

INTERIM REPORT **2005**



Prosperity International Holdings (H.K.) Limited

(Incorporated in Bermuda with limited liability)

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This report, for which 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 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 six months ended 30 September 2004 (the "Relevant Period") are summarized as follows:

- Consolidated turnover for the Relevant Period was approximately HK\$32,966,000, representing a slight decrease of 1.6% as compared with the same period last year.
- Net loss from ordinary activities attributable to shareholders for the Relevant Period was approximately HK\$3,246,000, representing a significant improvement by 66.0%, as compared with the same period last year. As a result of improvement in marketing strategy and cost control, the Group achieved a net profit of approximately HK\$284,000 during the three months ended 30 September 2004 (the "Second Quarter").
- The Board of Directors (the "Board") of the Company does not recommend the payment of any dividend for the Relevant Period.

The unaudited consolidated results for the six months ended 30 September 2004 and comparison 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 placed more emphasis on research and development in chemical raw materials, production formula and on selection of material for draft paper. The Group continued to choose high quality domestically made paper to reduce production costs while still ensuring the quality of its 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.

Having focused on the market of higher-end products, there was an improvement in average selling price during the Second Quarter. At the same time, the Group continued to reduce production cost by improving production formula and efficiency. As a result, the Group successfully achieved a net profit of approximately HK\$284,000 during the Second Quarter. Facing the market environment with competition and high fuel cost, the Group will continue to strengthen its marketing strategy and cost control system with the view to sustaining an improving result for its shareholders.

UNAUDITED CONSOLIDATED INTERIM RESULTS

The Board of the Company is pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30 September 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT & LOSS ACCOUNT

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	18,375	14,668	32,966	33,509
Cost of sales		(14,368)	(15,086)	(28,944)	(35,134)
Gross profit/(loss)		4,007	(418)	4,022	(1,625)
Other revenue and gains		80	8	113	111
Selling and distribution costs		(939)	(415)	(1,314)	(761)
Administrative expenses		(2,112)	(3,164)	(4,852)	(6,222)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	1,036	(3,989)	(2,031)	(8,497)
Finance costs	5	(758)	(925)	(1,563)	(1,944)
PROFIT/(LOSS) BEFORE TAX		278	(4,914)	(3,594)	(10,441)
Tax	6	-	-	-	-
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		278	(4,914)	(3,594)	(10,441)
Minority interests		6	423	348	888
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		284	(4,491)	(3,246)	(9,553)
Earnings/(loss) per share	7				
- Basic		HK0.05 cents	HK(0.94) cents	HK(0.56) cents	HK(1.99) cents
- Diluted		N/A	N/A	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 30 September 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	8	75,593	78,400
CURRENT ASSETS			
Inventories		26,610	27,003
Trade receivables	9	14,281	14,209
Prepayments, deposits and other receivables		2,375	1,774
Cash and bank balances		1,987	2,539
Pledged time deposits		1,210	1,210
		46,463	46,735
CURRENT LIABILITIES			
Trade creditors and bills payable	10	13,424	18,472
Tax payable		10,104	10,104
Accrued liabilities and other payables		8,454	7,450
Due to a director	12	65	65
Interest-bearing bank loans, secured	13	40,106	45,924
Interest-bearing other loans, secured	13	-	374
Trust receipt loans	13	-	170
Current portion of finance lease payables		-	338
		72,153	82,897
NET CURRENT LIABILITIES		(25,690)	(36,162)
TOTAL ASSETS LESS CURRENT LIABILITIES		49,903	42,238
NON-CURRENT LIABILITIES			
Due to a director	12	24,169	12,910
Deferred tax liabilities		7,333	7,333
		31,502	20,243
MINORITY INTERESTS		2,764	3,112
		15,637	18,883
CAPITAL AND RESERVES			
Issued capital	11	5,760	5,760
Reserves		9,877	13,123
		15,637	18,883

