



Prosperity International Holdings (H.K.) Limited
昌興國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)



Interim Report **2001**

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This report, for which the directors of Prosperity International Holdings (H.K.) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Prosperity International Holdings (H.K.) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their

knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- **Turnover declined by approximately HK\$10,903,000 for the six months ended 30th September 2001 representing an approximately 15.0% decrease to the corresponding period in 2000.**
- **The Group achieved a net profit of approximately HK\$3,608,000 for the six months ended 30th September 2001.**
- **The Board of Directors (the “Board”) of Prosperity International Holdings (H.K.) Limited (the “Company”) does not recommend payment of an interim dividend for the six months ended 30th September 2001.**

INTERIM RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the three months and the six months ended 30th September 2001 together with the comparative figures for the corresponding period ended 30th September 2000 as follows:

	Notes	For the three months ended 30th September		For the six months ended 30th September	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	3	<u>30,034</u>	<u>41,084</u>	<u>61,873</u>	<u>72,776</u>
Cost of sales		<u>(24,533)</u>	<u>(29,661)</u>	<u>(46,953)</u>	<u>(53,102)</u>
Gross profit		5,501	11,423	14,920	19,674
Other revenue		278	218	451	230
Selling expenses		(686)	(558)	(1,437)	(1,095)
Administrative expenses		<u>(3,505)</u>	<u>(2,656)</u>	<u>(6,263)</u>	<u>(5,505)</u>
Profit from operating activities		1,588	8,427	7,671	13,304
Finance costs		<u>(1,120)</u>	<u>(617)</u>	<u>(2,197)</u>	<u>(1,153)</u>
Profit before tax		468	7,810	5,474	12,151
Tax	4	<u>(150)</u>	<u>(1,071)</u>	<u>(1,480)</u>	<u>(1,656)</u>
Profit before minority interests		318	6,739	3,994	10,495
Minority interests		<u>(14)</u>	<u>(629)</u>	<u>(386)</u>	<u>(918)</u>
Net profit from ordinary activities attributable to shareholders		<u>304</u>	<u>6,110</u>	<u>3,608</u>	<u>9,577</u>
Dividends		<u>–</u>	<u>5,700</u>	<u>–</u>	<u>5,700</u>
Earnings per share	5				
– Basic (in cents)		<u>0.07 cents</u>	<u>1.70 cents</u>	<u>0.9 cents</u>	<u>2.66 cents</u>
– Diluted (in cents)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes:

1. Group Reorganization and Basis of Presentation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17th August 2000 under the Company Act of Bermuda. Pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the Company's shares (the "Shares") on GEM, the Company acquired the entire issued share capital of Profit World Ventures Limited and became the holding company of the Group on 22nd March 2001. Details of the Reorganization are set out in the prospectus of the Company dated 24th July 2001 (the "Prospectus"). The Shares were listed on GEM of the Stock Exchange on 2nd August 2001.

The unaudited consolidated results of the Group for the three months and the six months ended 30th September 2001 include the results of the Company and all of its subsidiaries for the three and the six months ended 30th September 2001.

The comparative unaudited combined results have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition pursuant to the Reorganization on 22nd March 2001. Accordingly, the unaudited combined results of the Group for the three months and the six months ended 30th September 2000 include the results of the Company and its subsidiaries with effect from 1st April 2000 as if the current Group structure has been in existence throughout the six months ended 30th September 2000.

In the opinion of the Directors, the unaudited combined results prepared on the above basis present more fairly the results of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation/combination.

2. Principal Accounting Policies

The principal accounting policies adopted in preparing the unaudited consolidated/combined results are in conformity with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. The unaudited consolidated results have been prepared under the historical cost convention except for the remeasurement of leasehold land and buildings.

3. Turnover

Turnover represents the net invoiced value of goods sold, net of value added tax ("VAT"), after allowances for returns and trade discounts where applicable. All significant inter-group transactions have been eliminated on consolidation/combination.

4. Tax

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits arising in Hong Kong for the three months and the six months ended 30th September 2001 and the corresponding periods in 2000.

