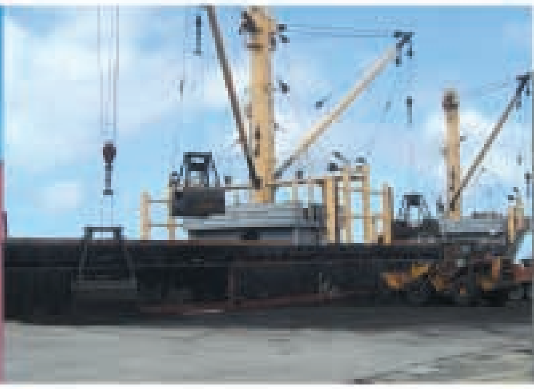
2006 ANNUAL REPORT


Prosperity International Holdings (H.K.) Limited

昌興國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8139)


A NEW FORCE
IN CEMENT
A One Stop Solution
for your clinker and logistic needs.
Prosperity International Holdings (H.K.) Limited

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BOARD OF DIRECTORS

Executive Directors
Mr. WONG Ben Koon, *Chairman*
Mr. NG Hon Fai
Madam HON Ching Fong
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

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Bermuda

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Bank of Bermuda Building
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Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
Hong Kong

STOCK EXCHANGE LISTING

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

STOCK CODE

8139

AUDITORS

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Certified Public Accountants
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Preston Gates & Ellis
35th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications
DBS Bank (Hong Kong) Limited
Indover Bank (Asia) Limited

Dear Shareholders

I am pleased to present to you the annual report of Prosperity International Holdings (H.K.) Limited ("Prosperity International" or "the Company", together with its subsidiaries, collectively the "Group") for the year ended 31 March 2006 (the "Year").

FINANCIAL REVIEW

Financial year 2006 marked an important year of significant improvements for the Group. Following several years of loss making, the Group completed a substantial business restructuring during the Year and successfully achieved a turnaround.

During the Year, the Group's turnover and net profit amounted to approximately HK$201.1 million and HK$6.8 million respectively, representing an impressive growth of HK$44.6 million after a net loss of HK$37.8 million in the previous year.

The substantial growth in turnover and the turnaround in net profit demonstrated the effectiveness of the Group's well-focused strategies. The Group commenced its business of supplying cement clinker in June 2005. This generated a new source of income and created a new profit momentum for the Group. In addition, the Group disposed of its loss making decorative sheet business in January 2006, creating a strong platform for robust growth in the future. Coupled with the implementation of stringent internal and financial controls, the Group recorded remarkable performance for the Year.

BUSINESS REVIEW

Business Diversification, Supplying of Cement Clinker

With the aims of enhancing financial performance and improving overall profitability, the Group commenced the cement clinker business in June 2005.

The strong demand for cement clinker in the international export markets contributed to the leading advantage of the People's Republic of China (the "PRC") in exporting cement clinker. Leveraging on the favorable market environment, the Group capitalized on its unrivaled expertise and experience in supplying construction materials to the region, its ability to provide comprehensive logistic support to customers, as well as its strong network in the international markets, to capture arising business opportunities in exporting cement clinker from the PRC to overseas countries.

The implementation of this business diversification strategy has proved to be successful. This new business generated an encouraging turnover and profit of approximately HK$158.3 million and HK$11.6 million respectively since the commencement of operation in June 2005. For the year ended 31 March 2006, the cement clinker business accounted for approximately 99.2% of total turnover from continuing operations and became the Group's major source of income.

During the Year, the Group's total sales volume of cement clinker reached approximately 580,000 metric tonnes, representing about 5.4% of the total cement clinker exported from the PRC in 2005. The outstanding performance strengthened the Group's confidence in the future development of the cement clinker business.

BUSINESS REVIEW

Disposal of Decorative Sheet Business

After a good deal of contemplation, the Group published a circular entitled "Very Substantial Disposal, Connected Transaction of Loan Capitalization, and Capital Reduction", on the disposal of its decorative sheet business, on 23 December 2005.

On 16 January 2006, the Group held a special general meeting, during which the proposal to dispose of the decorative sheet business was approved by the Company's shareholders. Upon the completion of the proposal, the Group has ceased to be engaged in the manufacturing and selling of decorative sheets and focused on the cement clinker business since January 2006.

FUTURE PROSPECTS

It is expected that the global economy will continue to grow and there is a continuing demand for cement clinker in the international markets, contributing to a favorable business environment with ample room for development. As such, the Group is confident of the immense growth potential and is optimistic towards the prospects of the cement clinker business.

Looking ahead, the Group will exert tremendous efforts in developing the cement clinker business. By exploring new markets and expanding the client base in the international markets while considering further provision of ancillary logistic and value-added services, the Group will proactively seek out other sources of cement clinker supply and endeavor to extend its business scale in the industry.

Moreover, the Group will capitalize on the opportunities ahead to further strengthen its market position and market presence, achieve robust business growth and create lucrative returns for shareholders in the coming years.

APPRECIATION

On behalf of Prosperity International, I would like to express my sincere gratitude to our shareholders and business partners for their confidence and loyal support to the Group. In addition, I would like to take this opportunity to thank the management and all staff members for their dedication and valuable contribution during the Year. We are committed to propelling the growth of the Group and achieving even more impressive results in the financial year 2007.

By order of the Board
Wong Ben Koon
Chairman

Hong Kong, 20 June 2006

OPERATING ENVIRONMENT REVIEW

Cement Clinker Business

In 2005, the People's Republic of China (the "PRC") Government continued to implement a variety of austerity measures to ensure healthy and sustainable growth for the overall economy and to restrain the overheating property market. As a result, the PRC property market underwent consolidation, leading to cement producers in the PRC to focus on exploiting opportunities in the international markets. Total export volume of cement in the PRC amounted to 22.16 million metric tonnes in 2005, representing an increase of 215% over the previous year. The main countries for export included the United States and Spain.

On the other hand, the demand for exported cement further intensified, particularly in Asia, which was mainly attributable to the increasing number of urban development projects in the Asian Pacific region backed by the prosperous global economy and the relatively short distance between the PRC and other Asian countries.

Other than cement, cement clinker is also exported to the international markets. Cement clinker is a semi-finished product for the production of cement and is commonly used as a building material for property development and infrastructure projects.

With an increasing demand for cement clinker in the international markets, the PRC recorded a substantial surge in cement clinker export in 2005, which amounted to 10.78 million metric tonnes, representing a dramatic growth of 950% over that of 2004.

OPERATION REVIEW

Cement Clinker Business

Amidst the flourishing global economy, the demand for cement clinker continued to surge. In view of the promising prospects, the Group commenced the cement clinker business in June 2005. For the year ended 31 March 2006 (the "Year"), the Group's total sales volume of cement clinker reached approximately 580,000 metric tonnes, which accounted for approximately 5.4% of total cement clinker exported from the PRC in 2005.

By leveraging on the professional expertise and the extensive experience of its management, the ability to provide comprehensive logistic support to customers, as well as its strong international sales network in supplying construction materials to the region, the Group successfully achieved satisfactory performance despite the fact that business had only commenced operation in June 2005. During the Year, the Group mainly sold cement clinker to customers in Asia.

In view of improving overall profitability, minimized business risk and a precise operating model, the Group also observed a strict policy to place orders to suppliers only upon obtaining confirmed sales orders from customers. This effective model enabled the Group to establish an enviable market reputation and obtain customer recognition.

Capitalizing on its market awareness and strong customer network, the Group, therefore, was able to secure a stable and sufficient supply of cement clinker from one of the leading cement plants in the PRC. The Group entered into a supply contract with the supplier, pursuant to which the supplier will provide the Group with prime quality products at favorable pricing through February 2007.

As at 31 March 2006, the Group's secured orders for cement clinker which are scheduled to be delivered during the financial year ending 31 March 2007, amounted to approximately 969,000 metric tonnes, creating an ideal platform for robust growth and future business development.

OPERATING ENVIRONMENT REVIEW

Decorative Sheet Business

In 2005, the further introduction of macro-economic austerity measures on the property market hindered the growth and development of the decorative sheet industry in the PRC. In addition, escalating fuel prices increased overall production costs, which intensified the burden of decorative sheet manufacturers.

With the aims of maintaining a profit margin, capturing greater market share and propelling business growth, market players tended to boost sales by reducing selling prices, which created an extremely difficult condition for business operation. The gloomy market environment continued to prevail during 2005, making year 2005 a tough year for the industry.

OPERATION REVIEW

Decorative Sheet Business

During the Year, market competition for decorative sheets further intensified, fuel costs continued to rise and the implementation of austerity measures brought forth a negative impact on the Group's profit margin. Under this difficult business environment, the Group found it unrealistic to expect a turnaround in its decorative sheet business in the foreseeable future. As a result, the Group decided to dispose of the decorative sheet business after thorough consideration of the difficult business conditions and of the operating loss incurred over the years so as to improve its overall business performance. On 23 December 2005, the Group published the circular entitled "Very Substantial Disposal, Connected Transaction of Loan Capitalization, and Capital Reduction", disclosing the details of the proposed disposal of its decorative sheet business.

In the special general meeting held on 16 January 2006, the Group successfully obtained shareholders' approval of the proposal. With the proposal completed in January 2006, the Group ceased to be engaged in the manufacture and sale of decorative sheets and concentrated its resources on developing its core cement clinker business.

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 and the related notes in this report.

Results

During the Year, the Group disposed of the operation of manufacture and sale of decorative sheets in January 2006 (the "Discontinued Operation") while the remaining businesses (the "Continuing Operation"), mainly the supplying of cement clinker which was commenced in June 2005, have become the core business of the Group.

The Group recorded a turnover and gross profit of approximately HK$159.6 million and approximately HK$16.5 million respectively from the Continuing Operation during the Year. Contribution from the cement clinker business accounted for over 99% of the total turnover and gross profit of the Continuing Operation for the Year. The Group did not engage in any cement clinker business in the previous year.

Selling and distribution costs of the Continuing Operation for the Year represented the salaries and expenses incurred by the marketing team to secure cement clinker contracts from customers and exploring business opportunities with potential customers.

Administrative expenses of the Continuing Operation mainly included remunerations of directors, administrative personnel as well as legal and professional fees paid to external auditors and legal consultants. The increase during the Year was mainly due to the additional staff and assistance from external consultants, sought to upgrade the quality of corporate governance of the Group.