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium account	Contributed surplus	Goodwill reserve	Asset revaluation reserve	Retained profits/ (accumulated losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2003	4,800	10,400	14,878	(1,522)	22,228	(8,728)	42,056
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)	22,228	(13,790)	36,994
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>22,228</u>	<u>(18,281)</u>	<u>32,503</u>
At 1 April 2004	5,760	14,196	14,878	(1,522)	23,632	(38,061)	18,883
Net loss for the period	-	-	-	-	-	(3,530)	(3,530)
At 30 June 2004 and 1 July 2004	5,760	14,196	14,878	(1,522)	23,632	(41,591)	15,353
Net profit for the period	-	-	-	-	-	284	284
At 30 September 2004	<u>5,760</u>	<u>14,196</u>	<u>14,878</u>	<u>(1,522)</u>	<u>23,632</u>	<u>(41,307)</u>	<u>15,637</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(4,634)	(203)
Net cash inflow/(outflow) from investing activities	(477)	334
Net cash inflow from financing activities	4,559	625
Increase/(decrease) in cash and cash equivalents	(552)	756
Cash and cash equivalents at beginning of the period	2,539	1,485
Cash and cash equivalents at end of the period	1,987	2,241
Analysis of balances of cash and cash equivalents		
Cash and bank balances	1,987	2,241

Notes to the Condensed Financial Statements

For the six months ended 30 September 2004

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of the GEM Listing Rules. They have also been prepared under the historical cost convention, as modified for the revaluation of certain fixed assets.

The accounting policies used in preparing the interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2004.

2. Turnover

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

3. Segment information

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

4. Profit/(loss) from operating activities

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

	For the three months ended 30 September		For the six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Cost of inventories sold	14,368	15,086	28,944	35,134
Depreciation	2,236	1,721	3,284	3,509
Minimum lease payments under operating lease in respect of land and buildings	23	23	45	45
Staff costs				
Wages and salaries	843	1,713	1,801	4,018
Retirement benefits scheme contributions	22	30	33	65
	865	1,743	1,834	4,083
Exchange losses/(gains), net	(31)	(48)	(49)	2

5. Finance costs

	For the six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	1,559	1,681
Trust receipt loans	1	182
Finance lease payables	3	81
	1,563	1,944

6. 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 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 six months ended 30 September 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.

7. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited consolidated net profit from ordinary activities attributable to shareholders for the three months ended 30 September 2004 of approximately HK\$284,000 and net loss from ordinary activities attributable to shareholders for the six months ended 30 September 2004 of approximately HK\$3,246,000 (three months and six months ended 30 September 2003: loss of approximately HK\$4,491,000 and HK\$9,553,000) and the weighted average of 576,000,000 (six months ended 30 September 2003: 480,000,000) ordinary shares in issue during the Relevant Period.

Diluted earnings/(loss) per share for the six months ended 30 September 2004 and 2003 have not been calculated as no diluting events existed during the periods.

8. Fixed assets

	Medium term leasehold land and buildings outside Hong Kong	Construction in progress	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:					
At 1 April 2004 (audited)	54,100	–	44,316	4,473	102,889
Additions (unaudited)	–	374	90	13	477
	<u>54,100</u>	<u>374</u>	<u>44,406</u>	<u>4,486</u>	<u>103,366</u>
At 30 September 2004 (unaudited)	54,100	374	44,406	4,486	103,366
Accumulated depreciation:					
At 1 April 2004 (audited)	–	–	21,533	2,956	24,489
Provided during the period (unaudited)	659	–	2,376	249	3,284
	<u>659</u>	<u>–</u>	<u>23,909</u>	<u>3,205</u>	<u>27,773</u>
At 30 September 2004 (unaudited)	659	–	23,909	3,205	27,773
Net book value:					
At 30 September 2004 (unaudited)	53,441	374	20,497	1,281	75,593
	<u>53,441</u>	<u>374</u>	<u>20,497</u>	<u>1,281</u>	<u>75,593</u>
At 31 March 2004 (audited)	54,100	–	22,783	1,517	78,400
	<u>54,100</u>	<u>–</u>	<u>22,783</u>	<u>1,517</u>	<u>78,400</u>

As at 30 September 2004, certain medium term leasehold land and buildings outside Hong Kong with an aggregate carrying value of HK\$43,722,000 (31 March 2004: HK\$44,261,000), plant and machinery with an aggregate carrying value of HK\$17,864,000 (31 March 2004: HK\$19,856,000), and certain motor vehicles with an aggregate carrying value of HK\$197,000 (31 March 2004: HK\$233,000) were pledged to secure bank and other loans granted to the Group as set out in note 13 below.

