

THIRD QUARTERLY 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 (collectively the "Group") for the nine months ended 31 December 2004 (the "Relevant Period") are summarized as follows:

- Consolidated turnover for the Relevant Period was approximately HK\$50,712,000, representing a slight decrease of 3.0% as compared with the same period last year.
- Net loss from ordinary activities attributable to shareholders for the Relevant Period was approximately HK\$9,028,000, representing an improvement by 58.0%, as compared with the same period last year.
- The board of Directors of the Company (the "Board") does not recommend the payment of any dividend for the Relevant Period.

The unaudited consolidated results for the nine months ended 31 December 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 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 to target 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.

During the period, the Group continued to reduce production cost by improving production formula and efficiency. Faced with competition and high fuel cost, the Group will continue to strengthen its marketing strategy and cost control system so as to improve its current performance.

UNAUDITED QUARTERLY RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and nine months ended 31 December 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	17,746	18,789	50,712	52,298
Cost of sales		(20,042)	(26,276)	(48,986)	(61,410)
Gross profit/(loss)		(2,296)	(7,487)	1,726	(9,112)
Other revenue and gains		153	9	266	120
Selling and distribution costs		(706)	(779)	(2,021)	(1,540)
Administrative expenses		(2,410)	(3,279)	(7,262)	(9,501)
LOSS FROM OPERATING ACTIVITIES		(5,259)	(11,536)	(7,291)	(20,033)
Finance costs		(1,101)	(886)	(2,664)	(2,830)
LOSS BEFORE TAX		(6,360)	(12,422)	(9,955)	(22,863)
Tax	3	-	-	-	-
LOSS BEFORE MINORITY INTERESTS		(6,360)	(12,422)	(9,955)	(22,863)
Minority interests		578	452	927	1,340
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(5,782)	(11,970)	(9,028)	(21,523)
Loss per share	4				
- Basic		HK1.00 cents	HK2.08 cents	HK1.57 cents	HK4.21 cents
- Diluted		N/A	N/A	N/A	N/A

Notes:

1. Basis of preparation and principal accounting policies

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong 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 unaudited consolidated results 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. Tax

Hong Kong profits 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 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 nine months ended 31 December 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 months and nine months ended 31 December 2004 of approximately HK\$5,782,000 and HK\$9,028,000 (three months and nine months ended 31 December 2003: approximately HK\$11,970,000 and HK\$21,523,000) and the weighted average of 576,000,000 (nine months ended 31 December 2003: 576,000,000) ordinary shares in issue during the Relevant Period.

Diluted loss per share for the nine months ended 31 December 2004 and 2003 have not been calculated as no diluting events existed during the periods.

5. Movement of reserves (Unaudited)

	Share premium account	Contributed surplus	Goodwill reserve	Asset revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	10,400	14,878	(1,522)	22,228	(8,728)	37,256
Net loss for the period	-	-	-	-	(9,553)	(9,553)
At 30 September 2003 and 1 October 2003	10,400	14,878	(1,522)	22,228	(18,281)	27,703
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>22,228</u>	<u>(30,251)</u>	<u>19,529</u>
At 1 April 2004	14,196	14,878	(1,522)	23,632	(38,061)	13,123
Net loss for the period	-	-	-	-	(3,246)	(3,246)
At 30 September 2004 and 1 October 2004	14,196	14,878	(1,522)	23,632	(41,307)	9,877
Net loss for the period	-	-	-	-	(5,782)	(5,782)
At 31 December 2004	<u>14,196</u>	<u>14,878</u>	<u>(1,522)</u>	<u>23,632</u>	<u>(47,089)</u>	<u>4,095</u>

INTERIM DIVIDEND

The Board has not declared an interim dividend for the nine months ended 31 December 2004 (nine months ended 31 December 2003: Nil).

FINANCIAL PERFORMANCE

During the nine months ended 31 December 2004, the Group recorded a turnover of approximately HK\$50,712,000, representing a slight decrease of approximately 3.0% as compared with the same period last year. The Group recorded a gross profit of approximately HK\$1,726,000 as compared to a gross loss of HK\$9,112,000 for the same period last year. Net loss attributable to shareholders of the Company for the Relevant Period was approximately HK\$9,028,000, an improvement by approximately 58.0% as compared to HK\$21,523,000 for the same period last year.

