

FIRST QUARTERLY REPORT 2005



**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”)**

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*This report, for which the directors of 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 for the purpose of giving information with regard to the Company. The Directors of the Company 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.*

## FINANCIAL HIGHLIGHTS

The financial highlights of Prosperity International Holdings (H.K.) Limited and its subsidiaries for the three months ended 30 June 2004 (the "Relevant Period") are summarized as follows:

- The unaudited consolidated turnover for the Relevant Period was approximately HK\$14,590,000, representing a decrease of 22.6% as compared with the same period last year.
- Net loss from ordinary activities attributable to shareholders for the Relevant Period was approximately HK\$3,530,000, representing a decrease of 30.3%, as compared with the same period last year.
- The Directors do not recommend the payment of any dividend for the Relevant Period.

The unaudited consolidated results for the three months ended 30 June 2004 and comparisons with the results for the same period last year are set out in the accompanying table.

## BUSINESS REVIEW

In order to strengthen its competitive edge, the Group places more emphasis on research and development in chemical raw materials, production formula and on selection of material for draft paper. The Company has chosen high quality domestically made paper to reduce production costs while still ensuring the quality of the products.

The Direct Sales Division 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 major cities, including Jiangmen, Zhongshan, Nanjing, Taiyuan, Zhengzhou, Baoding, Hunan and Nanning.

The Group also raises market awareness of its brand product by participating in the decoration and furniture exhibitions held in Beijing, Guangzhou and Zhengzhou.

**UNAUDITED QUARTERLY RESULTS**

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the three months ended 30 June 2004 together with the comparative figures for the same period last year as follows:

		<b>For the three months ended 30 June</b>	
	<i>Notes</i>	<b>2004 HK\$'000</b>	2003 HK\$'000
<b>TURNOVER</b>	2	<b>14,590</b>	18,841
Cost of sales		<b>(14,575)</b>	(20,048)
Gross profit/(loss)		<b>15</b>	(1,207)
Other revenue and gains		<b>33</b>	103
Selling and distribution costs		<b>(375)</b>	(346)
Administrative expenses		<b>(2,740)</b>	(3,058)
<b>LOSS FROM OPERATING ACTIVITIES</b>		<b>(3,067)</b>	(4,508)
Finance costs		<b>(806)</b>	(1,019)
<b>LOSS BEFORE TAX</b>		<b>(3,873)</b>	(5,527)
Tax	3	-	-
<b>LOSS BEFORE MINORITY INTERESTS</b>		<b>(3,873)</b>	(5,527)
Minority interests		<b>343</b>	465
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>(3,530)</b>	(5,062)
Loss per share	4		
– Basic		<b>HK0.61 cents</b>	HK1.05 cents
– Diluted		<b>N/A</b>	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.

All significant inter company transactions and balances within the Group have been eliminated on consolidation.

#### **2. Turnover**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

#### **3. Tax**

Hong Kong profits 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 2004 and for the same period last year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

For the three months ended 30 June 2004, the tax rate applicable to a subsidiary established and operating in Mainland China is 24%, however, no provision for tax has been made for the period as this subsidiary did not generate any assessable profits arising in Mainland China during the period.

#### **4. Loss per Share**

The calculation of basic loss per share is based on the unaudited consolidated net loss from ordinary activities attributable to shareholders for the three month ended 30 June 2004 of approximately HK\$3,530,000 (three months ended 30 June 2003: approximately HK\$5,062,000) and the weighted average of 576,000,000 (three months ended 30 June 2003: 480,000,000) ordinary shares in issue during the Relevant Period.

Diluted loss per share for the three months ended 30 June 2004 and 2003 have not been calculated as no diluting events existed during the periods.

**5. Movement of Reserves**

	Share premium account HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Asset revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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>
At 1 April 2004	14,196	14,878	(1,522)	23,632	(38,061)	13,123
Net loss for the period	-	-	-	-	(3,530)	(3,530)
At 30 June 2004	<u>14,196</u>	<u>14,878</u>	<u>(1,522)</u>	<u>23,632</u>	<u>(41,591)</u>	<u>(9,593)</u>

**INTERIM DIVIDEND**

The Board does not recommend payment of dividend for the three months ended 30 June 2004 (three months ended 30 June 2003: Nil)

**FINANCIAL PERFORMANCE**

During the Relevant Period, the Group recorded a turnover of approximately HK\$14,590,000, representing a decrease of approximately 22.6% as compared with the same period last year. The Group recorded a gross profit of approximately HK\$15,000 as compared to a gross loss of HK\$1,207,000 for the same period last year. Net loss attributable to shareholders of the Company for the Relevant Period was approximately HK\$3,530,000, representing a decrease of approximately 30.3% as compared to HK\$5,062,000 for the same period last year.

The decline in turnover during the period was due to the reduction in the sales of lower-end products in order to avoid the intense price competition with domestic small-scale manufacturers in other provinces.

The improvement in the Group's gross margin was mainly due to (i) reduction in the production and sales of lower-end products which did not generate gross profit in last year; (ii) tighter control over the usage of chemical raw materials; and (iii) improvement in the efficiency of human resources during the period.

As a result of tighter control over existing resources, administrative expenses incurred during the Relevant Period decreased by approximately 10.4% as compared with the same period last year. To strengthen the sales team and network for further development of business opportunities, selling and distribution cost incurred during Relevant Period increased by approximately 8.4% as compared with the same period last year.

