



# Prosperity International Holdings (H.K.) Limited

*(incorporated in Bermuda with limited liability)*



Third 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 (the “Directors”) of Prosperity International Holdings (H.K.) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving*

*information with regard to the Company. 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\$15,361,000 for the nine months ended 31 December 2002 representing an approximately 17% decrease to the corresponding period in 2001.**
- **Recorded a net loss of approximately HK\$1,575,000 for the nine months ended 31 December 2002.**
- **The Board of Directors (the "Board") of the Company does not recommend the payment of an interim dividend for the nine months ended 31 December 2002.**

## QUARTERLY RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the three months and the nine months ended 31 December 2002 together with the comparative figures for the corresponding period ended 31 December 2001 as follows:

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	<b>26,589</b>	30,232	<b>76,744</b>	92,105
Cost of sales		<b>(24,549)</b>	(22,653)	<b>(64,789)</b>	(69,606)
Gross profit		<b>2,040</b>	7,579	<b>11,955</b>	22,499
Other revenue		<b>609</b>	172	<b>838</b>	623
Selling and distribution costs		<b>(939)</b>	(1,178)	<b>(1,898)</b>	(2,615)
Administrative expenses		<b>(3,393)</b>	(4,153)	<b>(9,336)</b>	(10,416)
Profit/(loss) from operating activities		<b>(1,683)</b>	2,420	<b>1,559</b>	10,091
Finance costs		<b>(1,004)</b>	(1,140)	<b>(3,026)</b>	(3,337)
Profit/(loss) before tax		<b>(2,687)</b>	1,280	<b>(1,467)</b>	6,754
Tax	3	<b>255</b>	(411)	<b>(213)</b>	(1,891)
Profit/(loss) before minority interests		<b>(2,432)</b>	869	<b>(1,680)</b>	4,863
Minority interests		<b>206</b>	(103)	<b>105</b>	(489)
Net profit/(loss) from ordinary activities attributable to shareholders		<b>(2,226)</b>	766	<b>(1,575)</b>	4,374
Dividend		<b>-</b>	-	<b>-</b>	-
Earnings/(loss) per share	4				
– Basic (in cents)		<b>(0.46)cent</b>	0.16 cent	<b>(0.33)cent</b>	1.03 cent
– Diluted (in cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

Notes:

## 1. Basis of Presentation

The Group's unaudited consolidated results have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

## 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 nine months ended 31 December 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 (31 December 2001: Nil) because the Group had no significant timing differences at 31 December 2002.

	<i>HK\$</i>	<i>HK\$</i>
Tax provided for the period ended 30 September 2002		(468,000)
Current period provision	(63,000)	
Overprovision in prior period	318,000	255,000
	<hr/>	<hr/>
Tax provided for the period ended 31 December 2002		<u>(213,000)</u>

## 4. Earnings/(loss) per Share

The calculation of basic earnings/(loss) per share is based on the unaudited consolidated net loss from ordinary activities attributable to shareholders for the three months and nine months ended 31 December 2002 of approximately HK\$2,226,000 and HK\$1,575,000 respectively (net profit for the three months ended 31 December 2001: approximately HK\$766,000 and nine months ended 31 December 2001: approximately HK\$4,374,000) divided by the 480,000,000 shares of the Company in issue (three months ended 31 December 2001: weighted average of approximately 480,000,000 shares and nine months ended 31 December 2001: weighted average of approximately 426,327,000 shares) during the respective periods.

The diluted loss per share for the three months and nine months ended 31 December 2002 has not been calculated as no diluting events existed during the period and the corresponding period in 2001.

## 5. Movement of Reserves

	Share capital	Share premium account	Contributed surplus	Goodwill reserve	Asset revaluation reserve	Retained Profits/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001	200	-	14,878	(1,522)	20,823	4,168	38,547
Revaluation surplus	-	-	-	-	4,768	-	4,768
Minority equity holder's share of asset revaluation reserve	-	-	-	-	(477)	-	(477)
New issue on public listing	1,200	-	-	-	-	-	1,200
Capitalisation issue	3,400	-	-	-	-	-	3,400
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 profit for the period	-	-	-	-	-	3,608	3,608
At 30 September 2001 and at 1 October 2001	4,800	10,400	14,878	(1,522)	25,114	7,776	61,446
Net profit for the period	-	-	-	-	-	766	766
At 31 December 2001	<u>4,800</u>	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>25,114</u>	<u>8,542</u>	<u>62,212</u>
At 1 April 2002	4,800	10,400	14,878	(1,522)	26,255	5,809	60,620
Net profit for the period	-	-	-	-	-	651	651
At 30 September 2002 and at 1 October 2002	4,800	10,400	14,878	(1,522)	26,255	6,460	61,271
Net loss for the period	-	-	-	-	-	(2,226)	(2,226)
At 31 December 2002	<u>4,800</u>	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>26,255</u>	<u>4,234</u>	<u>59,045</u>

## INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the nine months ended 31 December 2002 (nine months ended 31 December 2001: Nil).

## FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the nine months ended 31 December 2002 was approximately HK\$76,744,000 representing a reduction of

approximately 17% as compared to the corresponding nine month period in 2001. The unaudited consolidated gross profit for the nine months ended 31 December 2002 decreased by approximately 47% to HK\$11,955,000, while the net loss from operating activities attributable to shareholders was approximately HK\$1,575,000.

During the period under review, the Group continued to develop and expand its market penetration in the region. Guangdong Province, its key market for decorative sheets, remained highly competitive. Since the Group introduced the “Pearl Prince” brand of high pressure laminates in September 2002, which cater for the lower end of the market, most of the Group’s production lines now concentrate on producing lower-end products, instead of its high-end brands “Waika” or “Pearl”. In addition, the Group sold certain slow moving and obsolete high pressure laminates at substantial discounts. These factors accounted for the overall decrease in the Group’s turnover.

The reduction in the Group’s gross profit margin was mainly due to the increased cost of raw materials, namely decorative papers, phenol and melamine. Phenol and melamine are chemicals used in the impregnation process to produce high pressure laminates. The unit price of these chemicals has increased dramatically due to supply shortages in the region. In addition, the appreciation of the Euro contributed to an increase in costs as some materials used to manufacture high pressure laminates, namely, decorative papers, are purchased from Europe.

Selling and distribution costs declined by approximately 27% during the nine months ended 31 December 2002 as compared to the same period of 2001. This was due to the Group’s lower turnover, which resulted in corresponding reductions in selling and distribution costs. In addition, the management exercised tighter control over the sales promotion and marketing budget.

Administrative expenses decreased by approximately 10% as compared to the same period of 2001. The savings were achieved by cost-cutting exercises as well as the creation of a more simple and efficient organisational structure by the redeployment of resources and personnel.

Lower bank interest rates also resulted in the reduction of the Group’s finance costs to HK\$3,026,000 for the nine months ended 31 December 2002 (31 December 2001: HK\$3,337,000).

## **Business Review and Outlook**

During the period under review, the Group continued to engage in manufacturing and trading of decorative sheets, formally known as high pressure laminates. These were sold under its own brand names “Waika”, “Pearl” and “Pearl Prince”.

The domestic market for such products remained extremely competitive, which affected the sales of “Waika” and “Pearl”. As a result, the Group was forced to lower the selling prices of these two brands. On the other hand, the market responded well to the lower price of “Pearl Prince”, which meant that, although turnover declined due to the lower price, the volume of sales remained quite stable as compared to the previous year.

Besides its eight existing chain stores, the Group is in the final stages of negotiating for two additional stores located in Nanhai and Chengdu. As the existing chain store concept has proven to be successful in general terms, the Group intends to maximise its market share in the People’s Republic of China (the “PRC”) by establishing more stores in other major cities.

Recognising the importance of reaching for a wider market, the Group established its new Project Division in the last quarter of 2002. This division targets institutional organisations such as design institutes, architects, contractors, and other bulk end-users. The Group believes the division will not only serve as a channel for generating additional sales, but will also create broader awareness of the Group’s products.

Looking ahead, despite the difficult global economic situation and negative sentiment in the high pressure laminates industry, the Group will make the most strenuous effort to offset the negative effects of continued intense competition in the marketplace by building a more extensive sales network in the PRC and South East Asian countries, and achieving the best possible results in the coming months.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31 December 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”):

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

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 31 December 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		Total interest
	Corporate interest	Personal 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
Mr. Cheung Sui Sing	–	9,360,000	9,360,000
<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 and 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 31 December 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 29 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 GEM Listing Rules.

## **SHARE OPTION SCHEME**

As at 31 December 2002, no options had been granted or agreed to be granted to any Director or employee of the Company under the share option scheme which was approved by a written resolution of all the Shareholders of the Company on 18 July 2001.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Other than the share option scheme as described above, at no time during the nine months ended 31 December 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 31 December 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 nine months ended 31 December 2002 up to 12 February 2003.

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

Hong Kong, 12 February 2003