

focus on the future

Prosperity International

Interim Report 2003



Prosperity International Holdings (H.K.) Limited

(Incorporated in Bermuda with limited liability)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this report, makes 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

- Consolidated turnover for the six months ended 30 September 2003 was HK\$33,509,000 representing a decrease of 33% as compared with the corresponding period in 2002.
- Recorded a net loss of approximately HK\$9,553,000 for the six months ended 30 September 2003.
- The Board of Directors (the "Board") of the Company does not recommend the payment of an interim dividend for the six months ended 30 September 2003.

INTERIM RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) as at end for the three months and six months ended 30 September 2003 together with the comparative figures for the corresponding period ended 30 September 2002 as follows:

CONDENSED CONSOLIDATED PROFIT & LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	3	14,668	25,421	33,509	50,155
Cost of sales		(15,086)	(20,674)	(35,134)	(40,240)
Gross profit/(loss)		(418)	4,747	(1,625)	9,915
Other revenue		8	201	111	229
Selling and distribution costs		(415)	(431)	(761)	(959)
Administrative expenses		(3,164)	(2,973)	(6,222)	(5,943)
Profit/(loss) from operating activities	5	(3,989)	1,544	(8,497)	3,242
Finance costs	6	(925)	(1,082)	(1,944)	(2,022)
Profit/(loss) before tax		(4,914)	462	(10,441)	1,220
Tax	7	–	(191)	–	(468)
Profit/(loss) before minority interests		(4,914)	271	(10,441)	752
Minority interests		423	(34)	888	(101)
Net profit/(loss) from ordinary activities attributable to shareholders		<u>(4,491)</u>	<u>237</u>	<u>(9,553)</u>	<u>651</u>
Dividend		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings/(loss) per share	8				
– Basic (in cents)		<u>(0.94)cent</u>	<u>0.05 cent</u>	<u>(1.99)cents</u>	<u>0.13 cent</u>
– Diluted (in cents)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		As at 30 September 2003 (unaudited) <i>HK\$'000</i>	As at 31 March 2003 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	9	79,432	82,823
Long term deposits		308	308
		79,740	83,131
CURRENT ASSETS			
Inventories		38,279	43,022
Trade receivables	10	17,290	16,642
Prepayments, deposits and other receivables		3,474	6,780
Cash and bank balances		2,241	1,485
Pledged bank deposits		1,215	1,667
		62,499	69,596
CURRENT LIABILITIES			
Trade creditors and bills payable	11	19,746	8,534
Tax payable		10,103	10,139
Accrued liabilities and other payables		6,401	8,462
Due to a director		6,088	635
Interest-bearing bank loans, secured		49,581	28,834
Interest-bearing other loans, secured		–	374
Trust receipt loans		3,965	5,867
Current portion of finance lease payables		1,689	2,195
		97,573	65,040
NET CURRENT ASSETS/(LIABILITIES)		(35,074)	4,556

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
(CONTINUED)**

	As at 30 September 2003 (unaudited) <i>Notes</i> <i>HK\$'000</i>	As at 31 March 2003 (audited) <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	44,666	87,687
NON-CURRENT LIABILITIES		
Interest-bearing bank loans, secured	292	22,747
Long term payables	–	9,787
Finance lease payables	–	338
	292	32,872
Minority interests	5,685	6,573
	38,689	48,242
CAPITAL AND RESERVES		
Issued capital	12 4,800	4,800
Reserves	33,889	43,442
	38,689	48,242

