

focus on the future

# Prosperity International

**Third Quarterly 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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*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 nine months ended 31 December 2003 was HK\$52,298,000 representing a decrease of 32% as compared with the corresponding period in 2002.
- Recorded a net loss of approximately HK\$21,523,000 for the nine months ended 31 December 2003.
- 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 2003.

## QUARTERLY RESULTS (UNAUDITED)

The Board of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and the nine months ended 31 December 2003 together with the comparative figures for the corresponding periods ended 31 December 2002 as follows:

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	18,789	26,589	52,298	76,744
Cost of sales		(26,276)	(24,549)	(61,410)	(64,789)
Gross profit/(loss)		(7,487)	2,040	(9,112)	11,955
Other revenue		9	609	120	838
Selling and distribution costs		(779)	(939)	(1,540)	(1,898)
Administrative expenses		(3,279)	(3,393)	(9,501)	(9,336)
Profit/(loss) from operating activities		(11,536)	(1,683)	(20,033)	1,559
Finance costs		(886)	(1,004)	(2,830)	(3,026)
Loss before tax		(12,422)	(2,687)	(22,863)	(1,467)
Tax	3	-	255	-	(213)
Loss before minority interests		(12,422)	(2,432)	(22,863)	(1,680)
Minority interests		452	206	1,340	105
Net loss from ordinary activities attributable to shareholders		<u>(11,970)</u>	<u>(2,226)</u>	<u>(21,523)</u>	<u>(1,575)</u>
Dividend		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss per share	4				
– Basic (in cents)		<u>(2.08)</u>	<u>(0.46)</u>	<u>(4.21)</u>	<u>(0.33)</u>
– Diluted (in cents)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*Notes:*

## **1. Basis of preparation and accounting policies**

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 nine months ended 31 December 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 temporary differences as at 31 December 2003 (31 December 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 and nine months ended 31 December 2003 of approximately HK\$11,970,000 and HK\$21,523,000 respectively (net loss for the three months ended 31 December 2002: approximately HK\$2,226,000 and net loss for the nine months ended 31 December 2002: approximately HK\$1,575,000) divided by the weighted average of approximately 574,957,000 shares and 511,767,000 shares of the Company in issue during the three months and the nine months ended 31 December 2003 respectively (three months and nine months ended 31 December 2002: 480,000,000 shares).

Diluted loss per share for the three months and nine months ended 31 December 2003 have not been calculated as no diluting events existed during the periods and the corresponding periods in 2002.

## 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/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	10,400	14,878	(1,522)	26,255	5,809	55,820
Net loss for the period	–	–	–	–	651	651
At 30 September 2002 and at 1 October 2002	10,400	14,878	(1,522)	26,255	6,460	56,471
Net loss for the period	–	–	–	–	(2,226)	(2,226)
At 31 December 2002	<u>10,400</u>	<u>14,878</u>	<u>(1,522)</u>	<u>26,255</u>	<u>4,234</u>	<u>54,245</u>
At 1 April 2003	10,400	14,878	(1,522)	28,414	(8,728)	43,442
Net loss for the period	–	–	–	–	(9,553)	(9,553)
At 30 September 2003 and at 1 October 2003	10,400	14,878	(1,522)	28,414	(18,281)	33,889
Premium arising from placing of new shares, net of issuing expenses	3,796	–	–	–	–	3,796
Net loss for the period	–	–	–	–	(11,970)	(11,970)
At 31 December 2003	<u>14,196</u>	<u>14,878</u>	<u>(1,522)</u>	<u>28,414</u>	<u>(30,251)</u>	<u>25,715</u>

## INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the nine months ended 31 December 2003 (nine months ended 31 December 2002: Nil).

## FINANCIAL PERFORMANCE

The unaudited consolidated turnover of the Group for the nine months ended 31 December 2003 was approximately HK\$52,298,000, representing a reduction of approximately 32% as compared with the corresponding nine-month period in 2002. The unaudited consolidated gross loss and net loss from ordinary activities attributable to shareholders of the Group for the nine months ended 31 December 2003 were approximately HK\$9,112,000 and HK\$21,523,000, respectively.

The drop in turnover was directly attributable to the 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 reduction in the Group's gross profit margin was mainly due to the increased cost of raw materials, namely formaldehyde and phenol, which were used in the impregnation process to produce high pressure laminates and the provision of obsolete inventories during the period under review. 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 nine months ended 31 December 2003, have increased by approximately 33% and 23% respectively as compared to the same period in 2002. Having considered the current market environment and the impact of SARS on the turnover of inventories in the past few months, the management had completed a comprehensive inventory count in December 2003 with a major purpose to identify slow-moving and obsolete inventories and a provision of approximately HK\$6.8 million for slow-moving and damaged inventories has been provided as at 31 December 2003 in reflecting the realizable value of certain slow-moving and damaged high pressure laminates.