Finance costs of the Continuing Operation for the Year represented the interest expenses incurred from the financing offered by principal bankers for the purchase of cement clinker.

Profit for the Year from the Continuing Operation was approximately HK$11.2 million. Loss from the Discontinued Operation amounted to approximately HK$6.2 million and HK$34.3 million for the years ended 31 March 2006 and 31 March 2005, respectively.

As shown under note 12 to the financial statements of the Group in this report, the turnover of Discontinued Operation for the Year amounted to approximately HK$41.5 million, representing a decrease of 31% as compared with the previous year. The decrease in turnover was mainly due to the disposal of the Discontinued Operation in January 2006. The Discontinued Operation recorded a gross profit of approximately HK$2.8 million and a gross loss of approximately HK$9.0 million for the years ended 31 March 2006 and 31 March 2005, respectively.

During the Year, the Group modified its products mix of the Discontinued Operation with a view to improve profit margin. Management also further tightened its control over selling and administrative costs to improve the cash outflow from this operation. The significant decrease in other operating expenses of the Discontinued Operation was mainly due to the substantial decrease in the allowance for doubtful debts from HK$8.1 million for the previous year to HK$1.2 million for the Year under review. Improvement in finance costs was mainly due to the partial settlement of bank loans borrowed for the Discontinued Operation at the beginning of the Year.

Although there was apparent improvement in controlling gross margin and various expenses, the Discontinued Operation recorded a loss of approximately HK$6.2 million between 1 April 2005 to 17 January 2006 prior to the disposal. The disposal of the Discontinued Operation resulted in a net gain of approximately HK$1.9 million.

Taking into account contribution from the Continuing Operation and the loss arising from the Discontinued Operation, the Group recorded a net profit of approximately HK$6.8 million for the Year while its net loss for the previous year was HK$37.8 million.

Financial Resources, Liquidity and Gearing Ratio

During the Year, the Group generally finances its operations and settled 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"), chairman and the major shareholder of the Company.

As at the end of November 2005, the accumulated financial support provided by Mr. Wong amounted to HK$24 million. To substantially improve the financial position of the Group, Mr. Wong agreed to subscribe for 63,241,106 new shares of the Company in consideration for the settlement in full of the HK$24 million loan advanced by Mr. Wong to the Group pursuant to a loan capitalization agreement dated 23 November 2005 (the "Loan Capitalization"). The issue price per new share is HK$0.3795. The new shares were issued in January 2006.

As at 31 March 2006, the pledged bank deposits, cash and bank balances of the Group amounted to approximately HK$19.8 million in aggregate. The substantial amount of bank balances were contributed by the strong cash inflow generated by sales from cement clinker during the Year.

The Group's gearing ratio, measured in terms of total borrowings divided by total assets, was 20% as at 31 March 2006 (2005: 53.8%). The significant improvement was mainly due to the disposal of the Discontinued Operation which carried a substantial amount of bank loans as at 31 March 2005.

The Discontinued Operation carried a substantial amount of trade and other payables of approximately HK$28.7 million and short term borrowings of approximately HK$40 million as at 31 March 2005. The Group recorded net current liabilities of approximately HK$53.7 million as at 31 March 2005. Following the disposal of the Discontinued Operation and the strong cash inflow contributed by the sales of cement clinker during the Year, the Group was successfully restored into a positive position with net current assets of approximately HK$6.1 million as at 31 March 2006.

On 7 April 2005, the Company completed a placement of 115,200,000 new shares at HK$0.033 per share. The net proceeds of approximately HK$3.7 million were used as general working capital purposes. As contributed by this placement, together with the completion of the Loan Capitalization and the profit generated by cement clinker sold during the Year, the total equity of the Group has been successfully turned around from a net deficiency of approximately HK$25.9 million as at 31 March 2005 into a positive amount of approximately HK$6.1 million as at 31 March 2006.

Upon the completion of the Loan Capitalisation in January 2006, the Company also carried out a capital reduction by way of cancellation of approximately HK$34,320,000 standing to the credit of the share premium account of the Company. The Company transferred the amount to the contributed surplus account of the Company (the balance of which was therefore increased from approximately HK$38,342,000 to HK$72,662,000) and apply the entire amount of the contributed surplus to set off against the accumulated losses of the Company. The substantial reduction in the accumulated losses of the Company is considered to be beneficial to the Company and its shareholders as a whole.

FOREIGN EXCHANGE

Following the disposal of the Discontinued Operation, the sales and purchases of the Continuing Operation are predominately in US dollars. The Group does not currently engage in hedging any currency risk, as it considers its cost associated with such hedging arrangements would exceed the benefits. However, management will continue to monitor the relevant circumstances and will take such measure as it deems prudent.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Saved as the disposal of the Discontinued Operation which has been detailed in the circular of the Company dated 23 December 2005, the Group made no material or significant investments or acquisitions or disposals of subsidiaries during the Year.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 March 2006. (2005: Nil)

As at 31 March 2006, the Company had provided corporate guarantees to banks to secure banking facilities granted to a subsidiary of the Company. As at the same date, the facilities amount utilised was approximately HK$23.5 million.

As at 31 March 2005, the Company did not have any significant contingent liabilities.

CHARGE ON GROUP ASSETS

As at 31 March 2006, the Group's trust receipt loans were secured by:

(a) charge over certain bank deposits of the Group totalling HK$3.6 million;

(b) corporate guarantees of the Company;

(c) personal guarantee of a director of the Company; and

(d) charge over certain trade receivables of the Group totalling HK$1.3 million.

As at 31 March 2005, the Group's interest-bearing borrowings were secured by the charge over certain property, plant and equipment, and land use rights of the Group with total carrying amount of approximately HK$39,962,000 and a corporate guarantee executed by a related company in which Mr. Wong Ben Koon, a director of the Company, is a director of the related company.

COMMITMENTS

As at 31 March 2006, the Group and the Company had the following commitments:

(a) Operating lease commitments – as lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Within one year	–	90

(b) Capital commitments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for:		
Acquisition of plant and machinery	–	433

Save as disclosed above, the Group and the Company did not have any other significant capital and operating lease commitments as at 31 March 2006 (2005: Nil).

HUMAN RESOURCES

As at 31 March 2006, the Group had a total of 15 staff of which 2 are based in the PRC and 13 are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	The PRC	**Hong Kong**	**Total**
Management	–	5	5
Sales and marketing	2	3	5
Purchases and transportation	–	2	2
Finance and administration	–	3	3
	2	13	15

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 labor disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

CHANGE OF AUDITORS

Ernst & Young ("EY") resigned as auditors of the Company with effect from 13 March 2006 on the grounds that the Board and EY could not reach a consensus on the audit fee for the Year. The Company accepted the resignation of EY solely for cost competitiveness reason, which is in line with the Company's policy to control and reduce operation costs. Following the resignation of EY, RSM Nelson Wheeler were appointed as auditors of the Company to fill the vacancy with effect from 15 May 2006.

FUTURE GROWTH STRATEGIES

In view of the growing market demand for cement clinker in overseas market, the Group is confident of the growth of cement clinker business in the coming years.

Looking ahead, the Group will put more efforts into cultivating the cement clinker business and has formulated a series of development strategies to propel profit growth.

Firstly, the Group will proactively extend its business reach to new markets. Currently, the Group's clientele is mainly in Asia. While consolidating its business foothold and expanding its client base in the current market, the Group is strategically tapping into new markets, including the United States and Europe, with a view to expanding its network and securing potential customers.

In addition, the Group will also consider further providing ancillary logistics and value-added services in order to provide more comprehensive logistic support to customers. Since transportation cost is one of the key factors affecting the profit margin of the cement clinker business, the Group is seeking several means to secure stable and long-term logistic support, so as to reduce related operating costs and minimize business risk.

Lastly, the Group will explore other sources of cement clinker supply to guarantee a stable and sufficient supply of cement clinker at competitive prices with top quality for its customers.

By leveraging on its experienced and professional management team as well as its extensive international sales network, the Group is committed to capturing the arising opportunities for expansion of sales network in the international markets, becoming one of the leading enterprises supplying cement clinker and related building materials, and generating fruitful returns to shareholders.

DIRECTORS

Executive Directors

Mr. WONG Ben Koon, aged 53, is one of the co-founders of the Group and the chairman of the Company. Mr. Wong is responsible for deriving the corporate culture and strategic planning of the Group. Mr. Wong has extensive experience in construction materials industry in the PRC and overseas market.

Mr. NG Hon Fai, aged 46, is one of the co-founders and an executive director of the Company. Mr. Ng is responsible for marketing and business development of the Group. Mr. Ng has over 10 years' experience in the sales of construction materials.

Madam HON Ching Fong, aged 58, 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 in 1997.

Mr. KONG Siu Keung, aged 37, 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 13 years' experience in finance and accounting field.

Independent non-executive directors

Mr. MO Kwok Choi, aged 71, 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 45, was appointed as an independent non-executive director in January 2002. Mr. Yuen is a member of the Hong Kong Institute of Certified Public 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 62, has extensive experience in the industries of trading and property development in the PRC.

SENIOR MANAGEMENT

Mr. TOK Beng Tiong, aged 35, is an executive in charge of cement clinker 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 construction materials industry in the PRC and overseas market 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 Company is committed to ensuring a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintaining high level of business ethics and corporate governance practices.

During the Year, the Company endeavours to comply with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"). The Company considers that it has complied with the CG Code during the Year except for certain areas of non-compliance that are discussed later in this report. The board of directors ("Directors") of the Company (collectively, the "Board") continues to review and update the practices from time to time to ensure compliance with the legal and commercial standards.

THE BOARD

The Board comprises seven Directors including four executive Directors and three independent non-executive Directors. The independent non-executive Directors possess appropriate academic and professional qualifications or related financial and business management expertise and have brought a wide range of business and financial experience to the Board. As at 31 March 2006, the composition of the Board is given below:

Executive Directors:

Mr. Wong Ben Koon *(Chairman of the Board)*
Mr. Ng Hon Fai
Madam Hon Ching Fong
Mr. Kong Siu Keung

Independent non-executive Directors:

Mr. Mo Kwok Choi *(Chairman of Audit Committee)*
Mr. Yuen Kim Hung, Michael *(member of Audit Committee and Chairman of Remuneration Committee)*
Mr. Yung Ho *(member of Audit Committee and Remuneration Committee)*

The biographical details of the Directors are set out on page 13 of this annual report.

