWILL

Movements of the goodwill remaining in consolidated reserves during the year, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, are as follows:

Group

	Goodwill debited to goodwill reserve
	HK$'000
Cost:	
At 1 April 2004 and at 31 March 2005	1,522
Accumulated impairment:	
At beginning of year	–
Impairment provided during the year	1,522
At 31 March 2005	1,522
Net book value:	
At 31 March 2005	**–**
At 31 March 2004	1,522

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**38,542**	38,542
Due from subsidiaries	**24,895**	16,989
Due to a subsidiary	**–**	(90)
	63,437	55,441
Provision for impairment	**(63,437)**	(34,902)
	–	20,539

16. INTERESTS IN SUBSIDIARIES *(continued)*

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 (2004: HK$9,000,000) which bears interest at a rate of 7.2% (2004: 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 Direct	Indirect	Principal activities
Profit World Ventures Limited	British Virgin Islands/ Hong Kong	Ordinary US$20,000	100	–	Investment holding
Xingda Decorative Sheets Company Limited ("XDSL")	Hong Kong	Ordinary HK$2 Deferred non-voting HK$15,000,002	–	100	Sale of decorative sheets and investment holding
Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS")*	Mainland China	US$3,360,000	–	90	Manufacture and sale of decorative sheets
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.*

17. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**5,909**	18,761
Finished goods	**8,115**	8,242
	14,024	27,003

As at 31 March 2005, the carrying amount of inventories carried at net realisable value included in the above balance was HK$14,024,000 (2004: Nil).

18. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date, and net of provisions, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**6,540**	6,842
91 to 180 days	**269**	2,830
181 to 365 days	**56**	3,147
Over 365 days	**–**	1,390
	6,865	14,209

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$1,497,000 (2004: HK$833,000). 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.

20. TRADE CREDITORS

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**5,050**	13,524
91 to 180 days	**388**	3,064
181 to 365 days	**460**	1,119
Over 365 days	**11,298**	765
	17,196	18,472

Subsequent to the balance sheet date, the Group entered into agreements with various trade creditors to settle the outstanding trade payables of the Group owed to those creditors of approximately HK$11,028,000 from 30 June 2006 onwards.

21. DUE TO A DIRECTOR

At the balance sheet date, the amount due to a director is unsecured and interest-free, and the director has undertaken not to demand repayment before 1 September 2006. At 31 March 2004, except for an amount of HK$12,910,000 which the director had undertaken not to demand repayment on or before September 2005, the remaining amount due to a director was unsecured, interest-free and had no fixed terms of repayment.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Repayable within one year:		
Secured bank loans	**38,505**	45,924
Secured trust receipt loans	**–**	170
Secured other loans	**187**	374
Unsecured other loans	**1,308**	–
	40,000	46,468

At 31 March 2005, the Group's interest-bearing bank and other borrowings 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$29,780,000 (2004: HK$44,261,000) (note 14);

(b) the pledge of certain plant and machinery, and motor vehicles with an aggregate net book value of HK$15,814,000 (2004: HK$20,089,000) (note 14); and

(c) corporate guarantee executed by a related company in which Mr. Wong, a director of the Company, is a director of the related company (note 31(b)).

As at 31 March 2004, the Group's bank loans were also secured by the pledge of the Group's time deposits amounting to HK$1,210,000, and a personal guarantee executed by a director of the Company, which were released during the year (note 31).

The Group's other loans bear interest at rates ranging from 6% to 12% (2004: 6%) per annum and are repayable within one year.

Of the total bank loans, HK$4,673,000 was overdue as at 31 March 2005. Subsequent to the balance sheet date, partial settlement of the total bank loans of HK$4,673,000 was made, which was financed by the Company's director, Mr. Wong. The Group is currently in discussion with the respective borrowing banks to reschedule the remaining outstanding principal amounts of HK$33.8 million with repayment due date to be extended to 1 April 2006 onwards. The directors of the Company believe that the loan refinancing will be successful.

As at 31 March 2005, other loans of HK$1,495,000 were overdue. Subsequent to the balance sheet date, HK$1,308,000 of the total other loans was rescheduled with repayment due date extended to 30 June 2006 onwards.

23. FINANCE LEASE PAYABLE

The Group leases certain of its plant and machinery for its business operations under a finance lease.