Selling and distribution costs declined by approximately 19% during the nine months ended 31 December 2003, compared with the same period of 2002. Such decline in selling and distribution costs was partially attributed to the Group's lower turnover. The administrative expenses slightly increased by approximately 2% during the nine months ended 31 December 2003, compared with the same period of 2002. Finance costs decreased by approximately 6% for the nine months ended 31 December 2003 as compared to the same period of 2002 because the Group has repaid some bank loans during the period.

## **BUSINESS REVIEW AND OUTLOOK**

During the period under review, the Group continued to be engaged 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 Group ceased to promote "Pearl Prince" starting from late June as this brand of high pressure laminates had caused unfavorable gross margin. The gross margin during the period under review impacted by the increased cost of raw materials though the Group placed more emphasis on "Waika" and "Pearl" brands, which generated higher margin. The Group is now working on launching Chemical Resistance Laminates which is expected to become a profitable source of revenue of the Group in the coming future.

The Direct Sales Division, established since June 2003, continues targeting manufacturing plants and other bulk end-users. The direct sales team can sell and promote our focal products to our customers directly and more effectively. On the other hand, the Group continues to identify strategic distributors in the cities which we plan to explore our market. Distributors in the cities of Jiangmen, Zhongshan, Nanjing, Taiyuan, Zhengzhou, Baoding, Hunan and Nanning have been evaluated and selected during the period under review and they will serve as channels for generating additional sales.

The Group also raises market awareness of its brand product by participating in the decoration and furniture exhibitions held in Guangzhou and Zhengzhou during the review period. Our booths in the exhibitions attracted more than 2,200 potential customers. The sales team is closely monitoring the information collected and leads have been and can be generated.

Looking ahead, the Group will seek for new marketing strategies, develop new products and strengthen organization and management team so as to bring more value to the shareholders of the Company.

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

As at 31 December 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 required to be 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:

Long positions in ordinary shares of the Company:

Name of Directors	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Corporate interest	Personal interest	Aggregate interest	
Mr. Wong Ben Koon ("Mr. Wong") (Note 1)	319,176,000	–	319,176,000	55.41%
Ms. Hon Ching Fong ("Madam Hon") (Note 1)	319,176,000	–	319,176,000	55.41%
Mr. Lam Hei Shing, Joseph	–	8,000,000	8,000,000	1.39%

Long position in ordinary shares of associated companies:

Name of Directors	Number of shares	Nature of interests	Percentage of issued share capital
<b>Well Success Group Limited</b>			
Mr. Wong (Note 1)	2,080	Personal	20.80%
Mr. Ng Hon Fai ("Mr Ng") (Note 1)	2,080	Personal	20.80%
Madam Hon (Note 1)	5,840	Corporate	58.40%
Mr. Wong (Note 1)	5,840	Corporate	58.40%



*Notes:*

1. Mr. Wong and Madam Hon are interested in the shares of the Company 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.

Save as disclosed above, as at 31 December 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

So far as is known to any Directors or chief executive of the Company, as at 31 December 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:

Long positions:

<b>Name</b>	<b>Number of shares held</b>	<b>Nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
Well Success Group Limited ("Well Success") ( <i>Note 1</i> )	319,176,000	Beneficial owner	55.41%
Advance Success Limited ("Advance Success") ( <i>Note 2</i> )	319,176,000	Interest of controlled corporation	55.41%
Lamex Investment Limited ("Lamex") ( <i>Note 3</i> )	76,920,000	Beneficial owner	13.35%
Mr. Lam Ching Wah ( <i>Note 3</i> )	76,920,000	Interest of controlled corporation	13.35%
Mr. Lam Andy Siu Wing ( <i>Note 3</i> )	76,920,000	Interest of controlled corporation	13.35%

*Notes:*

1. 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.
2. 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 Shares, Underlying Shares or Debentures".
3. 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 31 December 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 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 nine months ended 31 December 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 members of the Group, or have any rights 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 2003.

## **COMPETING INTERESTS**

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.

## **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. The audit committee has reviewed the Group's unaudited consolidated results for the nine months ended 31 December 2003 and three meetings have been held during the nine months period.

## **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 nine months ended 31 December 2003 up to 10 February 2004.

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

Hong Kong, 10 February 2004