Regular Board meetings are held at least four times a year to review the financial and operating results of the Group and to propose interim and final dividends, if appropriate. It is also held as and when necessary to discuss significant transactions, including the very substantial disposal, connected transactions, loan capitalization, capital reduction and repurchases of shares carried out during the Year. All Directors are given an opportunity to include matters in the agenda for Board meetings. There were 18 Board meetings (including 2 board committee meetings) held during the year ended 31 March 2006 and the individual attendance record of each Director at the meetings of the Board during the Year is set out below:

Name of Directors	Attendance/ Number of Board Meetings
Mr. Wong Ben Koon	11/18
Mr. Ng Hon Fai	14/18
Madam Hon Ching Fong	8/18
Mr. Kong Siu Keung	15/18
Mr. Mo Kwok Choi	6/18
Mr. Yuen Kim Hung, Michael	8/18
Mr. Yung Ho	6/18

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, and dividend and accounting polices. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Chairman and the senior management.

Mr. Wong Ben Koon, Madam Hon Ching Fong and Mr. Ng Hon Fai are shareholders of the Company. Their respective interests are disclosed in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares" in the report of the directors. Mr. Wong Ben Koon and Madam Hon Ching Fong have joint beneficial interests in certain companies outside the Group. Transactions between these companies and the Group, if any, during the Year are disclosed in note 35 to the financial statements.

Save as disclosed above and in note 35 to the financial statements, there is no financial, business, family or other material or relevant relationship among the Directors.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors to be independent. The details of the service contract of each independent non-executive Director are disclosed in the section headed "Directors' Service Contracts" under the report of the directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Mr. Wong Ben Koon is the chairman of the Company. The CG Code provides that the roles of chairman and CEO should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The Company did not have a CEO during the Year. The functions of a CEO have been instead carried out by the executive directors who have different expertise in managing the business and other matters of the Group. This constitutes a deviation from the provisions of the CG Code.

The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes are necessary.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Mo Kwok Choi (Chairman of the Audit Committee), Mr. Yuen Kim Hung, Michael and Mr. Yung Ho.

The main duties of the Audit Committee are to review the quarterly, half-yearly and annual financial information of the Company and oversee the Company's financial reporting system and internal control procedures.

The Audit Committee held five meetings and reviewed the financial results and reports, financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditors. The Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

The individual attendance record of each audit committee member at the meetings of the Audit Committee during the Year is set out below:

Name of Directors	Attendance/Number of Audit Committee Meetings
Mr. Mo Kwok Choi	3/5
Mr. Yuen Kim Hung, Michael	5/5
Mr. Yung Ho	5/5

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Auditors' Report on page 27 of this annual report.

REMUNERATION COMMITTEE

The Remuneration Committee was set up in March 2005, constituted by two independent non-executive Directors, namely, Mr. Yuen Kim Hung, Michael (Chairman of the Remuneration Committee) and Mr. Yung Ho.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the Directors and senior management. The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing such remuneration policy and structure. One meeting had been held during the Year to discuss remuneration related matters. Both Mr. Yuen Kim Hung, Michael and Mr. Yung Ho attended the meeting.

NOMINATION COMMITTEE

The Company does not have a nomination committee. The power to nominate or appoint additional Directors is vested on the Board according to the Articles of Association, in addition to the power of the shareholders to nominate any person to become a Director of the Company in accordance with the Articles of Association of the Company and the laws of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. A meeting of the Board was held during the Year in connection with the resignation of Mr. Choi Yat Choy as Director with effect from 1 August 2005. The nomination procedures basically follow the provisions of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

COMMUNICATIONS WITH SHAREHOLDERS

Under the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at any general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Whilst the Company endeavours to maintain an on-going dialogue with its shareholders, the chairman of the Company and the chairman of audit committee may not always be able to attend general meetings due to other important business engagements. Mr. Ng Hon Fai ("Mr. Ng") and Mr. Kong Siu Keung ("Mr. Kong"), both being executive directors of the Company, attended the annual general meeting on 28 July 2005 and were delegated to make themselves available to answer questions if raised at the meeting. Mr. Ng, Mr. Kong and Mr. Yuen Kim Hung, Michael, a member of audit committee, attended the special general meeting held in relation to a very substantial disposal, a connected transaction of loan capitalization, and a capital reduction on 16 January 2006, and the special general meeting held in relation to the proposed change of auditors on 15 May 2006, and were available to answer questions if raised at the meetings. The absence of chairman in general meetings and the absence of chairman of audit committee in the annual general meeting constituted a deviation from the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions.

Having made specific enquiry with all Directors, each of them confirms that he/she has complied in full with the required standard of dealings regarding directors' securities transactions throughout the year ended 31 March 2006.

INTERNAL CONTROL

The Board has overall responsibility for the establishment, maintenance and review of the Group's system of internal control. The Board has conducted a review of and is satisfied with the effectiveness of the system of internal control of the Group.

AUDITORS' REMUNERATION

Ernst & Young ("EY") had resigned as auditors of the Company with effect from 13 March 2006. Following the resignation of EY, a resolution has been passed at a special general meeting to appoint RSM Nelson Wheeler as the Company's external auditors with effect from 15 May 2006. The external auditors are primarily responsible for providing audit services in connection with the annual consolidated financial statements. During the Year, the total remuneration payable to RSM Nelson Wheeler amounted to HK$644,081 of which HK$450,000 was incurred for statutory audit and HK$194,081 was incurred for non-audit services which mainly included tax advisory services.

CONCLUSION

The Company strongly believes that good corporate governance can safeguard the effective allocation of resources and protect shareholders' interest. The management will continue to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

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 2006 (the "Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries as at 31 March 2006 are set out in note 20 to the financial statements. The Group disposed the subsidiaries engaged in the manufacture and sale of decorative sheets and commenced the cement clinker business during the Year. The existing core business of the Group is the trading of cement clinker and other building materials.

RESULTS

The Group's profit for the year ended 31 March 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 75.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and assets and liabilities of the Group for the past five years ended 31 March 2006, is set out on page 76. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 18 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 March 2006 are set out in note 20 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 24 and 34, 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 SALES OF LISTED SHARES OF THE COMPANY

The Company purchased and cancelled 400,000 shares of the Company (the “Repurchase”) during the Year. The Board considers that the Repurchase enhanced the earnings per share of the Company and benefited the Company and its shareholders as a whole. Apart from the foregoing, 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 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company has no reserves available for distribution. The Company’s share premium account, in the amount of approximately HK$6,468,000 as at 31 March 2006, 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 84.7% of the total sales for the Year and sales to the largest customer included therein amounted to approximately 44.6%. Purchases from the Group’s five largest suppliers accounted for 77.1% of the total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 69.9%.

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 this report were:

Executive directors:

Mr. Wong Ben Koon
Mr. Ng Hon Fai
Madam Hon Ching Fong
Mr. Choi Yat Choy (resigned on 1 August 2005)
Mr. Kong Siu Keung

Independent non-executive directors:

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

Mr. Yung Ho was appointed as an independent non-executive director of the Company on 1 September 2005. 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 clause 87 of the Company's bye-laws, Mr. Kong Siu Keung and Mr. Yuen Kim Hung, Michael will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 13 of this 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. Kong Siu Keung entered into a service contract 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 contract.

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 1 September 2005 for a term of three years 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 Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 35 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

At 31 March 2006, 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 the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

	Number of shares held, capacity and nature of interest *(Note 2)*			
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Wong Ben Koon ("Mr. Wong")	65,185,106	31,917,600 *(Note 1)*	97,106,706	66.99%
Madam Hon Ching Fong ("Madam Hon")	–	31,917,600 *(Note 1)*	31,917,600	22.02%
Mr. Ng Hon Fai ("Mr. Ng")	–	31,917,600 *(Note 1)*	31,917,600	22.02%

Notes:

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. On 28 July 2005, the shareholders of the Company passed an ordinary resolution of consolidating every 10 shares of HK$0.01 each in the issued and unissued share capital of the Company into 1 consolidated share of HK$0.1 each ("Consolidated Share").

On 23 November 2005, the Company, Mr. Wong and Prosperity Trading Limited ("Prosperity Trading"), an indirect wholly-owned subsidiary of the Company, entered into a conditional agreement for capitalisation of loans, pursuant to which Mr. Wong has conditionally agreed to subscribe for 63,241,106 new shares of HK$0.1 each in the share capital of the Company in consideration for the settlement of HK$24,000,000 being the interest-free and unsecured loans advanced by Mr. Wong to Prosperity Trading. The resolutions approving the loan capitalisation was passed at the special general meeting held on 16 January 2006. The listing committee of the Stock Exchange has granted approval for the listing of, and permission to deal in, the said new shares.

(b) Long positions in share options

Number of share options held by a director as at 31 March 2006:

Name	Number of options held	Number of underlying shares
Mr. Kong Siu Keung	2,400,000	2,400,000

The details of share options held by the director are disclosed in note 34 to the financial statements.

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 2006, 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 the Model Code.

SHARE OPTION SCHEME

The details of the Company's share option scheme, the share options outstanding and the movements during the Year are disclosed in note 34 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the options holdings disclosed above, 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 or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Wong and Madam Hon have beneficial interests in Prosperity Minerals Group Limited, Max Start Holdings Limited and Max Will Profits Limited (collectively, the "Relevant Companies"), respectively. Mr. Wong is also a director of Prosperity Minerals Group Limited. As at the date of this report, the Relevant Companies effectively hold approximately 39.7% interest in Yingde Dragon Mountain Cement Co., Ltd. ("Yingde Cement"), a wholly-owned foreign enterprise established in the Mainland China, and approximately 9.9% interest in Prosperity Conch Cement Company Limited ("Prosperity Conch"), a sino-foreign equity joint venture established in the Mainland China. Mr. Wong is a director of both Yingde Cement and Prosperity Conch. Yingde Cement and Prosperity Conch are both 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 and Prosperity Conch were sold in domestic market in the PRC without any export to overseas countries.