The Group's subsidiary operating in the People's Republic of China (the "PRC"), Guangzhou Xingda Decorative Sheets Co., Ltd. ("GXDS"), is exempted from PRC income tax for two years from its first profit-making year of operations and thereafter is eligible for 50% relief from income tax for the following three years under the Income Tax

Law of the PRC. The first profit-making year of GXDS was the year ended 31st December 1996. The current tax rate that is applicable to GXDS is 24% (2000: 12%).

No deferred tax has been provided for the Group because there were no significant timing differences as at 30th September 2001 (2000: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the three months and the six months ended 30th September 2001 of approximately HK\$304,000 and HK\$3,608,000 (2000: approximately HK\$6,110,000 and HK\$9,577,000 respectively) and the weighted average of approximately 437,000,000 and 399,000,000 ordinary shares of the Company in issue during the aforementioned periods ended 30th September 2001 respectively (pro forma number of shares in issue for the three months and the six months ended 30th September 2000: 360,000,000).

No diluted earnings per share has been presented as the Company has no dilutive potential ordinary shares during the three months and the six months ended 30th September 2001 and the three months and the six months ended 30th September 2000.

6. Movement of reserves

	Share premium HK\$000	Contributed surplus HK\$000	Goodwill reserve HK\$000	Asset revaluation reserve HK\$000	Retained profits HK\$000	Total HK\$000
At 1st April 2000	-	14,878	(1,522)	-	3,824	17,180
Net profits for the period	-	-	-	-	3,467	3,467
At 30th June 2000 and at 1st July 2000	-	14,878	(1,522)	-	7,291	20,647
Net profits for the period	-	-	-	-	6,110	6,110
Dividend	-	-	-	-	(5,700)	(5,700)
At 30th September 2000	<u>-</u>	<u>14,878</u>	<u>(1,522)</u>	<u>-</u>	<u>7,701</u>	<u>21,057</u>
At 1st April 2001	-	14,878	(1,522)	20,823	4,168	38,347
Revaluation surplus	-	-	-	4,768	-	4,768
Minority equity holder's share of asset revaluation reserve	-	-	-	(477)	-	(477)
Net profits for the period	-	-	-	-	3,304	3,304
At 30th June 2001 and at 1st July 2001	-	14,878	(1,522)	25,114	7,472	45,942
Premium arising from placing of new shares	28,800	-	-	-	-	28,800
Share issuing expenses	(15,000)	-	-	-	-	(15,000)
Transfer to share capital to pay up nil-paid shares allotted to shareholders	(3,400)	-	-	-	-	(3,400)
Net profits for the period	-	-	-	-	304	304
At 30th September 2001	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>25,114</u>	<u>7,776</u>	<u>56,646</u>

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30th September 2001 (six months ended 30th September 2000: HK\$5,700,000).

FINANCIAL PERFORMANCE

The unaudited consolidated turnover attributable to shareholders of the Group for the six months ended 30th September 2001 was approximately HK\$61,873,000, representing a decrease of approximately 15.0% as compared to the six months ended 30th September 2000. The unaudited consolidated gross profit for the six months ended 30th September 2001 recorded a decrease of 24.2% to HK\$14,920,000, while net profit was approximately HK\$3,608,000, a decrease of approximately 62.3% on that of the corresponding period.

The fall in turnover and gross profit was mainly due to intensified price competition in Guangdong province during the third quarter of 2001, arising from more active market participation by both local and overseas suppliers. To meet this competitive pressure, the average price of our decorative sheets has been lowered, resulting in a decrease in gross profit margin from 27.0% to 24.1%.

In addition, the recent asset revaluation of our land and buildings as described in our Prospectus has increased our depreciation charge, negatively affecting the profit and loss account.

Selling expenses incurred during the six months ended September 2001 rose by more than 31% as compared to the same period last year. This increase was due to the fact that the Group has been aggressively promoting its new products, namely postforming grade decorative sheets, in the market in order to secure its market share. Furthermore, the Group has assigned sales personnel to other provinces in the PRC and the Asia Pacific region in order to boost its sales volume, and has successfully penetrated the market in Zhejiang province, Taiwan and South Korea.

The Group's administrative expenses increased from HK\$5,505,000 to HK\$6,263,000 during the six months ended 30th September 2001 which was due to the Group additional incurred professional fees after listing.