9. Trade receivables

Trade receivables, which generally have credit terms of 30 to 90 days, are recognized and carried at the original invoice amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's trade receivables as at 30 September 2004, based on the invoice date, is as follows:

	30 September 2004 (unaudited) HK\$'000	31 March 2004 (audited) HK\$'000
0-90 days	9,270	6,842
91-180 days	2,298	2,830
181-365 days	1,218	3,147
over 365 days	1,495	1,390
	<hr/> 14,281 <hr/>	<hr/> 14,209 <hr/>

10. Trade creditors and bills payable

An aged analysis of the Group's trade creditors and bills payable as at 30 September 2004, based on the date of the receipt of goods, is as follows:

	30 September 2004 (unaudited) HK\$'000	31 March 2004 (audited) HK\$'000
0-90 days	6,196	13,524
91-180 days	4,220	3,064
181-365 days	2,117	1,119
over 365 days	891	765
	<hr/> 13,424 <hr/>	<hr/> 18,472 <hr/>

11. Share capital

	30 September 2004 (unaudited) HK\$'000	31 March 2004 (audited) HK\$'000
<i>Authorised:</i> 10,000,000,000 ordinary shares of HK\$0.01 each	<hr/> 100,000 <hr/>	<hr/> 100,000 <hr/>
<i>Issued and fully paid:</i> 576,000,000 ordinary shares of HK\$0.01 each	<hr/> 5,760 <hr/>	<hr/> 5,760 <hr/>

12. Due to a director

As at 30 September 2004 and 31 March 2004, the amounts due to a director are interest-free and unsecured. Except for an amount of HK\$24,169,000 which the director has undertaken not to demand repayment before December 2005, the remaining amount due to a director as at 30 September 2004 has no fixed terms of repayment. Except for an amount of HK\$12,910,000 which the director has undertaken not to demand repayment before September 2005, the remaining amount due to a director as at 31 March 2004 has no fixed terms of repayment.

13. Interest-bearing bank and other loans

	30 September 2004 (unaudited) HK\$'000	31 March 2004 (audited) HK\$'000
Secured bank loans	40,106	45,924
Secured trust receipt loans	-	170
Secured other loans	-	374
	40,106	46,468
Secured bank loans repayable:		
Within one year	40,106	45,924
In the second year	-	-
	40,106	45,924
Secured trust receipt loans repayable within one year	-	170
Secured other loans repayable within one year	-	374
	40,106	46,468
Portion classified as current liabilities	(40,106)	(46,468)
Long term portion	-	-

At 30 September 2004, the Group's interest-bearing bank loan was secured by the following:

- (a) first legal charges over certain medium term leasehold land and buildings of the Group with an aggregate net book value of HK\$43,722,000 (31 March 2004: HK\$44,261,000);
- (b) the pledge of certain plant and machinery, motor vehicles with an aggregate net book value of HK\$18,061,000 (31 March 2004: HK\$20,089,000);
- (c) the pledge of the Group's time deposits amounting to HK\$1,210,000 (31 March 2004: HK\$1,210,000);

- (d) corporate guarantee executed by an independent third party; and
- (e) personal guarantee executed by a director of the Company.

14. Related party transactions

In addition to those transactions and balance disclosed elsewhere in the condensed financial statements, the Group had the following transactions with related parties during the period:

	For the six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Rental expenses paid to Prosperity Materials (International) Limited ("PMIL") (Note)	8	45
Rental expenses paid to Cheong Sing Merchandise Agency Limited ("CMAL") (Note)	37	–
Advances from Mr. Wong	11,259	5,453

Note:

The rental expenses paid to PMIL and CMAL during the six months ended 30 September 2004 and 2003 were calculated with reference to open market rental values as determined by the directors. Mr. Wong and Madam Hon Ching Fong are also directors of and have beneficial interests in PMIL and CMAL.

15. Operating lease arrangements

The Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for term of two years.

At 30 September 2004, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2004 (unaudited) HK\$'000	As at 31 March 2004 (audited) HK\$'000
Within one year	90	90
In the second to fifth years, inclusive	45	–
	135	90

16. Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 September 2004 and 31 March 2004.

At 30 September 2004, the Company had provided corporate guarantees to banks for banking facilities amounting to HK\$6,898,000 granted to certain its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$292,500 as at balance sheet date (31 March 2004: HK\$1,385,000).

17. Commitments

In addition to the operating lease commitments detailed in note 15 above, as at 30 September 2004, the Group did not have any significant commitments (31 March 2004: HK\$82,000).

INTERIM DIVIDEND

The Board of the Company has not declared an interim dividend for the six months ended 30 September 2004 (six months ended 30 September 2003: Nil).