In view of the completely different target markets between the Group and Yingde Cement and Prosperity Conch, the Board considers that there is no direct or indirect competition between the Group and Yingde Cement and Prosperity Conch during the Year and up to the date of this report.

During the Year and up to the date of this report, the Group did not have any transactions with Yingde Cement and Prosperity Conch.

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

At 31 March 2006, 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** *(Note d)*	**Percentage of the Company's issued share capital**
Mr. Wong Ben Koon		Directly beneficially owned	65,185,106	
	(a) & *(b)*	Interest of controlled corporation	31,917,600	
			97,102,706	66.99%
Well Success	*(a)*	Directly beneficially owned	31,917,600	22.02%
Advance Success	*(b)*	Through Well Success	31,917,600	22.02%
Madam Hon Ching Fong	*(a)* & *(b)*	Interest of controlled corporation	31,917,600	22.02%

Name	Notes	Capacity and nature of interest	Number of ordinary shares held *(Note d)*	Percentage of the Company's issued share capital
Lamex Investment Limited ("Lamex")	*(c)*	Directly beneficially owned	7,692,000	5.31%
Mr. Lam Ching Wah	*(c)*	Interest of controlled corporation	7,692,000	5.31%
Mr. Lam Andy Siu Wing	*(c)*	Interest of controlled corporation	7,692,000	5.31%

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 section headed "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.

(d) On 28 July 2005, the shareholders of the Company passed an ordinary resolution of consolidating every 10 shares of HK$0.01 each in the issued and unissued share capital of the Company into 1 consolidated share of HK$0.1 each.

Save as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31 March 2006.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Year.

CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 24 and note 35 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 GEM LISTING RULES

In the opinions of the directors, the Company has complied with the board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the Year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

A full corporate governance report is set out on pages 14 to 18 of this annual report.

AUDITORS

RSM Nelson Wheeler were appointed as auditors of the Company with effect from 15 May 2006 to fill the vacancy upon the resignation of Ernst & Young. Ernst & Young were the auditors of the Company for the years ended 31 March 2004 and 2005. Apart from the aforementioned, there have been no other changes of the Company's auditors in the past three years.

RSM Nelson Wheeler retires at the forthcoming annual general meeting of the Company and a resolution for their re-appointment as auditors of the Company will be proposed at the said meeting.

ON BEHALF OF THE BOARD
WONG Ben Koon
Chairman

Hong Kong, 20 June 2006

RSM! Nelson Wheeler
羅申美會計師行
Certified Public Accountants

To the shareholders of
PROSPERITY INTERNATIONAL HOLDINGS (H.K.) LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 75 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 Companies Act 1981 of Bermuda, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong, 20 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Continuing operation			
Turnover	*8*	**159,587**	–
Cost of sales		**(143,104)**	–
Gross profit		**16,483**	–
Other income	*9*	**1,072**	–
Selling and distribution costs		**(1,682)**	–
Administrative expenses		**(4,665)**	(3,457)
Profit/(loss) from operation		**11,208**	(3,457)
Finance costs	*10*	**(51)**	–
Profit/(loss) before taxation		**11,157**	(3,457)
Taxation	*11*	**(4)**	–
Profit/(loss) for the year from continuing operation		**11,153**	(3,457)
Discontinued operation			
Loss for the year from discontinued operation	*12*	**(4,362)**	(34,320)
Profit/(loss) for the year	*13*	**6,791**	(37,777)
Attributable to:			
Equity holders of the Company		**6,791**	(36,621)
Minority interest		**–**	(1,156)
		6,791	(37,777)
Earnings/(loss) per share			
From continuing and discontinued operations			
– basic	*17(a)*	**7.2 cents**	(58.9) cents
– diluted	*17(a)*	**7.1 cents**	N/A
From continuing operation			
– basic	*17(b)*	**11.8 cents**	(5.6) cents
– diluted	*17(b)*	**11.6 cents**	N/A

Consolidated Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	18	**9**	36,542
Prepaid land lease payments	19	**–**	10,460
		9	47,002
Current assets			
Inventories	21	**15,089**	14,024
Trade and bills receivables	22	**1,316**	6,865
Prepaid land lease payments	19	**–**	240
Prepayments, deposits and other receivables		**615**	4,733
Pledged bank deposits	23	**3,624**	–
Bank and cash balances	23	**16,215**	1,540
		36,859	27,402
Total assets		**36,868**	74,404
Capital and reserves			
Share capital	24	**14,496**	7,060
Reserves	25(a)	**(8,373)**	(32,977)
Equity attributable to equity holders of the Company		**6,123**	(25,917)
Non-current liabilities			
Due to a director	26	**–**	18,436
Deferred tax liabilities	27	**–**	817
		–	19,253
Current liabilities			
Trade and bills payables	28	**8,670**	17,196
Accrued liabilities and other payables		**2,395**	13,768
Due to a related company	29	**23**	–
Trade deposits received		**12,265**	–
Provision for taxation		**4**	10,104
Short term interest-bearing borrowings	30	**7,388**	40,000
		30,745	81,068
Total liabilities		**30,745**	100,321
Total equity and liabilities		**36,868**	74,404
Net current assets/(liabilities)		**6,114**	(53,666)
Total assets less current liabilities		**6,123**	(6,664)

Approved by the Board of Directors on 20 June 2006

Wong Ben Koon
Chairman and Executive Director

Kong Siu Keung
Executive Director

Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	18	**2**	5
Interests in subsidiaries	20	**–**	–
		2	5
Current assets			
Due from subsidiaries	20	**26,181**	–
Prepayments		**–**	156
Bank balances		**146**	4
		26,327	160
Total assets		**26,329**	165
Capital and reserves			
Share capital	24	**14,496**	7,060
Reserves	25(b)	**6,522**	(9,434)
		21,018	(2,374)
Non-current liabilities			
Due to a director	26	**–**	200
Current liabilities			
Due to subsidiaries	20	**3,746**	–
Other payables		**1,565**	2,339
		5,311	2,339
Total liabilities		**5,311**	2,539
Total equity and liabilities		**26,329**	165
Net current assets/(liabilities)		**21,016**	(2,179)
Total assets less current liabilities		**21,018**	(2,174)

Approved by the Board of Directors on 20 June 2006

Wong Ben Koon	**Kong Siu Keung**
Chairman and Executive Director	*Executive Director*

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to equity holders of the Company								Minority interest	Total equity
	Share capital	Share premium account	Contributed surplus	Share-based payments reserve	Accumulated losses	Goodwill reserve	Properties revaluation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004, as previously reported	5,760	14,196	14,878	–	(38,061)	(1,522)	23,632	18,883	3,112	21,995
Effect of changes in accounting policies *(note 3(b))*	–	–	–	–	2,760	–	(14,140)	(11,380)	(1,261)	(12,641)
At 1 April 2004, as restated	5,760	14,196	14,878	–	(35,301)	(1,522)	9,492	7,503	1,851	9,354
Revaluation deficit on buildings	–	–	–	–	–	–	(6,262)	(6,262)	(695)	(6,957)
Net expense recognised directly in equity	–	–	–	–	–	–	(6,262)	(6,262)	(695)	(6,957)
Impairment of goodwill remaining in goodwill reserve	–	–	–	–	–	1,522	–	1,522	–	1,522
Loss for the year	–	–	–	–	(36,621)	–	–	(36,621)	(1,156)	(37,777)
Total recognised income and expense for the year	–	–	–	–	(36,621)	1,522	(6,262)	(41,361)	(1,851)	(43,212)
Issue of shares for loan capitalisation *(note 24(a))*	1,300	6,500	–	–	–	–	–	7,800	–	7,800
Recognition of share-based payments	–	–	–	141	–	–	–	141	–	141
	1,300	6,500	–	141	–	–	–	7,941	–	7,941
At 31 March 2005, as restated	7,060	20,696	14,878	141	(71,922)	–	3,230	(25,917)	–	(25,917)

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to equity holders of the Company								Minority interest	Total equity
	Share capital	Share premium account	Contributed surplus	Share-based payments reserve	Accumulated losses	Goodwill reserve	Properties revaluation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005, as previously reported	7,060	20,696	14,878	–	(73,015)	–	11,281	(19,100)	–	(19,100)
Effect of changes in accounting policies *(note 3(b)&(c))*	–	–	–	141	1,093	–	(8,051)	(6,817)	–	(6,817)
At 1 April 2005, as restated	7,060	20,696	14,878	141	(71,922)	–	3,230	(25,917)	–	(25,917)
Revaluation deficit on buildings	–	–	–	–	–	–	(2,503)	(2,503)	–	(2,503)
Net expense recognised directly in equity	–	–	–	–	–	–	(2,503)	(2,503)	–	(2,503)
Profit for the year	–	–	–	–	6,791	–	–	6,791	–	6,791
Total recognised income and expense for the year	–	–	–	–	6,791	–	(2,503)	4,288	–	4,288
Issue of shares on placement *(note 24(b))*	1,152	2,504	–	–	–	–	–	3,656	–	3,656
Issue of shares for loan capitalisation *(note 24(d))*	6,324	17,676	–	–	–	–	–	24,000	–	24,000
Repurchase of shares *(note 24(e))*	(40)	(88)	–	–	–	–	–	(128)	–	(128)
Recognition of share-based payments	–	–	–	224	–	–	–	224	–	224
Transfer on disposal of subsidiaries	–	–	–	–	727	–	(727)	–	–	–
Transfer *(note 25(a))*	–	(34,320)	–	–	34,320	–	–	–	–	–
	7,436	(14,228)	–	224	35,047	–	(727)	27,752	–	27,752
At 31 March 2006	14,496	6,468	14,878	365	(30,084)	–	–	6,123	–	6,123

