



Prosperity International Holdings (H.K.) Limited

昌興國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)



First Quarterly Report

06



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This report, for which the directors of Prosperity International Holdings (H.K.) Limited 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 Prosperity International Holdings (H.K.) Limited. The directors of Prosperity International Holdings (H.K.) Limited, 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 and business highlights of Prosperity International Holdings (H.K.) Limited (the "Company") and its subsidiaries (collectively, the "Group") for the three months ended 30 June 2005 (the "Relevant Period") are summarised as follows:

- The unaudited consolidated turnover for the Relevant Period was approximately HK\$24.9 million, representing an increase of 70.3% as compared with the same period last year;
- Net loss from ordinary activities attributable to shareholders for the Relevant Period was approximately HK\$1.9 million, representing a decrease of 46.7% as compared with the same period last year;
- In view of the difficult business environment of decorative sheet business, the Group diversified its business scope and commenced the trading of cement clinker in June 2005; and
- The profit generated from the trading of cement clinker in June 2005 amounted to HK\$742,000.

The unaudited consolidated results of the Group for the three months ended 30 June 2005 and comparisons with the results for the same period last year are set out in the accompanying table.

BUSINESS REVIEW

The Company has been listed on the GEM of the Stock Exchange for over four years. With over ten years of experience in the manufacture and sale of decorative sheets, the Company, despite strong competition both at home and abroad, has maintained as one of the largest decorative sheet manufacturers in Mainland China for the past several years by adopting modern enterprise management model with marketing focus on both high-end and low-end products.

However, faced with the intense competition in the industry, the Group unavoidably reduced the selling prices of its products. As further affected by the environment of high fuel cost and the recent focus of the macro-economic austerity measures on property market in Mainland China, the decorative sheet business of the Group recorded a net loss of approximately HK\$2.1 million for the Relevant Period. In order to minimise the impact of the business of decorative sheets to the overall financial performance, the Group will continue to design its marketing strategy carefully and tighten its cost control measures.

In order to improve the overall profitability and financial performance, the Group has diversified its scope of business from the manufacture and sale of decorative sheets to include the trading of cement clinker since June 2005. According to the Group's research on market demand for cement clinker in Taiwan and certain South East Asian countries and the Group's experienced management team in trading construction materials in the region, the Group found that there was a strong demand for cement clinker, particularly in Taiwan. After a comprehensive feasibility study on the business opportunity of exporting cement clinker from Mainland China to Taiwan and certain South East Asian countries, the Group concluded that the profit margin of this potential business is promising. Accordingly, the Group has commenced the trading of cement clinker since June 2005. To minimise any business risk to the Group, a purchase order is placed to a supplier only after receiving a sales contract from such customer. The Group purchased and sold approximately 31,300 metric tons of cement clinker in June 2005 and recorded a net profit of approximately HK\$742,000. This performance is considered to be satisfactory. The Group decided to place more resources on developing this promising business and providing related logistics and value-added services. Having secured contracts with customers in Taiwan, the Group placed orders to purchase approximately 75,000 metric tons of cement clinker from a supplier in Mainland China in July 2005.

The Group has in the past three years weathered the austerity measures in Mainland China. Under the current difficult business environment, the Group finds it unrealistic to turn around the performance of its decorative sheet business in the foreseeable future. Given our knowledge on the cement clinker industry in certain overseas markets and the recent satisfactory performance of cement clinker trading business, the Group is strongly confident that this business will become a major profit-generating business segment of the Group in the near future.