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Issued capital <i>HK\$'000</i>	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/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	4,800	10,400	14,878	(1,522)	26,255	5,809	60,620
Net profit for the period	-	-	-	-	-	414	414
At 30 June 2002 and 1 July 2002	4,800	10,400	14,878	(1,522)	26,255	6,223	61,034
Net profit for the period	-	-	-	-	-	237	237
At 30 September 2002	<u>4,800</u>	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>26,255</u>	<u>6,460</u>	<u>61,271</u>
At 1 April 2003	4,800	10,400	14,878	(1,522)	28,414	(8,728)	48,242
Net loss for the period	-	-	-	-	-	(5,062)	(5,062)
At 30 June 2003 and 1 July 2003	4,800	10,400	14,878	(1,522)	28,414	(13,790)	43,180
Net loss for the period	-	-	-	-	-	(4,491)	(4,491)
At 30 September 2003	<u>4,800</u>	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>28,414</u>	<u>(18,281)</u>	<u>38,689</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash outflow from operating activities	(203)	(3,941)
Net cash inflow from investing activities	334	943
Net cash inflow from financing activities	625	6,772
Increase in cash and cash equivalents	756	3,774
Cash and cash equivalents at beginning of the period	1,485	1,794
Cash and cash equivalents at end of the period	<u>2,241</u>	<u>5,568</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>2,241</u>	<u>5,568</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2003

1. Basis of presentation

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK\$35,074,000 at 30 September 2003. The existence of net current liabilities was mainly due to the classification of certain secured bank loans from non-current liabilities to current liabilities as the expiry of such secured bank loans fall within one-year period, and long term payables to trade creditors. As far as the directors are concerned, from past experience, when such secured bank loans fall due, they will be extended for another year and hence will not affect the short term liquidity of the Group. Accordingly, the financial statements have been prepared on a going concern basis.

2. Basis of preparation and accounting policies

The unaudited condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounting policies adopted in the preparation of these unaudited condensed interim financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2003, except as described below:

During the period, the Group has adopted SSAP 12 (Revised) "Income Taxes" issued by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. This change in accounting policy has not had any material effect for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. 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.

4. Segment information

No separate analysis of segment information is presented as the Group's sole business is engaged in manufacture and trading of decorative sheets, comprising high pressure laminates, with over 90% of the Group's sales/assets being derived from/attributed to customers located in Mainland China.

5. Profit/(loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	For the three months ended 30 September 2003		For the six months ended 30 September 2003	
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Cost of inventories sold	15,086	20,674	35,134	40,240
Depreciation	1,721	1,811	3,509	3,529
Minimum lease payments in respect of operating lease rentals for land and buildings	23	23	45	45
Staff costs (including directors' remuneration)				
Wages and salaries	1,713	2,244	4,018	4,483
Pension costs	30	30	65	61
Provision for annual leave	39	20	39	20
	<u>1,782</u>	<u>2,294</u>	<u>4,122</u>	<u>4,564</u>
Exchange losses/(gains), net	(48)	67	2	121
Interest income	<u>(3)</u>	<u>(9)</u>	<u>(11)</u>	<u>(10)</u>

6. Finance costs

	Six months ended 30 September 2003		2002 (unaudited) HK\$'000
	(unaudited) HK\$'000	(unaudited) HK\$'000	
Interest expense on:			
Bank loans and overdrafts			
wholly repayable within five years	1,681	1,702	
Trust receipt loans	182	192	
Finance lease payables	81	128	
	<u>1,944</u>	<u>2,022</u>	

7. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 September 2003 and the corresponding period in 2002.

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 (30 September 2002: Nil) because the Group had no significant timing differences at 30 September 2003.

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited net loss from ordinary activities attributable to shareholders for the three months and six months ended 30 September 2003 of approximately HK\$4,491,000 and HK\$9,553,000 respectively (three months ended 30 September 2002: profit of approximately HK\$237,000; and six months ended 30 September 2002: profit of approximately HK\$651,000) divided by the 480,000,000 shares of the Company in issue (three months ended 30 September 2002: weighted average of approximately 480,000,000 shares and six months ended 30 September 2002: weighted average of approximately 480,000,000 shares) during the respective periods.

Diluted earnings per share for the six months ended 30 September 2003 has not been calculated as no diluting events existed during the period and the corresponding period in 2002.