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 *HK$'000*	2005 *HK$'000* (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		**6,791**	(37,777)
Adjustments for:			
Income tax expenses		**4**	–
Finance costs		**2,387**	3,501
Depreciation		**3,895**	4,838
Amortisation of prepaid land lease payments		**–**	240
Loss on disposal of property, plant and equipment		**–**	44
Interest income		**(57)**	(7)
Gain on disposal of discontinued operation		**(1,858)**	–
Allowance for inventories		**–**	8,221
Employee share option benefits		**224**	141
Allowance for receivables		**1,207**	8,084
Impairment of goodwill		**–**	1,522
Impairment of property, plant and equipment		**–**	1,693
Operating profit/(loss) before working capital changes		**12,593**	(9,500)
(Increase)/decrease in inventories		**(17,931)**	4,758
Increase in trade and bills receivables		**(1,410)**	(413)
Decrease in prepayments, deposits and other receivables		**517**	1,766
Increase/(decrease) in trade and bills payables		**8,298**	(1,276)
Increase in accrued liabilities and other payables		**185**	1,266
Increase in deposit received		**12,265**	–
Increase in amount due to a related company		**23**	–
Increase in amount due to a director		**5,506**	–
Cash generated from/(used in) operating activities		**20,046**	(3,399)
Interest received		**57**	7
Interest paid		**(2,387)**	(3,498)
Finance lease charges paid		**–**	(3)
Net cash generated from/(used in) operating activities		**17,716**	(6,893)

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase)/decrease in pledged bank deposits		**(3,624)**	1,210
Acquisition of a subsidiary	*31(a)*	**(6)**	–
Disposal of subsidiaries	*31(b)*	**(2,582)**	–
Purchases of property, plant and equipment		**(499)**	(2,232)
Proceeds from disposal of property, plant and equipment		**–**	461
Net cash used in investing activities		**(6,711)**	(561)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other loans		**(1,496)**	(187)
Repayment of bank loans		**(5,750)**	(7,589)
Other borrowings raised		**–**	1,308
Payment of finance lease capital element, net		**–**	(338)
Increase in trust receipt loan		**7,388**	–
Proceeds from issue of shares		**3,802**	–
Share issue expenses paid		**(146)**	–
Repurchase of shares		**(128)**	–
Advance from a director		**–**	13,261
Net cash generated from financing activities		**3,670**	6,455
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**14,675**	(999)
CASH AND CASH EQUIVALENTS AT 1 APRIL		**1,540**	2,539
CASH AND CASH EQUIVALENTS AT 31 MARCH		**16,215**	1,540
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**16,215**	1,540

1. GENERAL INFORMATION

Prosperity International Holdings (H.K.) Limited (the "Company") was incorporated as an exempted company with limited liability in Bermuda on 17 August 2000 under the Companies Act 1981 of Bermuda (as amended). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is 10th Floor, Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong. The Company's shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The Group was engaged in the trading of cement clinker and other building materials, and the manufacture and sale of decorative sheets during the year.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of the Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below:

(a) Presentation of Financial Statements

HKAS 1 Presentation of Financial Statements affects the presentation of minority interest and other disclosures.

3. ADOPTION OF NEW AND REVISED HKFRSs (CONT'D)

(b) Leases

The adoption of HKAS 17 Leases has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to prepaid land lease payments. The up-front prepayments made for the leasehold land are expensed in the consolidated income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and accumulated impairment. HKAS 17 has been applied retrospectively.

The adoption of HKAS 17 resulted in a decrease in accumulated losses of the Group at 1 April 2004 by HK$2,760,000 and resulted in changes in the amounts reported in the financial statements of the Group as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in prepaid land lease payments	**–**	10,700
Decrease in property, plant and equipment	**–**	20,000
Decrease in properties revaluation reserve	**–**	8,051
Decrease in deferred tax liabilities	**–**	2,483
Decrease in accumulated losses	**–**	1,234
Decrease in administrative expenses	**340**	430
Decrease in minority interest in loss for the year	**–**	1,956
Increase in basic earnings/(loss) per share	**0.4 cent**	(2.5 cents)
Increase in diluted earnings per share	**0.4 cent**	N/A

(c) Share-based payments

The adoption of HKFRS 2 Share-based Payment has resulted in a change in the accounting policy for employee share options. Prior to this, the grant of share options to employees did not result in a charge to the income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods and expensed to the income statement.

The adoption of HKFRS 2 resulted in changes in the amounts reported in the financial statements of the Group and the Company as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in share-based payments reserve	**365**	141
Increase in accumulated losses	**365**	141
Increase in administrative expenses	**224**	141
Decrease/(increase) in basic earnings/(loss) per share	**0.2 cent**	(0.2 cent)
Decrease in diluted earnings per share	**0.2 cent**	N/A

3. ADOPTION OF NEW AND REVISED HKFRSs (CONT'D)

(d) Discontinued operations

HKFRS 5 Non-current Assets Held for Sales and Discontinued Operations specifies the accounting for assets held for sales, and the presentation and disclosure of discontinued operations. HKFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sales in accordance with HKFRS 5 or when the Group has disposed of the operation. HKFRS 5 is effective for operations that meet the criteria to be classified as discontinued after 1 April 2005.

The new accounting policy by the adoption of HKFRS 5 has resulted in the reclassification of the comparative information for the year ended 31 March 2005 in conforming with current year's presentation as follows:

	As previously reported *HK$'000*	**As restated** ***HK$'000***
Turnover	59,808	–
Cost of sales	(68,830)	–
Gross loss	(9,022)	–
Other income	33	–
Selling and distribution costs	(2,985)	–
Administrative expenses	(11,292)	**(3,457)**
Other operating expenses	(11,299)	–
Loss from operation	(34,565)	**(3,457)**
Finance costs	(3,501)	–
Loss before taxation	(38,066)	**(3,457)**
Taxation	–	–
Loss for the year from continuing operation		**(3,457)**
Discontinued operation		
Loss for the year from discontinued operation		**(34,320)**
Loss for the year	(38,066)	**#(37,777)**
Attributable to:		
Equity holders of the Company	(34,954)	**(36,621)**
Minority interest	(3,112)	**(1,156)**
	(38,066)	**(37,777)**

The amount has been adjusted for the effect of adoption of new and revised HKFRSs as stated above.

3. ADOPTION OF NEW AND REVISED HKFRSs (CONT'D)

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the consolidated financial statements of the Group.

4. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interest represents the interest of minority shareholders in the operating results and net assets of subsidiaries. Minority interest is presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interest is presented in the consolidated income statement as an allocation of profit or loss for the year between the minority and the shareholders of the Company. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

In the Company's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in profit or loss.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interest of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Foreign currency translation (Cont'd)

(iii) Translation on consolidation

The results and financial position of all the group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rate on the transaction dates); and

– all resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are carried at fair values, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment, except for construction in progress, are stated at historical cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (Cont'd)

Increases in the carrying amount arising on revaluation of buildings are credited to the properties revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against properties revaluation reserve directly in equity. All other decreases are expensed in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the lease term
Plant and machinery	10% to 20%
Furniture, fixtures, equipment and motor vehicles	10% to 20%
Leasehold improvements	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal or retirement of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(e) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of the lease, the finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(f) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

(i) the post-tax profit or loss of the discontinued operation; and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overheads expenditures.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an Group's cash management are also included as a component of cash and cash equivalents.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(j) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(k) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(m) Revenue recognition

(i) Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed to the customers.

(ii) Interest income is recognised on a time proportion basis using the effective interest method.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all eligible employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(o) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment.

Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and bank and cash balances. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

(r) Related parties

Two 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans for the benefit of employees of the Group or of any entity that is a related party of the Group.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(s) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provision are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow is remote.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(u) Event after the balance sheet date

Event after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Event after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are discussed below.

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

In addition, deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves estimation regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses carried forward, the asset balance will be reduced and charged to the income statement.

6. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and United States dollars.

(ii) Credit risk

As at 31 March 2006, the three largest trade and bills receivables represent approximately 100% of the total trade and bills receivables. The Group was exposed to the concentration of credit risk. In order to minimise the credit risk, the Group maintains various credit policies for business operations as described in note 22 to the financial statements.

The carrying amount of the trade and bills receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks.

(iii) Liquidity risk

The Group manages its liquidity risk by ensuring the availability of funding to meet its liquidity requirements in the short and longer terms through an adequate amount of committed credit facilities from financial institutions.

(iv) Interest rate risk

The Group's exposure to interest-rate risk arises from its short-term borrowings. These borrowings bear interests at variable rates varied with the then prevailing market condition. The interest rates and terms of repayment of short-term borrowings are disclosed in note 30 to the financial statements. Other financial assets and liabilities do not have material interest rate risk.

(b) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

7. SEGMENT INFORMATION

(a) Primary reporting format-business segments

The Group is currently engaged in the trading of cement clinker and other building materials. In prior year, the Group also engaged in the manufacture and sale of decorative sheets. That operation was discontinued with effect from 17 January 2006 (see note 12 to the financial statements).

No analysis of segment revenue and result is presented for the continuing operation as the Group's sole business is the trading of cement clinker and other buildings materials. Other segment information about the Group's continuing operation is presented below. Segment information about the Group's discontinued operation is presented in note 12 to the financial statements.

	2006	2005
	HK$'000	*HK$'000*
ASSETS		
Segment assets		
Continuing operation	**36,629**	–
Discontinued operation	**–**	74,276
Unallocated assets	**239**	128
Consolidated total assets	**36,868**	74,404
LIABILITIES		
Segment liabilities		
Continuing operation	**29,181**	–
Discontinued operation	**–**	97,862
Unallocated liabilities	**1,564**	2,459
Consolidated total liabilities	**30,745**	100,321
OTHER INFORMATION		
Capital expenditure	**8**	–
Depreciation and amortisation	**4**	–
Other non-cash expenses	**224**	–

7. SEGMENT INFORMATION (CONT'D)

(b) Secondary reporting format-geographical segments

In determining the Group's geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

	Continuing operation		Discontinued operation					
	Asia except PRC		PRC		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE	**159,587**	–	**41,505**	59,808	**–**	–	**201,092**	59,808
ASSETS								
Segment assets	**36,629**	–	**–**	74,276	**–**	–	**36,629**	74,276
Unallocated assets	**–**	–	**–**	–	**239**	128	**239**	128
Consolidated total assets	**36,629**	–	**–**	74,276	**239**	128	**36,868**	74,404
OTHER INFORMATION								
Capital expenditure	**8**	–	**491**	2,232	**–**	–	**499**	2,232

8. TURNOVER

The Group is principally engaged in the trading of cement clinker and other building materials and the manufacture and sale of decorative sheets in current year. An analysis of the Group's turnover is as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Cement clinker and other building materials	**159,587**	–
Decorative sheets	**41,505**	59,808
	201,092	59,808
Representing:		
Continuing operation	**159,587**	–
Discontinued operation	**41,505**	59,808
	201,092	59,808

9. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	**57**	7
Others	**1,106**	26
Total other income	**1,163**	33
Representing:		
Continuing operation	**1,072**	–
Discontinued operation	**91**	33
	1,163	33

10. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans	**2,246**	3,328
Interest on other loans wholly repayable within five years	**141**	170
Finance lease charges	**–**	3
	2,387	3,501
Representing:		
Continuing operation	**51**	–
Discontinued operation	**2,336**	3,501
	2,387	3,501

11. TAXATION

	2006	2005
	HK$'000	*HK$'000*
Hong Kong profits tax-current	4	–
Representing:		
Continuing operation	4	–
Discontinued operation	–	–
	4	–

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profit for the year ended 31 March 2006. No provision for Hong Kong profits tax has been made for the year ended 31 March 2005 as the Group did not generate any assessable profits arising in Hong Kong during the year.