UNAUDITED QUARTERLY RESULTS

The directors of the Company (the "Directors") are pleased to announce the unaudited consolidated results of the Group for the three months ended 30 June 2005 together with the comparative figures for the same period last year as follows:

		For the three months ended 30 June	
	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
TURNOVER	2	24,852	14,590
Cost of sales		(23,637)	(14,575)
Gross profit		1,215	15
Other revenue		49	33
Selling and distribution costs		(422)	(375)
Administrative expenses		(2,324)	(2,740)
LOSS FROM OPERATING ACTIVITIES		(1,482)	(3,067)
Finance costs		(672)	(806)
LOSS BEFORE TAX		(2,154)	(3,873)
Tax	3	-	-
LOSS BEFORE MINORITY INTERESTS		(2,154)	(3,873)
Minority interests		272	343
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,882)	(3,530)
LOSS PER SHARE	4		
– Basic		HK0.23 cents	HK0.61 cents
– Diluted		N/A	N/A

UNAUDITED QUARTERLY RESULTS *(continued)*

Notes:

1. Basis of preparation

The unaudited consolidated results of the Group 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 Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standard ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which are generally effective for accounting periods beginning on or after 1 January 2005.

For the three months ended 30 June 2005, the adoption of the HKFRS and HKAS has no material impact on the results of the Group.

2. Turnover

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

3. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the three months ended 30 June 2005 (three months ended 30 June 2004: Nil). 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 2005, the tax rate applicable to a subsidiary established and operating in Mainland China is 24% (three months ended 30 June 2004: 24%). No provision for corporate income tax has been made for the period as this subsidiary did not generate any assessable profits arising in Mainland China during the period (three months ended 30 June 2004: Nil).

4. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the three months ended 30 June 2005 of approximately HK\$1.9 million (three months ended 30 June 2004: approximately HK\$3.5 million) and the weighted average of 821,200,000 (three months ended 30 June 2004: 576,000,000) ordinary shares in issue during the period.

Diluted loss per share amount for the three months ended 30 June 2005 has not been disclosed because the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

Diluted loss per share amount for the three months ended 30 June 2004 has not been disclosed because no diluting event existed during the prior period.

UNAUDITED QUARTERLY RESULTS (continued)

Notes:

5. Movement of reserves (Unaudited)

	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>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>
At 1 April 2005	20,696	14,878	–	11,281	(73,015)	(26,160)
Premium arising from placing of new shares, net of issuing expenses	2,504	–	–	–	–	2,504
Goodwill arising from acquisition of a subsidiary	–	–	(88)	–	–	(88)
Net loss for the period	–	–	–	–	(1,882)	(1,882)
At 30 June 2005	<u>23,200</u>	<u>14,878</u>	<u>(88)</u>	<u>11,281</u>	<u>(74,897)</u>	<u>(25,626)</u>

DIVIDENDS

The Directors do not recommend payment of dividends for the three months ended 30 June 2005 (three months ended 30 June 2004: Nil).

FINANCIAL PERFORMANCE

During the Relevant Period, the Group recorded a turnover of approximately HK\$24.9 million, representing an increase of approximately 70.3% as compared with the same period last year. The Group recorded a gross profit of approximately HK\$1.2 million as compared to a gross profit of approximately HK\$15,000 for the same period last year. Net loss attributable to shareholders of the Company for the Relevant Period amounted to approximately HK\$1.9 million, representing an improvement by approximately 46.7% as compared with the same period last year.

FINANCIAL PERFORMANCE *(continued)*

During the Relevant Period, the Group has two major business segments: (i) manufacture and sale of decorative sheets and (ii) trading of cement clinker which commenced in June 2005. To better reflect the performance of the Group's activities, the business segment turnover and results are analysed as follows:

	For the three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Business Segment Turnover		
Manufacture and sale of decorative sheets	16,591	14,590
Trading of cement clinker	8,261	—
	24,852	14,590
	For the three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Business Segment Results		
Loss from manufacture and sale of decorative sheets	(1,725)	(2,682)
Profit from trading of cement clinker	742	—
	(983)	(2,682)
Unallocated corporate expenses	(499)	(385)
Loss from operating activities	(1,482)	(3,067)
Finance costs	(672)	(806)
Loss before taxation	(2,154)	(3,873)
Tax	—	—
Loss before minority interests	(2,154)	(3,873)
Minority interests	272	343
Net loss from ordinary activities attributable to shareholders	(1,882)	(3,530)

FINANCIAL PERFORMANCE *(continued)*

During the Relevant Period, the loss attributable to the manufacture and sale of decorative sheets before deduction of finance costs and minority interests was reduced by 35.7% to HK\$1,725,000, as compared with the same period last year. The decrease was mainly due to the improvement in products mix and the tightened measures taken to control production efficiency and various production overheads during the period.

