



# Prosperity International Holdings (H.K.) Limited

*(incorporated in Bermuda with limited liability)*



First Quarterly Report 2002

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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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 decreased by approximately HK\$7,105,000 for the three months ended 30th June 2002 representing an approximately 22% decrease to the corresponding period in 2001.**
- **Achieved a net profit of approximately HK\$414,000 for the three months ended 30th June 2002.**
- **The Board of Directors (the "Board") of Prosperity International Holdings (H.K.) Limited (the "Company") does not recommend the payment of an interim dividend for the three months ended 30th June 2002.**

## QUARTERLY 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 ended 30th June 2002 together with the comparative figures for the corresponding period ended 30th June 2001 as follows:

	<i>Notes</i>	<b>For the three months ended 30th June</b>	
		<b>2002</b>	<b>2001</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>24,734</b>	31,839
Cost of sales		<b>(19,566)</b>	(22,420)
Gross profit		<b>5,168</b>	9,419
Other revenue		<b>28</b>	173
Selling and distribution costs		<b>(528)</b>	(751)
Administrative expenses		<b>(2,970)</b>	(2,758)
Profit from operating activities		<b>1,698</b>	6,083
Finance costs		<b>(940)</b>	(1,077)
Profit before tax		<b>758</b>	5,006
Tax	3	<b>( 277)</b>	(1,330)
Profit before minority interests		<b>481</b>	3,676
Minority interests		<b>(67)</b>	(372)
Net profit from ordinary activities attributable to shareholders		<b>414</b>	3,304
Dividend		<b>–</b>	–
Earnings per share	4		
– Basic (in cents)		<b>0.09 cent</b>	0.92 cent
– Diluted (in cents)		<b>N/A</b>	N/A

*Notes:*

## **1. Basis of Presentation**

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and accounting standards issued by Hong Kong Society of Accountants.

## **2. Turnover**

Turnover represents the aggregate of the net invoiced value of goods sold, net of value added tax, and after allowances for returns and trade discounts where applicable. All significant intra-group transactions have been eliminated on consolidation.

## **3. Tax**

Hong Kong profit tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the three months ended 30th June 2002 and the corresponding period in 2001.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operated, based on the existing legislation, interpretations and practices in respect thereof.

No deferred tax has been provided (2001: Nil) because the Group had no significant timing differences at 30th June 2002.

## **4. Earnings per Share**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of approximately HK\$414,000 (2001: HK\$3,304,000) and the 480,000,000 shares of the Company in issue (2001: 360,000,000 shares) during the three months ended 30th June 2002.

Diluted earnings per share for the three months ended 30th June 2002 has not been calculated as no diluting events existed during the period and the corresponding period in 2001.

## 5. Movement of Reserves

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 profit for the period	–	–	–	–	3,304	3,304
At 30th June 2001	<u>–</u>	<u>14,878</u>	<u>(1,522)</u>	<u>25,114</u>	<u>7,472</u>	<u>45,942</u>
At 1st April 2002	10,400	14,878	(1,522)	26,255	5,809	55,820
Net profit for the period	–	–	–	–	414	414
At 30th June 2002	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>26,255</u>	<u>6,223</u>	<u>56,234</u>

## INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the three months ended 30th June 2002 (2001: Nil).

## FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the three months period ended 30th June 2002 was approximately HK\$24,734,000, representing a decrease of approximately 22% as compared to the corresponding three months period in 2001. The fall in turnover is a direct result of the intensive competition among the manufacturers and suppliers of high pressure laminates.

Unaudited consolidated gross profit and net profit from ordinary activities attributable to shareholders of the Group for the three months ended 30th June 2002 was approximately HK\$5,168,000 and HK\$414,000, respectively. The decline in the Group's gross profit margin was mainly due to the increased cost of raw materials, namely decorative papers. In addition, the appreciation of the Euro contributed to an increase in cost of sales as some of the materials used to manufacture high pressure laminates, namely decorative papers, are purchased in Europe.

Selling and distribution costs incurred during the three months ended 30th June 2002 has declined by approximately 30% as compared with the same period of 2001. The decrease is due to the management's tight control on sales promotion and marketing budget. The administrative expenses increased by approximately 8% as compared to the same period of 2001. This is mainly attributable to the Group incurred additional professional fees following the listing of the Company's shares on GEM.