Compared with the nine months ended 31 December 2003, 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 of low-end products which avoided the intense price competition with domestic small-scale manufacturers in other provinces to the PRC; (iii) tight control over the consumption of raw materials and coal; and (iv) improvement in the production formula which reduced the usage of chemical raw materials.

Due to the unexpected drop in temperature in the Northern and Southern parts of the PRC, many property construction projects failed to be carried out in the third quarter. On the other hand, the United States raised the rate of tariff imposed on furnitures imported from the PRC. As a result, the demand and the average selling price of the Group's products dropped in that period. The Group therefore experienced a gross loss of HK\$2,296,000 in the third quarter.

As a result of tighter control over existing resources, administrative expenses incurred during the Relevant Period decreased by approximately 23.5% 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 31.2% as compared with the same period last year.

FUTURE PROSPECTS

The Group's success in becoming one of the largest decorative sheet manufacturers in the PRC 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.

Given the current competitive market environment of laminates manufacturing industry in the PRC, the Group is seeking other business opportunities in order to strengthen its cashflow position and to create value to the Company's shareholders. Currently, the Group is in the process of completing a feasibility study on the opportunity of developing general trading business between the PRC and overseas countries.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 December 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
	Through controlled corporation	Total	
Mr. Wong Ben Koon ("Mr. Wong") (Note 1 & 2)	319,176,000	319,176,000	55.41
Madam Hon Ching Fong ("Madam Hon") (Note 1)	319,176,000	319,176,000	55.41
Mr. Ng Hon Fai ("Mr. Ng") (Note 1)	319,176,000	319,176,000	55.41

Notes:

- 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.
- On 11 January 2005, Mr. Wong subscribed for 130,000,000 shares of the Company pursuant to the capitalization of loan agreement dated 18 November 2004 entered into among the Company, Mr. Wong and Xingda Decorative Sheets Company Limited, a wholly-owned subsidiary of the Company. As a result of the subscription, Mr. Wong's interest in the issued share capital of the Company increased to 63.62% and the interest of Madam Hon and Mr. Ng was reduced to 45.21% respectively.

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 at 31 December 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	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Well Success	(1&4)	Directly beneficially owned	319,176,000	55.41
Advance Success	(2&4)	Through Well Success	319,176,000	55.41
Lamex Investment Limited ("Lamex")	(3&4)	Directly beneficially owned	76,920,000	13.35
Mr. Lam Ching Wah	(3&4)	Through a controlled corporation	76,920,000	13.35
Mr. Lam Andy Siu Wing	(3&4)	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.
- 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.
- 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.
- On 11 January 2005, Mr. Wong subscribed for 130,000,000 shares of the Company pursuant to the capitalization of loan agreement dated 18 November 2004 entered into among the Company, Mr. Wong and Xingda Decorative Sheets Company Limited, a wholly-owned subsidiary of the Company. As a result of the subscription, the interest of Well Success and Advance Success in the issued share capital of the Company was reduced to 45.21% respectively. The interest of Mr. Lam Ching Wah and Mr. Lam Andy Siu Wing in the issued share capital of the Company was reduced to 10.90% respectively.

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.

At the Company's Annual General Meeting held on 30 July 2004, the Directors 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	Outstanding as at 1 April 2004	Granted during the period	Exercised during the period	Number of share options		Option period	Subscription price per share HK\$
					Cancelled/ lapsed during the period	Outstanding as at 31 December 2004		
Mr. Choi Yat Choy ("Mr. Choi")	30/7/2004	-	24,000,000	-	-	24,000,000	9/8/2004- 27/6/2014	0.023
Mr. Kong Siu Keung ("Mr. Kong")	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 announcement, no share option has been exercised by the above directors to subscribe for shares in the Company.

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

None of the Directors 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's listed securities during the Relevant Period.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE LISTING RULES

In the opinions of the Board, 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 5.28 to 5.33 of the GEM 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 nine months ended 31 December 2004 and three 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, 4 February 2005

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

Mr. Yung Ho