9. Fixed Assets

	Medium term leasehold land and buildings outside Hong Kong HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 April 2003 (audited)	47,757	6,698	43,689	4,172	102,316
Additions (unaudited)	—	92	—	26	118
At 30 September 2003 (unaudited)	<u>47,757</u>	<u>6,790</u>	<u>43,689</u>	<u>4,198</u>	<u>102,434</u>
Accumulated depreciation:					
At 1 April 2003 (audited)	—	—	17,101	2,392	19,493
Provided during the period (unaudited)	933	—	2,227	349	3,509
At 30 September 2003 (unaudited)	<u>933</u>	<u>—</u>	<u>19,328</u>	<u>2,741</u>	<u>23,002</u>
Net book value:					
At 30 September 2003 (unaudited)	<u>46,824</u>	<u>6,790</u>	<u>24,361</u>	<u>1,457</u>	<u>79,432</u>
At 31 March 2003 (audited)	<u>47,757</u>	<u>6,698</u>	<u>26,588</u>	<u>1,780</u>	<u>82,823</u>

10. Trade receivables

An aged analysis of the Group's trade receivables as at 30 September 2003 is as follows:

	Group	
	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
0-90 days	8,516	5,828
91-180 days	8,774	5,672
181-365 days	—	5,142
	<u>17,290</u>	<u>16,642</u>

The normal credit period granted by the Group ranges from 30-90 days from date of invoice.

11. Trade creditors and bills payable

An aged analysis of the Group's trade creditors and bills payable as at 30 September 2003 is as follows:

	Group	
	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
0-90 days	11,198	4,793
91-180 days	2,093	2,846
181-365 days	5,772	755
Over 365 days	683	140
	<u>19,746</u>	<u>8,534</u>

12. Share capital

	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
<i>Authorised:</i> 10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i> 480,000,000 ordinary shares of HK\$0.01 each	<u>4,800</u>	<u>4,800</u>

There was no movement in the share capital of the Company for the six months ended 30 September 2003.

13. Related party transactions

During the period under review, the Group paid operating lease rentals on certain leasehold land and buildings of approximately HK\$45,000 (30 September 2002: HK\$45,000) to Prosperity Materials (International) Limited of which Mr. Wong Ben Koon ("Mr. Wong") and Madam Hon Ching Fong ("Madam Hon"), two directors and beneficial shareholders of the Company, are directors and in which they have beneficial interests. In the opinion of the directors, the operating rentals were determined with reference to the open market value of the leasehold land and buildings.

14. Operating lease arrangements

At 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating lease due as follows:

	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Within one year	90	–
In the second to fifth years	45	–
	135	–

15. Contingent liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

At 30 September 2003, the Company had provided corporate guarantees to banks for banking facilities granted to its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$7,116,000 as at balance sheet date (31 March 2003: HK\$10,581,000).

16. Commitments

In addition to the operating lease commitments detailed in note 14 above, at the balance sheet date, the Group had contracted commitments in respect of medium term leasehold land and buildings of HK\$807,000 (31 March 2003: HK\$1,280,000).

The Company did not have any significant commitments as at 30 September 2003 (31 March 2003: Nil).

17. Post balance sheet event

The Company has obtained approval from the Stock Exchange for the listing of, and permission to deal in, 96,000,000 new shares ("New Shares") on 30 September 2003. Subsequent to the balance sheet date, on 2 October 2003, the New Shares were issued pursuant to the general mandate to allot, issue and deal with, granted to the Directors by resolution of the Shareholders passed at the Company's annual general meeting held on 25 August 2003.

INTERIM DIVIDEND

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

FINANCE RESOURCES, LIQUIDITY AND GEARING RATIO

Generally, the Group continued to finance its operations and meet its debts by utilising cash generated from its operations and banking facilities provided by its principal bankers. At 30 September 2003, cash and bank balances amounted to approximately HK\$2.24 million and bank loans amounted to approximately HK\$54 million.