Taxation charge 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, interpretation and practices in respect thereof.

For the year ended 31 March 2006, the tax rate applicable to a disposed subsidiary established and operating in the PRC is 24% (2005: 24%). No provision for PRC enterprise income tax has been made for the year as this disposed subsidiary did not generate any assessable profits arising in the PRC during the period up to the date of disposal (2005: Nil).

The taxation charge can be reconciled to the profit/(loss) before taxation as follows:

2006

	Hong Kong	PRC	Total
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before taxation			
Continuing operation	11,157	–	11,157
Discontinued operation	(454)	(5,766)	(6,220)
	10,703	(5,766)	4,937
Tax at applicable tax rate	1,873	(1,383)	490
Tax effect of net income that is not taxable in determining taxable profit	(2,289)	(127)	(2,416)
Tax effect of unrecognised temporary differences	1	–	1
Tax effect of unused tax loss not recognised	419	1,510	1,929
Taxation charge	4	–	4

11. TAXATION (CONT'D)

2005

	Hong Kong *HK$'000*	PRC *HK$'000*	Total *HK$'000*
Loss before taxation			
Continuing operation	(3,457)	–	(3,457)
Discontinued operation	(3,891)	(30,429)	(34,320)
	(7,348)	(30,429)	(37,777)
Tax at applicable tax rate	(1,286)	(7,303)	(8,589)
Tax effect of income that is not taxable in determining taxable profit	(149)	–	(149)
Tax effect of unrecognised temporary differences	(75)	–	(75)
Tax effect of unused tax loss not recognised	1,510	7,303	8,813
Taxation charge	–	–	–

12. DISCONTINUED OPERATION

Pursuant to an agreement dated 23 November 2005 entered into between a wholly-owned subsidiary of the Company, Profit World Ventures Limited ("Profit World") and an independent third party (the "Purchaser"), Profit World disposed of 100% interest in two wholly-owned subsidiaries, Golden Tapestry Profits Limited ("Golden Tapestry") and Xingda Decorative Sheets Company Limited ("Xingda").

Golden Tapestry was dormant and Xingda held 90% interest in a sino-foreign equity joint venture, Guangzhou Xingda Decorative Sheets Co., Ltd. ("Guangzhou Xingda"). Xingda and Guangzhou Xingda were engaged in the manufacture and sale of decorative sheets during the year. The disposal was completed on 17 January 2006.

The loss for the year from the discontinued operation is analysed as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Loss of discontinued operation	**(6,220)**	(34,320)
Gain on disposal of discontinued operation	**1,858**	–
	(4,362)	(34,320)

12. DISCONTINUED OPERATION (CONT'D)

The results of the discontinued operation for the period from 1 April 2005 to 17 January 2006, which have been involved in the consolidated income statement, are as follows:

	Period from 1 April 2005 to 17 January 2006 *HK\$'000*	Year ended 31 March 2005 *HK\$'000*
Turnover	**41,505**	59,808
Cost of sales	**(38,733)**	(68,830)
Gross profit/(loss)	**2,772**	(9,022)
Other income	**91**	33
Selling and distribution costs	**(1,322)**	(2,985)
Administrative expenses	**(4,218)**	(7,546)
Other operating expenses	**(1,207)**	(11,299)
Loss from operations	**(3,884)**	(30,819)
Finance costs	**(2,336)**	(3,501)
Loss before taxation	**(6,220)**	(34,320)
Taxation	**–**	–
Loss for the year	**(6,220)**	(34,320)

During the year, the disposed subsidiaries paid approximately HK\$3,645,000 (2005: HK\$7,137,000) in respect of operating activities, paid approximately HK\$491,000 (2005: HK\$561,000) in respect of investing activities and paid approximately HK\$7,245,000 (2005: received HK\$7,955,000) in respect of financing activities.

No tax charge or credit arose on gain on disposal of the discontinued operation.

The carrying amounts of the assets and liabilities of the disposed subsidiaries at the date of disposal are disclosed in note 31(b) to the financial statements.

13. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging the following:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Auditors' remuneration		
Current	**475**	600
Under-provision in prior year	**22**	–
	497	600
Cost of inventories sold	**138,902**	45,969
Depreciation	**3,895**	4,838
Allowance for inventories (included in cost of inventories sold)	**–**	8,221
Allowance for receivables (included in other operating expenses)	**1,207**	8,084
Impairment on goodwill (included in other operating expenses)	**–**	1,522
Loss on disposal of property, plant and equipment	**–**	44
Impairment on property, plant and equipment (included in other operating expenses)	**–**	1,693
Operating lease rentals in respect of land and buildings	**90**	330
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**5,628**	6,282
Employee share option benefits	**224**	141
Retirement benefits scheme contributions	**203**	357
	6,055	6,780

Cost of inventories sold includes staff costs of approximately HK$1,355,000 (2005: HK$2,115,000) which is included in the amount disclosed separately above for the years.

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2006	2005
	HK$'000	*HK$'000*
Fees		
Independent non-executive directors	**312**	261
Other emoluments		
Executive directors		
Salaries and allowances	**744**	860
Discretionary bonus	**130**	60
Employee share option benefits	**93**	141
Retirement benefits scheme contributions	**23**	32
	1,302	1,354

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONT'D)

The emoluments of every director for the years are set out below:

	Fees	Salaries and allowances	Discretionary bonus	Employee share option benefits	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Name of director						
Mr. WONG Ben Koon	**–**	**–**	**–**	**–**	**–**	**–**
Mr. NG Hon Fai	**–**	**60**	**–**	**–**	**3**	**63**
Madam HON Ching Fong	**–**	**120**	**10**	**–**	**6**	**136**
Mr. CHOI Yat Choy *(Note (a))*	**–**	**84**	**–**	**23**	**2**	**109**
Mr. KONG Siu Keung	**–**	**480**	**120**	**70**	**12**	**682**
Mr. MO Kwok Choi	**130**	**–**	**–**	**–**	**–**	**130**
Mr. YUEN Kim Hung, Michael	**91**	**–**	**–**	**–**	**–**	**91**
Mr. YUNG Ho	**91**	**–**	**–**	**–**	**–**	**91**
Total for 2006	**312**	**744**	**130**	**93**	**23**	**1,302**
Mr. WONG Ben Koon	–	–	–	–	–	–
Mr. NG Hon Fai	–	–	–	–	–	–
Madam HON Ching Fong	–	120	–	–	6	126
Mr. CHOI Yat Choy	–	240	20	70	13	343
Mr. KONG Siu Keung	–	480	40	71	12	603
Mr. LAM Hei Shing, Joseph *(Note (b))*	–	20	–	–	1	21
Mr. MO Kwok Choi	120	–	–	–	–	120
Mr. YUEN Kim Hung, Michael	85	–	–	–	–	85
Mr. YUNG Ho	56	–	–	–	–	56
Total for 2005	261	860	60	141	32	1,354

Notes: (a) Resigned on 1 August 2005.

(b) Resigned on 22 April 2004.

During the year, Mr. WONG Ben Koon and Mr. NG Hon Fai, executive directors of the Company, have agreed to waive their remunerations of HK$720,000 (2005: HK$720,000) and HK$300,000 (2005: 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.

14. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONT'D)

The five highest paid individuals in the Group during the year included two (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2005: one) individuals are set out below:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries and allowances	**443**	183
Retirement benefits scheme contributions	**13**	–
	456	183

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**3**	1

During the year, no emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

15. RETIREMENT BENEFIT SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. 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 employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary established in the PRC 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 income statement as they become payable in accordance with the rules of the central pension scheme.

16. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company included a loss of approximately HK$4,360,000 (2005 (restated): HK$29,198,000) which has been dealt with in the financial statements of the Company.

17. EARNINGS/(LOSS) PER SHARE

(a) From continuing and discontinued operations

Basic earnings/(loss) per share

The calculation of basic earnings (2005: loss) per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$6,791,000 (2005 (restated): loss attributable to equity holders of the Company of approximately HK$36,621,000) and the weighted average number of ordinary shares of 94,711,567 (2005: 62,202,186, as adjusted to reflect the share consolidation in July 2005) in issue during the year.

Diluted earnings/(loss) per share

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$6,791,000 and the weighted average number of ordinary shares of 96,075,297, being the weighted average number of ordinary shares of 94,711,567 in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 1,363,730 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 March 2005.

(b) From continuing operation

Basic earnings/(loss) per share

The calculation of basic earnings (2005: loss) per share from continuing operation attributable to equity holders of the Company is based on the profit for the year from continuing operation attributable to equity holders of the Company of approximately HK$11,153,000 (2005 (restated): loss from continuing operation attributable to equity holders of the Company of approximately HK$3,457,000) and the denominator used is the same as that detailed above for basic earnings/(loss) per share.

Diluted earnings/(loss) per share

The calculation of diluted earnings per share from continuing operation attributable to equity holders of the Company is based on the profit for the year from continuing operation attributable to equity holders of the Company of approximately HK$11,153,000 and the denominator used is the same as that detailed above for diluted earnings/(loss) per share.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 March 2005.

(c) From discontinued operation

Basic loss per share from the discontinued operation is HK4.6 cents per share (2005 (restated): HK53.3 cents per share) and diluted loss per share from the discontinued operation is HK4.5 cents per share, based on the loss for the year from discontinued operation attributable to the equity holders of the Company of approximately HK$4,362,000 (2005 (restated): approximately HK$33,164,000) and the denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 March 2005.

18. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Medium term leasehold buildings outside Hong Kong	**Plant and machinery**	**Furniture, fixtures, equipment and motor vehicles**	**Leasehold improvements**	**Construction in progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation						
At 1 April 2004 (as restated)	26,200	44,316	4,473	–	–	74,989
Additions	–	1,097	341	–	794	2,232
Deficit on revaluation	(9,800)	–	–	–	–	(9,800)
Disposals	–	(821)	(165)	–	–	(986)
At 31 March 2005 and at 1 April 2005 (as restated)	16,400	44,592	4,649	–	794	66,435
Additions	–	466	12	2	19	499
Deficit on revaluation	(3,433)	–	–	–	–	(3,433)
Disposal of subsidiaries	(12,967)	(45,058)	(4,636)	–	(813)	(63,474)
At 31 March 2006, at cost	–	–	25	2	–	27
Accumulated depreciation and impairment						
At 1 April 2004 (as restated)	–	21,533	2,956	–	–	24,489
Charge for the year	646	3,685	507	–	–	4,838
Impairment loss recognised in income statement	–	1,693	–	–	–	1,693
Disposals	–	(317)	(164)	–	–	(481)
Write back on revaluation	(646)	–	–	–	–	(646)
At 31 March 2005 and at 1 April 2005 (as restated)	–	26,594	3,299	–	–	29,893
Charge for the year	140	3,309	445	1	–	3,895
Write back on revaluation	(140)	–	–	–	–	(140)
Disposal of subsidiaries	–	(29,903)	(3,727)	–	–	(33,630)
At 31 March 2006	–	–	17	1	–	18
Carrying amount						
At 31 March 2006	–	–	8	1	–	9
At 31 March 2005 (as restated)	16,400	17,998	1,350	–	794	36,542

Leasehold buildings were revalued at 31 July 2005 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$16,400,000, on an open market value, comparison approach basis.

18. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

As at 31 March 2005, certain buildings, plant and machinery and motor vehicles of the Group with aggregate carrying value of approximately HK$13,448,000, HK$15,685,000 and HK$129,000 respectively were pledged to secure bank and other loans granted to the Group as set out in note 30 to the financial statements.

	Company
	Equipment
	HK$'000
Cost	
At 1 April 2004, 1 April 2005 and 31 March 2006	16
Accumulated depreciation	
At 1 April 2004	8
Charge for the year	3
At 1 April 2005	11
Charge for the year	3
At 31 March 2006	14
Net book value	
At 31 March 2006	2
At 31 March 2005	5

19. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
At beginning of year	**10,700**	10,940
Amortisation of prepaid land lease payments	**–**	(240)
Disposal of subsidiaries	**(10,700)**	–
At end of year	**–**	10,700
Current portion	**–**	(240)
Non-current portion	**–**	10,460

The Group's prepaid land lease payments represent payments for land use rights outside Hong Kong under medium term leases. As at 31 March 2005, all land use rights were pledged to secure bank loans granted to the Group as set out in note 30 to the financial statements.

20. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted investment, at cost	**38,542**	38,542
Due from subsidiaries	**–**	24,895
Due to subsidiaries	**–**	–
	38,542	63,437
Less: impairment loss	**(38,542)**	(63,437)
	–	–

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries as at 31 March 2006 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share capital/ registered capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
Profit World Ventures Limited	British Virgin Islands ("BVI")	Ordinary US$20,000	100%	–	Investment holding
Prosperity Trading Limited	Hong Kong	Ordinary HK$10,000	–	100%	Trading of building materials
Prosperity Cement (Asia) Limited ("PCAL")	Hong Kong	Ordinary HK$2	–	100%	Trading of cement clinker
Prosperity Cement Shipping Limited	BVI	Ordinary US$2	–	100%	Dormant

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**–**	5,909
Finished goods	**15,089**	8,115
	15,089	14,024

22. TRADE AND BILLS RECEIVABLES

The Group receives from each customer for cement clinker trading an irrevocable documentary credit issued at sight by a bank undertaking payment to the Group upon the presentation of relevant documents as required by the issuing bank.

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

The aging analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 to 90 days	**1,287**	6,540
91 to 180 days	**29**	269
181 to 365 days	**–**	56
	1,316	6,865

As at 31 March 2006, approximately HK$1,283,000 of trade receivables were pledged to a bank to secure trust receipt loans as set out in note 30 to the financial statements.

As at 31 March 2005, an allowance was made for estimated irrecoverable amounts from the sales of goods of approximately HK$7,757,000.

The directors consider that the carrying amount of trade and bills receivables approximates their fair value.

23. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 30 to the financial statements.

As at 31 March 2006, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$Nil (2005: HK$1,497,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. SHARE CAPITAL

	Note	Number of Shares	Amount
			HK$'000
Authorised:			
Ordinary shares of HK$0.1 (2005: HK$0.01) each			
At 1 April 2004 and 31 March 2005		10,000,000,000	100,000
Share consolidation	*(c)*	(9,000,000,000)	–
At 31 March 2006		1,000,000,000	100,000
Issued and fully paid:			
Ordinary shares of HK$0.1 (2005: HK$0.01) each			
At 1 April 2004		576,000,000	5,760
Issue of shares	*(a)*	130,000,000	1,300
At 31 March 2005		706,000,000	7,060
Issue of shares on placement	*(b)*	115,200,000	1,152
Share consolidation	*(c)*	(739,080,000)	–
Issue of shares for loan capitalisation	*(d)*	63,241,106	6,324
Repurchase of shares	*(e)*	(400,000)	(40)
At 31 March 2006		144,961,106	14,496

24. SHARE CAPITAL (CONT'D)

Notes:

(a) On 18 November 2004, the Company entered into a loan capitalisation agreement with a director and shareholder to subscribe for 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. The premium on the issue of shares amounting to approximately HK$6,500,000 was credited to the Company's share premium account.

(b) On 18 March 2005, the Company and Oriental Patron Asia Limited entered into a placing agreement in respect of the placement of 115,200,000 ordinary shares of HK$0.01 each to independent investors at a price of HK$0.033 per shares. The placement was completed on 7 April 2005 and the premium on the issue of shares, amounting to approximately HK$2,504,000, net of share issue expenses, was credited to the Company's share premium account.

(c) Pursuant to an ordinary resolution passed on 28 July 2005, every ten ordinary shares of HK$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK$0.1 each in the issued and unissued share capital of the Company.

(d) On 23 November 2005, the Company and Prosperity Trading Limited entered into a loan capitalisation agreement with a director and shareholder to subscribe for 63,241,106 ordinary shares of HK$0.1 each in consideration of the settlement of the Group's loan of approximately HK$24,000,000 due to the director and shareholder. The premium on the issue of shares amounting to approximately HK$17,676,000 was credited to the Company's share premium account.

(e) On 23 February 2006, the Company repurchased and cancelled 400,000 of its own shares through purchases on the Stock Exchange. The total amount paid to acquire the shares was HK$128,000 and has been deducted from the share capital and share premium account.

25. 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 therefore.

Pursuant to a special resolution passed on 16 January 2006, the amount of approximately HK$34,320,000 standing to the credit of the share premium account of the Group was cancelled as a capital reduction. The credit arising from the capital reduction was set off against the accumulated losses of the Group.

25. RESERVES (CONT'D)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus# HK$'000	Share-based payments reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004		14,196	38,342	–	(39,415)	13,123
Issue of shares	24(a)	6,500	–	–	–	6,500
Recognition of share-based payments	3(c)	–	–	141	–	141
Loss for the year	16	–	–	–	(29,198)	(29,198)
At 31 March 2005 (as restated)		20,696	38,342	141	(68,613)	(9,434)
At 1 April 2005, as previously reported		20,696	38,342	–	(68,472)	(9,434)
Effect of adoption of HKFRS 2	3(c)	–	–	141	(141)	–
At 1 April 2005 (as restated)		20,696	38,342	141	(68,613)	(9,434)
Issue of shares on placement	24(b)	2,504	–	–	–	2,504
Issue of shares for loan capitalisation	24(d)	17,676	–	–	–	17,676
Repurchase of shares	24(e)	(88)	–	–	–	(88)
Recognition of share-based payments	3(c)	–	–	224	–	224
Loss for the year	16	–	–	–	(4,360)	(4,360)
Transfers*		(34,320)	(38,342)	–	72,662	–
At 31 March 2006		6,468	–	365	(311)	6,522

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 therefore.

* Pursuant to a special resolution passed on 16 January 2006, the amount of approximately HK$34,320,000 standing to the credit of the share premium account of the Company was cancelled as a capital reduction. The credit arising from the capital reduction was transferred to the contributed surplus account of the Company and the entire amount of the contributed surplus was set off against the accumulated losses of the Company.

26. DUE TO A DIRECTOR

As at 31 March 2005, the amount due to a director was unsecured and interest-free, and the director had undertaken not to demand repayment before 1 September 2006. The amount was settled during the year ended 31 March 2006 through a loan capitalisation as disclosed in note 24(d) to the financial statements.

27. DEFERRED TAX LIABILITIES

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
At beginning of year	**817**	3,014
Deferred tax credited to asset revaluation reserve during the year	**(790)**	(2,197)
Disposal of subsidiaries	**(27)**	–
At end of year	**–**	817

As at 31 March 2006, the Group had unused tax losses of approximately HK$7,388,000 (2005 (restated): HK$78,640,000) available for offset against future profits. No deferred tax asset (2005: Nil) has been recognised for the unused tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

28. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 to 90 days	**8,501**	5,050
91 to 180 days	**169**	388
181 to 365 days	**–**	460
Over 365 days	**–**	11,298
	8,670	17,196

The directors consider that the carrying amount of trade and bills payables approximates their fair value.

29. DUE TO A RELATED COMPANY

The amount due to a related company by the Group is unsecured, interest-free and has no fixed terms of repayment.

30. SHORT TERM INTEREST-BEARING BORROWINGS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Secured bank loans repayable within one year	**–**	38,505
Secured trust receipt loans repayable within one year	**7,388**	–
Secured other loans	**–**	187
Unsecured other loans	**–**	1,308
	7,388	40,000

As at 31 March 2006, the trust receipt loans bear interest at rates ranging from 6.5% to 7%.