In order to improve the overall financial performance, the Group commenced the business of trading cement clinker in June 2005. The Group purchased and sold approximately 31,300 metric tons of cement clinker in June 2005 and recorded a turnover of approximately HK\$8.3 million and a net profit of approximately HK\$742,000 during the month. The gross margin is approximately 9.0%.

During the Relevant Period, the Group placed more resources on establishing good corporate governance practices and procedures. The corporate expenses therefore increased by 29.6% to approximately HK\$499,000 as compared with the same period last year.

Finance costs decreased by 16.6% as compared with the same period last year because the Group repaid a total amount of bank loans of approximately HK\$5 million in June 2004.

Since there was a new business of trading cement clinker during the Relevant Period, the selling and distribution costs increased by 12.5% to approximately HK\$422,000 as compared with the same period last year.

FUTURE PROSPECTS

In view of the current difficult market environment of decorative sheet industry in Mainland China, the Group has been seeking other business opportunities to strengthen its cashflow position and create value to its shareholders. After thorough consideration, the Group has commenced the business of trading cement clinker since June 2005. Leveraging on the Group's experienced management team in trading construction materials between Mainland China and overseas countries, the management is strongly confident in this new business operation and expects that it will generate positive financial results to the Group and bring fruitful rewards to the Company's shareholders in coming years.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 30 June 2005, the interests and short positions of the Directors in the shares and underlying shares 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 "GEM 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 (Note 2)			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Mr. Wong Ben Koon ("Mr. Wong") (Note 1)	130,000,000	319,176,000	449,176,000	54.70%
Madam Hon Ching Fong ("Madam Hon") (Note 1)	–	319,176,000	319,176,000	38.87%
Mr. Ng Hon Fai ("Mr. Ng") (Note 1)	–	319,176,000	319,176,000	38.87%

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 22.05% by Mr. Wong, 19.55% by Mr. Ng and 58.4% by Advance Success Limited ("Advance Success"). Advance Success is equally owned by Mr. Wong and Madam Hon.
- On 28 July 2005, the shareholders of the Company passed the ordinary resolution of consolidating every 10 issued and unissued shares of HK\$0.01 each in the capital of the Company into 1 consolidated share of HK\$0.1 each (the "Consolidated Share").

At the Company's annual general meeting held on 30 July 2004, the board of directors of the Company were authorised 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 (or 2,400,000 Consolidated Shares) of the Company, representing approximately 4.17% of the issued share capital of the Company as at 30 July 2004, at the exercise price of HK\$0.023 per share (or HK\$0.23 per Consolidated 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 exercised 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long position in ordinary shares of associated companies:

Name of director	Name of associated corporation	Relationship with the company	Shares	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
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, as at 30 June 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures 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 GEM Listing Rules.

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 (the "Share Option Scheme"), 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. The Share Option Scheme became effective on 25 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

On 30 July 2004, the Company has approved the granting of options to subscribe for shares under the Share Option Scheme to certain executive directors, the details of which are as follows:

Name of director	Date of grant and acceptance	Number of share options				Outstanding as at 30 June 2005	Option period	Subscription price per share HK\$
		Outstanding as at 1 April 2005	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period			
Mr. Choi Yat Choy ("Mr. Choi")	9/8/2004	24,000,000	-	-	-	24,000,000	9/8/2004- 27/6/2014	0.023
Mr. Kong Siu Keung ("Mr. Kong")	9/8/2004	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. Mr. Choi resigned as executive director of the Company with effect from 1 August 2005 and was employed as a business development manager of the Company with effect from the same date.