Since September 2000 the Group has relied on one of its subsidiaries to procure decorative papers (a raw material for the production of decorative sheets) from overseas suppliers to GXDS directly, instead of outsourcing from other independent companies. To facilitate this, this subsidiary has applied for new banking facilities to source decorative papers from overseas, and additional finance costs have been incurred accordingly.

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of decorative sheets. During the period under review, the slowdown of the global economy and price competition among overseas and domestic manufacturers, the Group has had to lower its selling prices in order to maintain its market share. Furthermore, export sales of the Group have grown more slowly than expected.

To consolidate our position and differentiate ourselves as a quality supplier, the Group has put tremendous effort and resources into promoting its new product, postforming grade decorative sheets, under the brand name 'Waika' by developing and using new advertising and promotional materials, as well as the recruitment of additional sales and marketing personnel in order to further expand the regional market. The Group also participated in a national exhibition held in Guangzhou on 18th August 2001, and sent staff to gather information on the latest developments and technology in the decorative sheet industry.

OUTLOOK

With improved production technology and the increasing popularity of decorative sheets, the Group observed that demand for these products will continue to expand. The Group therefore remains committed to capturing every business opportunity in this market.

The feasibility study on a business venture of manufacturing decorative paper in the PRC in partnership with a European company has been terminated in view of the economic downturn. However, in the light of the scheduled hosting of the Olympic games by Beijing in 2008 and the commitment by the PRC government to expand its infrastructure projects, the Group is confident that the current market situation in the PRC will turn around and improve in the years ahead.

The Group has recently, entered into discussion with potential partners in Hangzhou and Zhejiang in the PRC, as well as in other countries, so as to study the feasibility of developing a wider distribution network.

The Group is in negotiation with a reputable Taiwanese group to supply them with decorative sheets on the basis of a long-term contract for a period of one year.

In order to improve and sustain the Group's competitiveness, the Group is in negotiation with decorative paper's suppliers to obtain more favourable purchase terms. The Group has also undergone certain internal reviews to identify any opportunities to further reduce the operating cost of its PRC factory.

In the long run, the Group believes that tough competition acts as a stimulus to improvement. The Group will implement various cost control measures and continue to upgrade its product quality; these moves are expected to give the Group a competitive edge.

USE OF PROCEEDS

As per the Prospectus, approximately HK\$17.1 million would be utilized in the third quarter of 2001 in which HK\$10 million would be allocated for production facilities, HK\$5.7 million for land and buildings, HK\$0.6 million for marketing and sales and HK\$0.8 million for working capital.

Up to 30th September 2001, the Group has utilized HK\$15 million of the net proceeds of which HK\$9.6 million had been spent for acquiring new production facilities, HK\$4.5 million had been spent for the new factory buildings, HK\$0.2 million had been spent in promoting our new brandname "Waika" and HK\$0.8 million had been used as the working capital.

COMPARISON OF BUSINESS PROGRESS

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

Actual Business Progress

A. Sales

- To obtain 7 new customers Obtained 13 new customers
- To increase 10 new colour or pattern Manufactured and sold 15 new products

B. Market expansion

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

The Group has successfully entered the market in Zhejiang province and Jiangsu province

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

The Group has obtained new customers in Taiwan and South Korea and will continue to develop a wider distribution network in the Asia Pacific region

C. Production capacity (no. of pieces)

- Target is 1,368,000 pieces

Actual production is slightly lower than our target production capacity, approximately 1,117,000 pieces of decorative sheets being produced during the said period as stated in the Prospectus due to intensified price competition in Guangdong province

during the 3rd quarter of 2001, arising from more active market participation by both local and overseas suppliers

D. Synergetic integration and investment

To finish the feasibility study on the business venture of manufacturing decorative paper

Due to the market uncertainty, both the European company and the Group have agreed to terminate the feasibility study on the business venture of manufacturing decorative paper

To explore the opportunities of synergetic integration business and investment

The Group is keen on exploring the opportunities of synergetic integration business and investment

E. Research and development

To continue the research and development on the technology and resin mixture of impregnating aluminium foil to form decorative paper

The Group had successfully completed the research on aluminium-foil decorative sheets and it has been introduced into the market