At 31 March 2005, the total future minimum lease payments under finance lease and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Total minimum finance lease payments payable within one year	**–**	341	**–**	338
Future finance charges	**–**	(3)		
Total net finance lease payable	**–**	338		

24. DEFERRED TAX LIABILITIES

Deferred tax liabilities of the Group arose from revaluation of leasehold land and buildings.

The movements in deferred tax liabilities during the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
At beginning of year	**7,333**	6,873
Deferred tax debited/(credited) to asset revaluation reserve during the year	**(4,033)**	460
At end of year	**3,300**	7,333

24. DEFERRED TAX LIABILITIES *(continued)*

The Group has aggregate tax losses arising in Hong Kong and Mainland China of HK$48,215,000 (2004: HK$9,300,000) 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.

At 31 March 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group had no liability to additional tax should such amounts remitted.

25. SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 (2004: 10,000,000,000) ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
706,000,000 (2004: 576,000,000) ordinary shares of HK$0.01 each	**7,060**	5,760

The movements in the issued share capital of the Company, during the years ended 31 March 2004 and 2005, are as follows:

(a) On 18 September 2003, the Company and Oriental Patron Asia Limited entered into a placing agreement in respect of the placement 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.

(b) On 18 November 2004, the Company entered into a loan capitalisation agreement with a director and shareholder to subscribe 130,000,000 ordinary shares of HK$0.01 each in consideration of the settlement of the Group's loan of HK$7,800,000 due to the director and shareholder (note 28).

Details of the Company's share option scheme and the share options issued under the scheme are included in note 26 to the financial statements.

26. 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 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 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 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 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 Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange of Hong Kong Limited (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.

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

During the year, 48,000,000 share options were granted to two directors of the Company in respect of their services to the Group in the forthcoming year. Save for the above, no share options were granted, exercised, cancelled, or lapsed under the Scheme of the Company during the year.

26. SHARE OPTION SCHEMES *(continued)*

The following share options were granted and outstanding under the share option scheme of the Company during year:

Name or category of participant	Number of share option granted during the year and as at 31 March 2005	Date of grant of share options*	Option period#	Exercise price of share options**	Price of Company's share at date of grant of options***
				HK$	*HK$*
Directors					
Mr. Choi Yat Choy (“Mr. Choi”)	24,000,000	30 July 2004	9 August 2004 to 27 June 2014	0.023	0.023
Mr. Kong Siu Keung (“Mr. Kong”)	24,000,000	30 July 2004	9 August 2004 to 27 June 2014	0.023	0.023
	48,000,000				

* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

*** *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.*

The options granted to Mr. Choi and Mr. Kong shall not be exercisable unless the Group achieved a positive net profit in any financial year from the date of grant of such options and in any event such options shall not be exercised within 18 months from 28 June 2004.

At the balance sheet date, the Company had 48,000,000 share options outstanding under the Scheme of the Company. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 48,000,000 additional ordinary shares of the Company and additional share capital of HK$480,000 and share premium of HK$624,000 (before issue expenses).

27. 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.

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 represented 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.

Goodwill arising on the acquisition of a subsidiary in prior years of HK$1,522,000 remained eliminated against consolidated reserves as at 31 March 2004, details of which are set out in notes 4 and 15 to the financial statements.

(b) Company

	Notes	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2003		10,400	38,342	(5,300)	43,442
Issue of shares	*25*	4,032	–	–	4,032
Share issue expenses		(236)	–	–	(236)
Net loss for the year	*12*	–	–	(34,115)	(34,115)
At 31 March 2004 and 1 April 2004		14,196	38,342	(39,415)	13,123
Issue of shares	*25*	6,500	–	–	6,500
Net loss for the year	*12*	–	–	(29,057)	(29,057)
At 31 March 2005		20,696	38,342	(68,472)	(9,434)

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

28. MAJOR NON-CASH TRANSACTION

During the year, a loan due to a director and shareholder of HK$7,800,000 was settled by the allotment of 130,000,000 shares of HK$0.01 each of the Company to the director and shareholder (note 25(b)).

29. OPERATING LEASE ARRANGEMENT

The Company and the Group leases certain of its office properties under an operating lease arrangement, with the lease negotiated for a term of two years.