## FUTURE PROSPECTS

The Group's success in becoming one of the top largest decorative sheet manufacturers in the Mainland China from a small factory, raising the quality of its products to reach international standard and obtaining ISO 9002 accreditation are attributable to the in-depth market knowledge and support of the major shareholder, leadership of the management and cooperation of the staff.

Looking ahead, the Group will seek for new marketing strategies, develop new products and strengthen organization and management team. In addition, we endeavor to seek more potential clients both in domestic market and international markets, in order to enlarge base to provide impetus for the further growth of the Group with the aim to create profit to our investors and shareholders.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30 June 2004, the interest and short positions of the Directors in the shares capital 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 required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "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
	Directly beneficially owned	Through controlled corporation	Total	
Mr. Wong Ben Koon ("Mr. Wong") (Note)	–	319,176,000	319,176,000	55.41
Madam Hon Ching Fong ("Madam Hon") (Note)	–	319,176,000	319,176,000	55.41
Mr. Ng Hon Fai ("Mr. Ng") (Note)	–	319,176,000	319,176,000	55.41

Note:

Mr. Wong, Madam Hon and Mr. Ng are interested in the shares of the Company through their interests in Well Success Group Limited ("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"). Advance Success is equally owned by Mr. Wong and Madam Hon.

At the Company's Annual General Meeting held on 30 July 2004, the Directors of the Company were authorized to grant a share option to each of Mr. Choi Yat Choy ("Mr. Choi") and Mr. Kong Siu Keung ("Mr. Kong") to subscribe for 24,000,000 shares of the Company, representing approximately 4.17% of the issued share capital of the Company at the exercise price of HK\$0.023 of each share of the Company. On 9 August 2004, both of Mr. Choi and Mr. Kong accepted such options. The options granted to Mr. Choi and Mr. Kong shall not be exercisable unless the Group achieved a positive net profit in any financial year from the date of grant of such options and in any event such options shall not be exercised within 18 months from 28 June 2004.

#### Long position in ordinary shares of associated companies:

Name of director	Name of associated corporations	Relationship with the Company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporations' issued share capital
Mr. Wong	Well Success	Company's holding company	Ordinary shares	7,920	Directly beneficially owned	79.2
Mr. Ng	Well Success	Company's holding company	Ordinary shares	2,080	Directly beneficially owned	20.8
Madam Hon	Well Success	Company's holding company	Ordinary shares	5,840	Directly beneficially owned	58.4
Mr. Wong	Xingda Decorative Sheets Company Limited	Company's subsidiary	Non-voting deferred shares	3,118,125	Directly beneficially owned	20.8
Mr. Ng	Xingda Decorative Sheets Company Limited	Company's subsidiary	Non-voting deferred shares	3,118,125	Directly beneficially owned	20.8

In addition to the above, Mr. Wong has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.



Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the Listing Rules.

### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES**

As of 30 June 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### **Long positions:**

<b>Name</b>	<i>Notes</i>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Well Success	(1)	Directly beneficially owned	319,176,000	55.41
Advance Success	(2)	Through Well Success	319,176,000	55.41
Lamex Investment Limited ("Lamex")	(3)	Directly beneficially owned	76,920,000	13.35
Mr. Lam Ching Wah	(3)	Through a controlled corporation	76,920,000	13.35
Mr. Lam Andy Siu Wing	(3)	Through a controlled corporation	76,920,000	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.
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. The interests of Mr. Wong and Madam Hon in the shares of the Company are disclosed under the heading "Director's interests and Short Positions in Shares and Underlying Shares" above.
3. The entire issued share capital of Lamex is beneficially owned as to 50% (represented by 1 share of US\$1) by Mr. Lam Ching Wah, and as to 50% (represented by 1 share of US\$1) by Mr. Lam Andy Siu Wing.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## COMPETING INTEREST

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme conditionally approved by a resolution passed by the shareholders of the Company on 25 August 2003, under which it may grant options to full-time employees, including executive directors of the Company or of its subsidiaries, to subscribe for shares in the Company.

As at 30 June 2004, no options had been granted under the Company's share option scheme.

On 30 July 2004, the Company has approved the granting of options to subscribe for shares under the Company's share option scheme to certain executive directors, the details of which are as follows:

Name of Directors	Date of grant	Date of acceptance of share options	Number of share options	Exercise price of each share HK\$	Approximate percentage of the Company's issued share capital
Mr. Choi Yat Choy	30 July 2004	9 August 2004	24,000,000	0.023	4.17
Mr. Kong Siu Keung	30 July 2004	9 August 2004	24,000,000	0.023	4.17

As of the date of this report, no share option has been exercised by the above directors to subscribe for shares in the Company.

Save as disclosed in the share option scheme disclosures, at no time during the Relevant Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the Relevant Period.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company listed securities during the Relevant Period.

## **COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES**

In the opinions of the directors, the Company has complied with the board practices and procedures of Rules 5.34 to 5.45 of the Listing Rules throughout the Relevant Period.

## **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, 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 three months ended 30 June 2004 and one meeting has been held during the Relevant Period.

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

Hong Kong, 10 August 2004

The Directors as at the date of this report are:

### **Executive Directors**

Mr. Wong Ben Koon (*Chairman*)  
Mr. Ng Hon Fai  
Mdm. Hon Ching Fong  
Mr. Choi Yat Choy  
Mr. Kong Siu Keung

### **Independent Non-Executive Directors**

Mr. Mo Kwok Choi  
Mr. Yuen Kim Hung, Michael