The interest rate cut from banks resulted in the Group's finance cost for the three months ended 30th June 2002 being decreased to HK\$940,000 (2001: HK\$1,077,000)

### **Business Review and Outlook**

For the period under review, the Group continued to engage in the manufacturing and trading of decorative sheets, formally known as high pressure laminates. These were sold under the Group's own brand names, "Pearl" and "Waika".

In order to create maximum awareness and increase the sales of "Waika", the Group has successfully opened three chain stores in Beijing, Tianjin and Humen while other four locations namely Shanghai, Nanhai, Chengdu and Shenzhen are under the final stage of negotiation. The Group will continue to seek suitable partners to open new stores in other major cities in the mainland and more "Waika" shops are being scheduled to open during the second half of the year.

The Group participated in the Italy SASMIL exhibition during the period from 18th to 22nd May 2002 and met the potential overseas buyers, mainly from the Middle East and Europe. Follow-up contacts are underway. In order to obtain new customers and more exposure in the market, the Group will continue to participate in important exhibition to at least twice a year.

A resin formulation was produced and applied to the Group's post forming high pressure laminates. This resulted in better all-round. Further, improved protective film and outer packaging of the products resulted in positive feedback from customers. Finally, the implementation of a new goods dispatch system has led to reduced waiting time by customers, a move much appreciated.

In the period, competition in high pressure laminates industry remained extremely high and the price war that has been running for more than one year continued. However, the management of the Group feels that prices have now bottom out and therefore expects it will revert upward trend by about the third quarter or by the end of the year at latest.

For the long-term, the Group will spend its best efforts to keep its brand image as a “quality product” by improving the quality of product catalogue and to ensure that marketing and promotional materials add value to the brand. The Group will also enhance customer service and after sales service by recruiting customer liaison officers.

With the improvement in various aspects, the management of the Group has confidence in maintaining its market leader position as well as enlarging its market share in the high pressure laminates industry in the near future.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June 2002, the following entity had or deemed to have interests 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 Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”):

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of voting power</b>
Well Success Group Limited (“Well Success”)	319,680,000	66.60

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



## DIRECTORS' INTERESTS IN SHARES

At 30th June 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

	Number of shares		
	Corporate interest	Personal interest	Total interest
<b>(A) The Company</b>			
Mr. Wong ( <i>Note 1</i> )	319,680,000	–	319,680,000
Madam Hon ( <i>Note 1</i> )	319,680,000	–	319,680,000
<b>(B) Xingda Decorative Sheets Company Limited (“Xingda”)</b>			
Mr. Wong ( <i>Note 2</i> )	–	3,118,125	3,118,125
Mr. Ng ( <i>Note 2</i> )	–	3,118,125	3,118,125

*Notes:*

1. Mr. Wong and Madam Hon are interested in these shares through their interests in Well Success, which is owned as to 20.8% by Mr. Wong, 20.8% by Mr. Ng and 58.4% by Advance Success Limited. Advance Success Limited is equally owned by Mr. Wong and Madam Hon.
2. Mr. Wong and Mr. Ng are the registered and beneficial owners of 3,118,125 deferred shares each of HK\$1.00 each in Xingda, which is a wholly-owned subsidiary of the Company. In addition, Mr. Wong also has non-beneficial personal equity interest in Xingda held for the benefit of the Group.

Save as disclosed above, as at 30th June 2002, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as recorded in the register required to be kept under Section 20 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities (the “Listing Rules”) on GEM of the Stock Exchange.

## **SHARE OPTION SCHEME**

As at 12th August 2002 (the date of this report), 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 three months ended 30th June 2002 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**

The Company's sponsor, Oriental Patron Asia Limited, its respective directors, employees and associates did not have any interest in the securities of the Company or of any member of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group as at 12th August 2002.

## **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 which competes or might compete with the business of the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee comprising of two members, Mr. Mo Kwok Choi, and Mr. Yuen Kim Hung, Michael, both being independent non-executive directors of the Company since July 2001 and January 2002, respectively, with written terms of reference complying 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 during the three months ended 30th June 2002 up to 12th August 2002.

By order of the Board  
**Wong Ben Koon**  
*Chairman*

Hong Kong, 12th August 2002