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

The Group generally finances its operations and settles its debts with cash generated from its operations, banking facilities provided by its principal bankers and the interest-free and non-secured financial support provided by Mr. Wong Ben Koon, chairman and a major shareholder of the Company. As at 30 September 2004, the Group had cash of approximately HK\$2 million and bank borrowings of approximately HK\$40 million. Taking into consideration the continuing support from Mr. Wong and our major bankers, the Directors believe that the Group has adequate financial resources to meet its ongoing operations.

The Group's gearing ratio measured in terms of total borrowings divided by total assets, was 52.7% as at 30 September 2004 (31 March 2004: 47.7%). The increase was mainly due to the additional financial support granted by Mr. Wong during the period.

FOREIGN EXCHANGE

During the period under review, the Group used the internally generated funds, bank loans and loans from Mr. Wong 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 six months ended 30 September 2004, the Group made no significant investments or acquisitions or disposals of subsidiaries.

HUMAN RESOURCES

As at 30 September 2004, the Group had a total of 298 staff of which 286 are based in Mainland China and 12 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. With the view to retaining certain important employees who will continue to make valuable contribution to the Group, share options to subscribe for shares of the Company in accordance with the share option scheme adopted on 25 August 2003 may be granted.

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

During the six months ended 30 September 2004, the Group recorded a turnover of approximately HK\$32,966,000, representing a slight decrease of approximately 1.6% as compared with the same period last year. The Group recorded a gross profit of approximately HK\$4,022,000 as compared to a gross loss of HK\$1,625,000 for the same period last year. Net loss attributable to shareholders of the Company for the Relevant Period was approximately HK\$3,246,000, a significant improvement by approximately 66.0% as compared to HK\$9,553,000 for the same period last year.

The improvement in the Group's gross margin was mainly due to (i) the Group's focus on higher-end products which generated higher gross margin; (ii) substantial reduction in the production and sales of low-end products which did not generate gross profit in the same period last year; (iii) tighter control over the consumption of raw materials and coal; and (iv) improvement in production formula which reduced the usage of chemical raw materials.

As a result of tighter control over existing resources, administrative expenses incurred during the Relevant Period decreased by approximately 22.0% as compared with the same period last year.

As more resources are required to strengthen the sales team and network for further development of business opportunities, selling and distribution cost incurred during the Relevant Period increased by approximately 72.7% 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 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 continue to 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 the Company's shareholders.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30 September 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 director	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")	–	319,176,000	319,176,000	55.41
Madam Hon Ching Fong ("Madam Hon")	–	319,176,000	319,176,000	55.41
Mr. Ng Hon Fai ("Mr. Ng")	–	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 Board 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 respectively 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

At 30 September 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:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
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:

- 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 at the annual general meeting of the Company held on 25 August 2003, under which it may grant options to full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries to subscribe for shares in the Company. The share option scheme became effective on 25 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Other details of the share option scheme are disclosed in the Group's annual financial statements for the year ended 31 March 2004.

At the Company's annual general meeting held on 30 July 2004, the Board of the Company were authorized to grant a share option under the Company's share option scheme to certain executive directors. The details of the share options are as follows:

Name of director	Date of grant	Number of share options					Outstanding as at 30 September 2004	Option period	Subscription price per share HK\$
		Outstanding as at 1 April 2004	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding			
Mr. Choi Yat Choi	30/7/2004	-	24,000,000	-	-	24,000,000	9/8/2004 – 27/6/2014	0.023	
Mr. Kong Siu Keung	30/7/2004	-	24,000,000	-	-	24,000,000	9/8/2004 – 27/6/2014	0.023	

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

Except as disclosed above, as of the date of this report, no share option has been granted by the Company pursuant to the Company's share option scheme.

Save as disclosed above, 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 director 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 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 three members, Mr. Mo Kwok Choi, Mr. Yuen Kim Hung, Michael and Mr. Yung Ho, all being independent non-executive directors of the Company, with written terms of reference complying with Rules 5.23 to 5.25 of the Listing Rules. Mr. Yung Ho was appointed as an independent non-executive director and an audit committee member of the Company with effect from 21 September 2004. 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 and six months ended 30 September 2004 and two meetings have been held during the Relevant Period.

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

Hong Kong, 10 November 2004

The Directors of the Company 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
Mr. Yung Ho