The total borrowing facilities of the Group amounted to approximately HK\$59 million, of which approximately HK\$56 million has been utilized as at 30 September 2003. The interest rates for bank borrowings of the Group are at market rate. According to the directors, the Group has adequate financial resources to meet its ongoing operations.

The net current liabilities of the Group as at 30 September 2003 amounted to approximately HK\$35 million. This represents 91% of the shareholder's equity. The existence of net current liabilities was mainly due to the classification of certain secured bank loans from non-current liabilities to current liabilities as the expiry of such secured bank loans fall within one-year period and long term payables to trade creditors. According to the directors, from past experience, when such secured bank loans fall due, they will be extended for another year and does not affect the short term liquidity of the Group in the foreseeable future.

The Group's gearing ratio, measured in terms of total borrowings divided by total assets, was 39% as at 30 September 2003 (31 March 2003: 40%).

FOREIGN EXCHANGE

During the period under review, the Group used the internally generated funds and bank loans to pay its suppliers and meet its capital requirements. These are normally denominated in RMB, Euro, HK\$ or US\$. 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

During the period ended 30 September 2003, the Group made no material or significant investments or acquisitions or disposals of subsidiaries.

CONTINGENT LIABILITIES

As at 30 September 2003, the Group did not have any significant contingent liabilities. Details of the Company's contingent liabilities are set out in note 15 to the financial statements.

CHARGE ON GROUP ASSETS

Certain Group assets are pledged to banks as security for general banking facilities granted to the Group. As at 30 September 2003, the pledged assets of the Group included certain medium term leasehold land and buildings and plant and machinery of approximately HK\$48 million.

EMPLOYEES

As at 30 September 2003, the Group had a total of 329 staff of which 318 are based in the PRC and 11 are based in Hong Kong. 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. Other benefits include the Company's share option scheme.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour 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.

FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the six months period ended 30 September 2003 was approximately HK\$33,509,000, representing a decrease of approximately 33% as compared to the corresponding six months period in 2002. The drop in turnover was directly attributable to continued intensive competition among the manufacturers and suppliers of high pressure laminates that affected the entire high pressure laminates industry. 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 unaudited consolidated gross loss and net loss from ordinary activities attributable to shareholders of the Group for the six months ended 30 September 2003 were approximately HK\$1,625,000 and HK\$9,553,000, respectively. The reduction in the Group's gross profit margin was mainly due to the increased cost of raw materials, namely formaldehyde and phenol. 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 33% and 45%, respectively, compared to same period in 2002.

Selling and distribution costs incurred during the six months ended 30 September 2003 declined by approximately 21% as compared with the same period of 2002. Such decline in selling and distribution costs was partially attributed to the Group's lower turnover. The decrease was also due to the management's tight control over the sales promotion and marketing budget as well as implemented a new commission scheme during the period. The administrative expenses increased by approximately 5% as compared to the same period of 2002. Finance costs decreased by approximately 4% for the six months ended 30 September 2003 for the Group has repaid some bank loans during the period.

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”.

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 Mainland China 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 “Waika” and “Pearl” brand and expects the gross profit margin will be improved in the second half of the year.

The Group’s Research and Development Division has commenced the development of the new products, Chemical Resistant Laminates, since last year. The products are highly resistant to chemicals, stains, and ideal for table surfaces used in laboratories, hospitals, schools, factories, darkrooms, product testing facilities and beauty salons. Chemical Resistant Laminates have been successfully passed the product tests conducted by National Center for Testing of Chemical Building Materials in September. The Group is now working on the product launching in coming months and expected Chemical Resistance Laminates should become a profitable source of revenue of the Group.

A new Direct Sales Division has been established since June 2003 in recognizing the importance of reaching a wider market. This division targets manufacturing plants and other bulk end-users. On the other hand, the Group continues to identify strategic distributors in the cities we plan to explore our market. Distributors in the cities of Jiangmen, Zhongshan, Nanjing, Taiyuan, Zhengzhou and Baoding have been evaluated and selected during the period under review and they will serve as channel for generating additional sales.