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 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.

The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. On 28 July 2005, the shareholders of the Company passed the ordinary resolution of consolidating every 10 issued and unissued shares of HK\$0.01 each in the capital of the Company into 1 consolidated share of HK\$0.1 each. The total number of share options granted above was adjusted into 4,800,000 and the subscription price per share was adjusted into HK\$0.23 accordingly.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

As at 30 June 2005, options granted by the Company and outstanding as at 30 June 2005 were disclosed under the heading "Directors' rights to acquire shares or debentures" above. At the Company's annual general meeting held on 28 July 2005, the shareholders of the Company passed the ordinary resolution to grant an option to Mr. Tok Beng Tiong ("Mr. Tok") to subscribe for 30,000,000 shares (or 3,000,000 Consolidated Shares) of the Company, representing approximately 3.65% of the issued share capital of the Company as at 28 July 2005, at an exercise price of HK\$0.034 per share (or HK\$0.34 per Consolidated Share). Mr. Tok is the general manager of Prosperity Cement (Asia) Limited, a wholly-owned subsidiary of the Company. The options granted to Mr. Tok 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 2005. The Company has given an offer letter to Mr. Tok on 28 July 2005 in respect of the offer of the option, and Mr. Tok accepted the offer on 8 August 2005.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

With a view to improving the profitability and financial performance, the Group diversified its scope of business and commenced the trading of cement clinker in June 2005. It is the business plan of the Group to sell cement clinker purchased from manufacturers in Mainland China to Taiwan and certain South East Asian countries.

Mr. Wong and Madam Hon, are directors of and have beneficial interests in Prosperity Materials (International) Limited ("PMIL"). PMIL holds 25% interest in Yingde Dragon Mountain Cement Co., Ltd ("Yingde Cement") which is a Sino-foreign equity joint venture established in Mainland China in November 2004. Mr. Wong is a director of Yingde Cement. Yingde Cement is engaged in the manufacture, warehouse and sale of cement and cement clinker. Mr. Wong and Madam Hon confirmed that, up to the date of this report, all the products of Yingde Cement were sold in domestic market in Mainland China without any export to overseas countries.

In view of the completely different target markets between the Group and Yingde Cement, the Directors consider that there is no direct or indirect competition in business between the Group and Yingde Cement during the period under review and up to the date of this report.

During the period under review and up to the date of this report, the Group did not have any transactions with Yingde Cement.

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

As of 30 June 2005, 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 (Note d)	Percentage of the Company's issued share capital
Mr. Wong Ben Koon		Directly beneficially owned	130,000,000	15.83%
Well Success	(a)	Directly beneficially owned	319,176,000	38.87%
Advance Success	(b)	Through Well Success	319,176,000	38.87%
Lamex Investment Limited ("Lamex")	(c)	Directly beneficially owned	76,920,000	9.37%
Mr. Lam Ching Wah	(c)	Interest of controlled corporation	76,920,000	9.37%
Mr. Lam Andy Siu Wing	(c)	Interest of controlled corporation	76,920,000	9.37%

Notes:

- The entire issued share capital of Well Success is beneficially owned as to 22.05% (represented by 2,205 shares of US\$1 each) by Mr. Wong, as to 19.55% (represented by 1,955 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 "Directors' 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 28 July 2005, the shareholders of the Company passed the ordinary resolution of consolidating every 10 issued and unissued shares of HK\$0.01 each in the capital of the Company into 1 consolidated share of HK\$0.1 each.

Save as disclosed above, as at 30 June 2005, 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 or any of its associated corporations that was required to be recorded pursuant to Section 336 of the SFO.

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 period.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 5.28 of the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The audit committee has reviewed the Group's unaudited results for the Relevant Period and convened one meeting during the period.

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

Hong Kong, 11 August 2005

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. Kong Siu Keung

Independent Non-Executive Directors

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