To conduct research and development on new product and partially finished product

The Group is in the progress of conducting research in producing new materials to use our decorative sheets

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

The Group had participated in a national exhibition held in Guangzhou on 18th August 2001 and sent staff to obtain the latest development and technology of decorative sheet industry

F. Human Resources
(no. of staff)

	Planned as at 30.9.2001	Actual as at 30.9.2001
– Sales and marketing	12	14
– Research and development	5	5
– Finance and administration	10	10
– Production	329	342
– Management	9	9
	<hr/>	<hr/>
– Total headcount	<u>365</u>	<u>380</u>

SUBSTANTIAL SHAREHOLDERS

Subsequent to the listing of the Shares of the Company on GEM on 2nd August 2001, the following person (other than directors of the Company) had or deemed to have interest of 10% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

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

Well Success Group Limited is ultimately beneficially owned as to 20.8% by Mr. Wong Ben Koon (“Mr. Wong”), 20.8% by Mr. Ng Hon Fai and 58.4% by Advance Success Limited which is owned as to 50% by Mr. Wong and 50% by Madam Hon Ching Fong.

DIRECTOR'S INTERESTS IN SECURITIES

Subsequent to the listing of the Shares of the Company on GEM on 2nd August 2001, according to the register of interests required to be kept under Section 29 of the SDI Ordinance or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM, the interests of Directors in the share capital of the Company and its associates were as follows:

Directors	Types of interest	Number of issued shares held
<i>The Company</i>		
Mr. Wong (<i>Note 1</i>)	Corporate	319,680,000 Shares
Madam Hon Ching Fong (<i>Note 2</i>)	Corporate	319,680,000 Shares
<i>Xingda Decorative Sheets Company Limited</i>		
Mr. Wong (<i>Note 3</i>)	Personal	3,118,127 shares
Mr. Ng Hon Fai (<i>Note 4</i>)	Personal	3,118,125 shares

Notes:

1. Mr. Wong is interested in the Shares through his interests in Well Success Group Limited which is owned as to 20.8% by Mr. Wong and 58.4% by Advance Success Limited, which is in turn owned as to 50% by Mr. Wong.
2. Madam Hon Ching Fong is interested in the Shares through her interest in Well Success Group Limited which is owned as to 58.4% by Advance Success Limited, which is in turn owned as to 50% by Madam Hon Ching Fong.
3. Mr. Wong is (a) the registered and beneficial owner of 3,118,125 deferred shares of HK\$1.00 each in Xingda Decorative Sheets Company Limited and (b) the registered holder of 1 deferred share of HK\$1.00 each and 1 ordinary share of HK\$1.00 each in Xingda Decorative Sheets Company Limited.
4. Mr. Ng Hon Fai is the registered and beneficial owner of 3,118,125 deferred shares of HK\$1.00 each in Xingda Decorative Sheets Company Limited.

SHARE OPTION SCHEME

As at 12th November 2001 (the date of this announcement), no options had been granted or agreed to be granted to any Director of the Company under the share option scheme which was approved by a written resolution of all the Shareholders of the Company on 18th July 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Other than the share option scheme as described above, at no time during the six months ended 30th September 2001 was the Company or any of its holding companies, fellow subsidiaries and subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights.

INTERESTS OF THE SPONSOR

On 23rd July 2001, Oriental Patron Asia Limited ("Oriental Patron") entered into a sponsorship agreement with the Company whereby, for a fee, Oriental Patron will act as the Company's continuing sponsor for the purpose of Chapter 6 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the period from 2nd August 2001 to 31st March 2004.

None of Oriental Patron, its directors, employees nor associates had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities for the Company or any member of the Group as at 12th November 2001.

COMPETING INTEREST

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

AUDIT COMMITTEE

The Company has established an audit committee which comprised two members, namely Mr. Mo Kwok Choi and Mr. Chen Guowei, both being independent Non-Executive Directors of the Company, in July 2001 with written terms of reference being in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial process and internal control systems of the Group and to provide advice and comments to the Board.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 12th November 2001.

By order of the Board

Wong Ben Koon

Chairman

Hong Kong, 12th November 2001