Apart from market reach, the Group raises market awareness of its brand product by participating in decoration and furniture exhibitions held in Guangzhou and Zhengzhou during the review period.

Looking ahead, despite the difficult economic situation and continued intense competition in the marketplace, the Group will make use of its existing business advantage and seek for new opportunities, to bring more value to the shareholders of the Company.

COMPARISON OF BUSINESS PROGRESS

From 1 April 2003 to 30 September 2003

Business Objectives as disclosed in the Prospectus dated 24 July 2001

Actual Business Progress

A. Sales

To obtain 10 new customers

The Group successfully secured 98 new customers

To increase 10 new colour or pattern

The Group developed an additional 19 new colours and patterns

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 successfully identified distributors in the cities of Jiangmen, Zhongshan, Nanjing, Taiyuan, Zhengzhou and Baoding

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

During the period under review, the Group has contacted potential clients in the Middle East and East Europe. The Group intends to take every opportunity to develop a wider network in the Asia Pacific region

To promote the brand names of the product through advertisement in the newspaper published in the major cities in the PRC

The Group has published product catalog and produced product sampling in promoting its products, mainly “Waika” and “Pearl” brand

C. Production capacity (no. of pieces)

Target is 2,976,000 pieces

The total production capacity for the period was approximately 2 million pieces. However, the actual total production for the period was 1,018,605 pieces. As operation of a planned fifth and sixth production line was deferred, actual production for the period was lower than estimated

To finish the installation of the 6th production line and commence production after the performance of quality testing by the Company

Since the installation of the fifth production line was deferred, the installation of the sixth production line was deferred accordingly

D. Research and development

To conduct research and development on new products

The Group commenced the research and development of chemical resistant laminates since last year. This laminate is widely used in hospital and school laboratory table as it is chemical and stain resistant. And the product successfully passed the product tests conducted by National Center for Testing of Chemical Building Materials in September

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

The Group participated in decoration and furniture exhibitions held in Guangzhou and Zhengzhou during the review period

E. Human resources (no. of staff)

	Planned as at 30 September 2003	Actual as at 30 September 2003
– Sales and marketing	28	24
– Research and development	5	3
– Finance and administration	10	11
– Production	420	280
– Management	9	11
	<hr/>	<hr/>
– Total headcount	<u>472</u>	<u>329</u>

USE OF PROCEEDS FROM THE GROUP'S INITIAL PUBLIC OFFERING ("IPO")

The net proceeds raised from the Group's IPO on the GEM board of the Stock Exchange of Hong Kong, after deduction of related expenses pursuant to the IPO, were HK\$15 million. The net proceeds were applied as follows:

	Intended use of net proceeds as set out in the Prospectus <i>HK\$ million</i>	Actual use of net proceeds as of 31 March 2002 <i>HK\$ million</i>
Purchase of production facilities	12.6	9.6
Purchase of land & building	9.6	5.2
Marketing and sales	3.0	0.2
Working capital	2.8	Nil
	<hr/>	<hr/>
Total	<u>28.0</u>	<u>15.0</u>

The net proceeds as set out in the Prospectus were estimated based on the mid-point of the placing price between HK\$0.25 and HK\$0.45 per share and 120,000,000 shares of HK\$0.01 each in the share capital of the Company, after deduction of related expenses pursuant to the IPO. On 2 August 2001, 120,000,000 shares of HK\$0.01 each were issued to the public at HK\$0.25 each for a total cash consideration, before related issuing expenses, of HK\$30,000,000.