At 31 March 2005, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Company and Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**90**	90

30. COMMITMENTS

In addition to the operating lease commitment detailed in note 29 above, the Group had contracted, but not provided for commitments in respect of acquisitions of plant and machinery that amounted to HK$433,000 (2004: HK$82,000) as at the balance sheet date.

The Company did not have any significant commitment as at 31 March 2005 (2004: Nil).

31. RELATED PARTY TRANSACTIONS

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

(a) The rental expenses of HK$90,000 (2004: HK$90,000) were paid to Prosperity Materials (International) Limited ("PMIL") during the year ended 31 March 2005 which were charged with reference to open market rental values as determined by the directors. Mr. Wong and Ms. Hon Ching Fong, directors of the Company, are also directors of and have beneficial interests in PMIL.

(b) Corporate guarantee executed by a related company in which Mr. Wong, a director of the Company, is a director of the related company (note 22(c)).

As at 31 March 2004, the Group's bank loans were also secured by a personal guarantee executed by a director of the Company, which was released during the year (note 22).

The related party transactions in respect of (a) above also constituted connected transactions as defined in Chapter 20 of the GEM Listing Rules.

32. CONTINGENT LIABILITIES

The Group did not have any significant contingent liability at the balance sheet date (2004: Nil).

The Company did not have any significant contingent liability as at 31 March 2005. As at 31 March 2004, the Company had provided corporate guarantees to banks for banking facilities of HK$6,898,000 granted to certain of its subsidiaries which, were released during the year.

33. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Company completed a placement of its 115,200,000 shares of HK$0.01 each, at HK$0.033 per share. Proceeds from the placement net of the share issue expenses amounted to HK$3,600,000 and was used as general working capital of the Group for its daily operation.

(b) Subsequent to the balance sheet date, the Group acquired a 100% equity interest in Prosperity Cement (Asia) Limited ("PCAL"), a company incorporated in Hong Kong, from the Company's director, Mr. Wong, for HK$30,000, based on an internal valuation of the business prepared by the directors of the Company. An in-principle consent in respect of a bank facility of US$1.5 million was granted to PCAL by a restricted license bank, which shall be secured by corporate guarantee executed by the Company. PCAL is engaged in the trading of cement clinker.

(c) On 17 June 2005, the Company announced a proposal to implement a share consolidation under which every 10 ordinary shares of HK$0.01 each in the issued and unissued share capital of the Company be consolidated into one consolidated ordinary share of HK$0.1 each in the issued and unissued share capital of the Company. The implementation of the share consolidation is conditional upon the passing of an ordinary resolution by the shareholders at the forthcoming annual general meeting to approve the share consolidation and the GEM listing committee of the Stock Exchange granting the listing of, and permission to deal in, the consolidated shares arising from the share consolidation.

34. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified 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 27 June 2005.

A summary of the published results and of assets, liabilities and minority interests of the Group for the last five financial years, prepared on the basis as set out herein, is set out below:

	Year ended 31 March				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Turnover	**59,808**	66,499	84,254	109,576	137,589
Profit/(loss) before tax	**(38,066)**	(32,263)	(15,227)	2,866	24,935
Tax	**–**	–	(175)	(1,065)	(4,688)
Profit/(loss) before minority interests	**(38,066)**	(32,263)	(15,402)	1,801	20,247
Minority interests	**3,112**	2,930	865	(160)	(2,203)
Net profit/(loss) from ordinary activities attributable to shareholders	**(34,954)**	(29,333)	(14,537)	1,641	18,044

	As at 31 March				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
ASSET, LIABILITIES AND MINORITY INTERESTS					
Fixed assets	**56,542**	78,400	82,823	84,171	67,282
Long term deposits	**–**	–	308	1,476	1,783
Net current assets/(liabilities)	**(53,906)**	(36,162)	4,556	17,229	24,164
Non-current liabilities	**(21,736)**	(20,243)	(39,745)	(41,817)	(53,341)
Minority interests	**–**	(3,112)	(5,886)	(6,524	(5,927)
	(19,100)	18,883	42,056	54,535	33,961

Note: The summary of the combined results of the Group for the year 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 structures as set out in the Prospectus had been in existence throughout the year ended 31 March 2001. The published results of the Group for the four years ended 31 March 2005 were extracted from the audited financial statements of the Group.