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Prosperity International

First Quarterly Report 2003



Prosperity International Holdings (H.K.) Limited

(Incorporated in Bermuda with limited liability)

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The Stock Exchange takes no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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\$5,893,000 for the three months ended 30 June 2003 representing an approximately 24% decrease to the corresponding period in 2002.
- Recorded a net loss of approximately HK\$5,062,000 for the three months ended 30 June 2003.
- The Board of Directors (the “Board”) of the Company does not recommend the payment of an interim dividend for the three months ended 30 June 2003.

UNAUDITED QUARTERLY RESULTS

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 ended 30 June 2003, together with the comparative figures for the corresponding period in 2002, are as follows:

	<i>Notes</i>	For the three months ended 30 June	
		2003	2002
		HK\$'000	HK\$'000
Turnover	2	18,841	24,734
Cost of sales		(20,048)	(19,566)
Gross profit/(loss)		(1,207)	5,168
Other revenue		103	28
Selling and distribution costs		(346)	(528)
Administrative expenses		(3,058)	(2,970)
Profit/(loss) from operating activities		(4,508)	1,699
Finance costs		(1,019)	(940)
Profit/(loss) before tax		(5,527)	759
Tax	3	–	(277)
Profit/(loss) before minority interests		(5,527)	481
Minority interests		465	(67)
Net profit/(loss) from ordinary activities attributable to shareholders		(5,062)	414
Dividend		–	–
Earnings/(loss) per share	4		
– Basic (in cents)		(1.05) cents	0.09 cents
– Diluted (in cents)		N/A	N/A

Notes:

1. Basis of Preparation

The Group's unaudited consolidated results have been prepared in accordance with 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 three months ended 30 June 2003 and the corresponding period in 2002.

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

No deferred tax has been provided because the Company and the Group had no significant timing differences as at 30 June 2003 (30 June 2002 : Nil).

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 ended 30 June 2003 of approximately HK\$5,062,000 (net profit for the three months ended 30 June 2002: approximately HK\$414,000) and the weighted average of 480,000,000 (three months ended 30 June 2002: weighted average of 480,000,000) shares of the Company in issue during the three months ended 30 June 2003.

Diluted earnings/(loss) per share for the three months ended 30 June 2003 and 2002 have not been calculated as no diluting events existed during the period and the corresponding period in 2002.

5. Movement of Reserves

	Share premium account HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained Profits/ (Accumulated loss) HK\$'000	Total HK\$'000
At 1 April 2002	10,400	14,878	(1,522)	26,255	5,809	55,820
Net profit for the period	-	-	-	-	414	414
At 30 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>
At 1 April 2003	10,400	14,878	(1,522)	28,414	(8,728)	43,442
Net loss for the period	-	-	-	-	(5,062)	(5,062)
At 30 June 2003	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>28,414</u>	<u>(13,790)</u>	<u>38,380</u>

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the three months ended 30 June 2003 (three month ended 30 June 2002: Nil).

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the three months ended 30 June 2003 was approximately HK\$18,841,000, representing a reduction of approximately 24% compared to the corresponding three-month period in 2002. The unaudited consolidated gross loss for the three months ended 30 June 2003 was approximately HK\$1,207,000, while the net loss from operating activities attributable to shareholders was approximately HK\$5,062,000.

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. The intensive competition among manufacturers and suppliers of high pressure laminates directly impacted the turnover. The outbreak of Severe Acute Respiratory Syndrome (“SARS”) in both the Guangdong Province and Hong Kong had an adverse impact on the economy in the region and the situation also affected the Group’s performance.

The “Pearl Prince” brand of high pressure laminates introduced since September 2002, which cater for the lower end of the market, caused the lower average selling price. The Group also sold certain slow moving high pressure laminates at substantial discounts during the period under review. In addition, starting from early May 2003, our production has been impacted by the electricity supply in Guangzhou City. As instructed by the local government of the Guangzhou City, there is suspension of electricity supply in our factory in Guangzhou on every Monday until 31 October 2003. These factors accounted for the fall 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 formaldehyde, phenol and melamine. These chemicals used in the impregnation process to produce high pressure laminates. The unit price of these chemicals increased dramatically, due to supply shortages in the region. The average unit price of formaldehyde and phenol, during the period under review, has increased by 38% and 36%, respectively, compared to same period in 2002.