As at 31 March 2005, the bank loans and other loans bear interest at rates ranging from 6.638% to 7.169% per annum and 6% to 12% per annum respectively.

As at 31 March 2006, the Group's trust receipt loans were secured by:

(a) charge over certain bank deposits of the Group *(note 23 to the financial statements)*;

(b) corporate guarantees of the Company;

(c) personal guarantee of a director of the Company; and

(d) charge over certain trade receivables of the Group *(note 22 to the financial statements)*.

As at 31 March 2005, the Group's interest-bearing borrowings were secured by the charge over certain property, plant and equipment, and land use rights of the Group with total carrying amount of approximately HK$39,962,000 and a corporate guarantee executed by a related company in which Mr. WONG Ben Koon, a director of the Company, is a director of the related company.

The directors consider that the carrying amount of short term interest-bearing borrowings approximates their fair value.

31. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT

(a) Acquisition of a subsidiary

On 24 May 2005, the Group acquired 100% of the issued capital of PCAL from a director of the Company, Mr. Wong Ben Koon, for a consideration of HK$30,000 which is fully settled by cash. PCAL was engaged in the trading of cement clinker during the year.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

Net assets acquired:

	HK$'000
Prepayments, deposits and other receivables	88
Bank and cash balances	24
Accrued liabilities and other payables	(24)
Due to a director	(58)
	30
Satisfied by:	
Cash	30
Net cash inflow arising on acquisition:	
Cash consideration paid	(30)
Cash and cash equivalents	24
	(6)

PCAL contributed approximately HK$158,289,000 to the Group's turnover and approximately HK$11,632,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date and for the year ended 31 March 2006 if the acquisition had been completed on 1 April 2005.

31. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT (CONT'D)

(b) Disposal of subsidiaries

As referred to note 12 to the financial statements, on 17 January 2006 the Group discontinued its manufacture and sale of decorative sheets operation at the time of the disposals of its subsidiaries, Golden Tapestry and Xingda.

Net liabilities at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	**29,844**
Prepaid land lease payment	**10,700**
Inventories	**16,866**
Trade receivables	**5,752**
Prepayments, deposits and other receivables	**3,689**
Due from a related company	**97**
Bank and cash balances	**1,845**
Trade payables	**(16,824)**
Accrued liabilities and other payables	**(11,900)**
Short term interest-bearing borrowings	**(32,754)**
Deferred tax liabilities	**(27)**
Due to the Group	**(56,521)**
Provision for taxation	**(10,104)**
Net liabilities disposed of	**(59,337)**
Assignment of loans to the purchaser	**56,424**
Direct cost to the disposal	**2,255**
Gain on disposal of subsidiaries	**1,858**
Total consideration – satisfied by cash	**1,200**

Net cash outflow arising on disposal:

	HK$'000
Cash consideration received	**1,200**
Cash paid for direct cost	**(1,937)**
Cash and cash equivalents disposed of	**(1,845)**
	(2,582)

The impact of Golden Tapestry and Xingda on the Group's results and cash flows in current and prior years is disclosed in note 12 to the financial statements.

31. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT (CONT'D)

(c) Major non-cash transaction

During the year, a loan due to a director and shareholder of approximately HK$24,000,000 (2005: HK$7,800,000) was settled by the allotment of 63,241,106 ordinary shares of HK$0.1 each (2005: 130,000,000 ordinary shares of HK$0.01 each) of the Company to the director and shareholder (note 24(d) to the financial statements).

32. CONTINGENT LIABILITIES

(a) Group

As at 31 March 2006, the Group did not have any significant contingent liabilities (2005: Nil).

(b) Company

As at 31 March 2006, the Company issued corporate guarantees to banks to secure banking facilities granted to a subsidiary of the Company (note 30 to the financial statements). As at 31 March 2006, the facilities amount utilised was approximately HK$23,447,000.

As at 31 March 2005, the Company did not have any significant contingent liabilities.

33. COMMITMENTS

As at 31 March 2006, the Group and the Company had the following commitments:

(a) Operating lease commitments – as lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Within one year	–	90

33. COMMITMENTS (CONT'D)

(b) Capital commitments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for:		
Acquisition of plant and machinery	**–**	433

Save as disclosed above, the Group and the Company did not have any other significant capital and operating lease commitments as at 31 March 2006 (2005: Nil).

34. SHARE-BASED PAYMENTS

Equity-settled share option scheme

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.

At 31 March 2006 the number of shares in respect of which options had been granted under the scheme was 7,800,000 (2005: 4,800,000 as adjusted to reflect the share consolidation in July 2005).

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 shares 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.

34. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

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 highest 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 holder to dividends or to vote at shareholders' meetings.

Details of the shares options granted and outstanding during the year are as follows:

Name or category of participant	Number of options outstanding as at 1 April 2005	Consolidation during the year (a)	Granted during the year	Transfer during the year (d)	Number of options outstanding as at 31 March 2006	Date of grant of share options	Options period (c)	Exercise price of share options (a)	Price of share at date of grant of options (a) and (b)
								HK$	*HK$*
Directors									
Mr. CHOI Yat Choy	24,000,000	(21,600,000)	–	(2,400,000)	–	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
Mr. KONG Siu Keung	24,000,000	(21,600,000)	–	–	2,400,000	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
	48,000,000	(43,200,000)	–	(2,400,000)	2,400,000				
Other employees									
2004 options	–	–	–	2,400,000	2,400,000	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
2005 options	–	–	3,000,000	–	3,000,000	28 July 2005	8 August 2005 to 27 June 2015	0.34	0.34
	–	–	3,000,000	2,400,000	5,400,000				
	48,000,000	(43,200,000)	3,000,000	–	7,800,000				

34. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

During the year, 3,000,000 (2005: 4,800,000, adjusted to reflect the share consolidation in July 2005) share options granted to an employee (2005: two directors).

Save for the above, no share options were granted, exercised, cancelled, or lapsed under the Scheme during the years.

(a) 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, and accordingly, has been adjusted for the share consolidation in July 2005.

Pursuant to an ordinary resolution passed on 28 July 2005, every ten issued and unissued shares of HK$0.01 each were consolidated into one share of HK$0.1 each. Accordingly, the numbers of the share options and the exercise prices of the share options as shown above have been adjusted for the consolidation of shares. The prices of the Company's shares at the grant dates of the option shown above have also been adjusted for the share consolidation, in order to provide a meaningful comparison.

(b) 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.

(c) The options granted to directors and employees shall not be exercisable unless the Group achieved a positive net profit in any financial year after the date of grant of such options and in any event such options shall not be exercised within 18 months from 28 June 2004 for options granted on 30 July 2004 and within 18 months from 28 June 2005 for options granted on 28 July 2005.

(d) Mr. CHOI Yat Choy resigned as a director of the Company on 1 August 2005 and became an employee of the Group subsequently.

The fair values of the share options which are estimated as at the respective dates of grant using the Black-Scholes-Merton Option Pricing Model and the assumptions used in the model are as follows:

Date of grant	**28 July 2005**	**30 July 2004**
Option value	HK$170,000	HK$280,000
Variables:		
Expected volatility	30.3%	44.8%
Risk-free rate	3.2%	3.1%
Expected life of options (years)	3.0	3.0
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical price volatility of the share price of the Company over the previous 130 trading days as at 25 August 2003.

34. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

The expected life of options is based on historical performance record of the Group.

The expected dividend yield was based on historical dividend payment record of the Group.

No other features of options grants were incorporated into the measurement of fair value.

35. RELATED PARTY TRANSACTIONS

Apart from those disclosed elsewhere in the financial statements, the Group had the following material related party transactions which were carried out in the ordinary course of business during the year:

		2006	2005
		HK$'000	*HK$'000*
(a)	Rental expenses paid to Prosperity Materials (International) Limited ("PMIL")#	**–**	90
	Rental expenses paid to Cheong Sing Merchandise Agency Limited ("CMAL")#	**90**	–
	Due to a director	**–**	18,436
	Due to CMAL#	**23**	–

The rental expenses were charged with reference to the open market values as determined by the directors. Mr. WONG Ben Koon and Madam HON Ching Fong, directors of the Company, are also the directors of and have beneficial interest in PMIL and CMAL.

(b) During the year, the Group acquired 100% of the issued capital of PCAL from Mr. WONG Ben Koon, a director of the Company at a consideration of HK$30,000, based on an internal valuation of the business prepared by the directors of the Company.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 20 June 2006.

Summary Financial Information

The following is a summary of the results and of the assets and liabilities of the Group prepared on the bases set out in note below:

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
Turnover	**159,587**	–	–	–	–
Profit/(loss) before taxation	**11,157**	(3,457)	(4,559)	(4,517)	(3,037)
Taxation	**(4)**	–	–	–	–
Profit/(loss) from continuing operation	**11,153**	(3,457)	(4,559)	(4,517)	(3,037)
(Loss)/profit from discontinued operation	**(4,362)**	(34,320)	(25,962)	(9,560)	4,838
Profit/(loss) for the year	**6,791**	(37,777)	(30,521)	(14,077)	1,801
Attributable to:					
Equity holders of the Company	**6,791**	(36,621)	(27,765)	(13,345)	1,641
Minority interest	**–**	(1,156)	(2,756)	(732)	160
	6,791	(37,777)	(30,521)	(14,077)	1,801

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
ASSETS AND LIABILITIES					
Non-current assets	**9**	47,002	61,200	65,754	67,330
Current assets	**36,859**	27,402	52,027	69,836	66,374
Current liabilities	**(30,745)**	(81,068)	(87,949)	(65,040)	(48,905)
Non-current liabilities	**–**	(19,253)	(15,924)	(35,777)	(37,478)
Total equity	**6,123**	(25,917)	9,354	34,773	47,321
Attributable to:					
Equity holders of the Company	**6,123**	(25,917)	7,503	30,201	42,170
Minority interest	**–**	–	1,851	4,572	5,151
	6,123	(25,917)	9,354	34,773	47,321

Amounts disclosed in the summary financial information for prior years have been restated to reflect the changes in accounting policies in the current year as described in note 3 to the financial statements.