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

As at 30 September 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 to 5.58 of the GEM Listing Rules, were as follows:

Name of director	Number of shares			Percentage of the Company's Issued share capital (Note 1)
	Corporate Interest	Personal Interest	Aggregate Interest	
(A) The Company				
Mr. Wong Ben Koon ("Mr. Wong") (Note 2)	223,176,000	–	223,176,000	46.50%
Ms. Hon Ching Fong ("Madam Hon") (Note 2)	223,176,000	–	223,176,000	46.50%
Mr. Lam Hei Shing, Joseph	–	8,000,000	8,000,000	1.67%
(B) Xingda Decorative Sheets Company Limited ("Xingda")				
Mr. Wong (Note 3)	–	3,118,125	3,118,125	–
Mr. Ng Hon Fai ("Mr. Ng") (Note 3)	–	3,118,125	3,118,125	–

Notes:

1. The interest in the shares of the Company is calculated based on the issued share capital, 480,000,000 shares, as at 30 September 2003. Subsequent to the balance sheet date, on 2 October 2003, 96,000,000 shares were issued. Total no. of issued shares as at 10 November 2003 is 576,000,000 shares.
2. 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.
3. 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 September 2003, none of the Directors or the chief executives of the Company had any interest or short position 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 the minimum standard of dealings by directors as referred to Rule 5.40 to 5.58 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 30 September 2003, shareholders (other than the directors and chief executive of the Company) who had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Number of shares held	Nature of interest	Percentage of the Company's issued share capital (Note 1)
Well Success Group Limited (“Well Success”) (Note 2)	223,176,000	Beneficial owner	46.50%
Advance Success Limited (“Advance Success”) (Note 3)	223,176,000	Interest of controlled corporation	46.50%
Lamex Investment Limited (“Lamex”) (Note 4)	76,920,000	Beneficial owner	16.03%
Mr. Lam Ching Wah (Note 4)	76,920,000	Interest of controlled corporation	16.03%
Mr. Lam Andy Siu Wing (Note 4)	76,920,000	Interest of controlled corporation	16.03%

Notes:

1. The interest in the shares of the Company is calculated based on the issued share capital, 480,000,000 shares, as at 30 September 2003. Subsequent to the balance sheet date, on 2 October 2003, 96,000,000 shares were issued. Total no. of issued shares as at 10 November 2003 is 576,000,000 shares.
2. The entire issued share capital of Well Success is beneficially owned as to 20.8% (represented by 2,080 shares of US\$1 each) by Mr. Wong, as to 20.8% (represented by 2,080 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. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Advance Success owns more than one-third of the issued share capital of Well Success and is deemed to be interested in all the shares in the Company held by Well Success.
3. 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. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, each of Mr. Wong and Madam

Hon is deemed to be interested in all the shares in the Company held by Advanced Success. The interests of Mr. Wong and Madam Hon in the shares of the Company are disclosed under the section headed "Directors' and Chief Executive's Interests or Short Positions in the Shares, Underlying Shares or Debentures".

4. The entire issued share capital of Lamex is beneficially owned as to 50% (represented by 1 share of US\$1 each) by Mr. Lam Ching Wah, and as to 50% (represented by 1 share of US\$1 each) by Mr. Lam Andy Siu Wing. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, each of Mr. Lam Ching Wah and Mr. Lam Andy Siu Wing is deemed to be interested in all the shares in the Company held by Lamex.

Save as disclosed above, as at 30 September 2003, the Company had not been notified by any shareholders who had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 18 July 2001 (the "Old Scheme") and was terminated and replaced by a new share option scheme (the "New Scheme") on 25 August 2003. No share option was granted under the New Scheme since the adoption date 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 six months ended 30 September 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 September 2003.

COMPETING INTEREST

Mr. Hong Cheng Chang (“Mr. Hong”) does currently have 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 (where applicable) of the GEM Listing Rules during the period under review.

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 six months ended 30 September 2003 up to 10 November 2003.

By order of the Board
Prosperity International Holdings (H.K.) Limited
Wong Ben Koon
Chairman

Hong Kong, 10 November 2003