Selling and distribution costs declined by approximately 34% during the three months ended 30 June 2003, compared to the same period of 2002. This was due to the management exercised tighter control over the sales promotion and marketing budget as well as implemented a new commission scheme since May 2003.

The Group's administrative expenses increased by approximately 3% compared with the same period of 2002. Finance costs increased by 8% to approximately HK\$1,019,000 for the three months ended 30 June 2003 (three months ended 30 June 2002: HK\$940,000).

BUSINESS REVIEW AND OUTLOOK

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

Since the strategy on launching lower-priced "Pearl Prince" brand of high pressure laminates to compete with other low-end products produced by smaller factories in the People's Republic of China ("the PRC") caused the fall in turnover and squeezed the gross profit margin, the Group ceased to promote "Pearl Prince" starting from late June. The Group places more emphasis on "Pearl" brand and expects the gross profit margin will be improved in coming months.

The Group had set up two additional chain stores, which located in Jiangmen and Zhongshan, during the period under review. As the existing chain store concept has proven successful in general terms, the Group intends to maximise its market share in PRC by establishing more stores in other major cities.

The Group established its new Direct Sales Division in recognizing the importance of reaching a wider market. This division targets manufacturing plants and other bulk end-users. The Group believes the division will serve as a channel for generating additional sales and also create broader awareness of the Group's product.

Looking ahead, despite the difficult economic situation, the Group will make the most strenuous effort in fighting with the continued inflated cost of raw materials

and 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures 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 maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules, were as follows:

Name of director	Number of shares			Percentage of the Company's issued share capital
	Corporate Interest	Personal Interest	Aggregate Interest	
(A) The Company				
Mr. Wong Ben Koon ("Mr. Wong") (Note 1)	311,680,000	-	311,680,000	64.93%
Ms. Hon Ching Fong ("Madam Hon") (Note 1)	311,680,000	-	311,680,000	64.93%
Mr. Lam Hei Shing, Joseph	-	8,000,000	8,000,000	1.67%
(B) Xingda Decorative Sheets Company Limited ("Xingda")				
Mr. Wong (Note 2)	-	3,118,125	3,118,125	-
Mr. Ng Hon Fai ("Mr. Ng") (Note 2)	-	3,118,125	3,118,125	-

Notes:

1. Mr. Wong and Madam Hon are interested in these shares through their interests in Well Success Group Limited, 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 and 3,118,125 deferred shares, respectively, 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 30 June 2003, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following company (other than the directors and chief executive of the Company) had interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of shares held	Percentage of the Company's issued share capital
Well Success Group Limited ("Well Success")	311,680,000	64.93%

Well Success is beneficially owned as to 20.8% by Mr. Wong, 20.8% by Mr. Ng and 58.4% by Advance Success Limited which is equally owned by Mr. Wong and Madam Hon.

OTHER INTERESTS

Saved as disclosed in the paragraphs headed "Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures" and "Substantial shareholders" above, so far as is known to the Directors, there is no other person who has an interest or short position in the shares, underlying shares and debentures of the Company that is required to be disclosed under section 336 of the SFO.

SHARE OPTION SCHEME

As at 30 June 2003, no options had been granted or agreed to be granted to any Director or employee of the Company under the share option scheme (the “Scheme”) which was approved by a written resolution of all the Shareholders of the Company on 18 July 2001.

The Directors propose to terminate the Scheme and adopt a new share option scheme at the forthcoming annual general meeting of the Company to be held on 25 August 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme as described above, at no time during the three months ended 30 June 2003 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 interests 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 30 June 2003.

COMPETING INTEREST

Mr. Hong Cheng Chang (“Mr. Hong”) is currently has a beneficial interest in 上海昌興國際貿易公司 (“上海昌興”), which is also involved in the trading of decorative sheets. 上海昌興 which competes or is likely to compete, either directly or indirectly, with the business of the Company, as defined in the GEM Listing Rules.

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 reporting process and internal control systems of the Group and to provide advice and recommendations 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 listed securities of the Company during the three months ended 30 June 2003 up to 12 August 2003.

By order of the Board

Prosperity International Holdings (H.K.) Limited

Wong Ben Koon

Chairman

Hong Kong, 12 August 2003