



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)



Interim Report

06



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors (the “Directors”) of Prosperity International Holdings (H.K.) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2005 (the “Relevant Period”) are summarised as follows:

- The unaudited consolidated turnover for the Relevant Period was approximately HK\$77.2 million, representing an increase of 57.3% as compared with the same period last year;
- Loss for the Relevant Period was approximately HK\$2.8 million, representing an improvement by 19.4% 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;
- The turnover and profit generated from the trading of cement clinker for the period from June to September 2005 amounted to approximately HK\$46.9 million and HK\$2.6 million, respectively.

The unaudited consolidated results of the Group for the three months and six months ended 30 September 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 loss of approximately HK\$3.1 million for the Relevant Period, representing an increase by 69% as compared with the same period last year. To minimise the impact of the business of decorative sheets to the overall financial performance, the Group continued to design its marketing strategy carefully and tighten its cost control measures during the period.

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 in the region, 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 173,000 metric tons of cement clinker for the period from June to September 2005 and recorded a turnover and profit of approximately HK\$46.9 million and HK\$2.6 million, respectively. In view of this satisfactory result, the Group decided to place more resources on developing this promising business and related logistics and value-added services.

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 CONSOLIDATED INTERIM RESULTS

The directors of the Company (the "Directors") are pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30 September 2005, together with the comparative unaudited consolidated figures for the corresponding periods in 2004, as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the three months ended 30 September		For the six months end 30 September	
		(Unaudited) 2005 HK\$'000	(Restated) 2004 HK\$'000	(Unaudited) 2005 HK\$'000	(Restated) 2004 HK\$'000
TURNOVER	2	52,322	18,375	77,174	32,966
Cost of sales		(46,650)	(14,368)	(70,581)	(28,944)
Gross profit		5,672	4,007	6,593	4,022
Other revenue and gains		15	80	45	113
Selling and distribution costs		(551)	(939)	(974)	(1,314)
Administrative expenses		(3,183)	(1,932)	(5,294)	(4,672)
Other operating expenses		(935)	-	(935)	-
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	1,018	1,216	(565)	(1,851)
Finance costs	5	(1,009)	(758)	(1,678)	(1,563)
PROFIT/(LOSS) BEFORE TAX		9	458	(2,243)	(3,414)
Tax	6	(510)	-	(510)	-
PROFIT/(LOSS) FOR THE PERIOD		(501)	458	(2,753)	(3,414)
Attributable to:					
Equity holders of the parent		(501)	442	(2,753)	(3,087)
Minority interest		-	16	-	(327)
		(501)	458	(2,753)	(3,414)
Earnings/(Loss) per share attributable to the equity holders of the parent during the period	7	HK(0.6) cents	HK0.8 cents	HK(3.4) cents	HK(5.4) cents
- Basic		HK(0.6) cents	HK0.8 cents	HK(3.4) cents	HK(5.4) cents
- Diluted		N/A	N/A	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Restated) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	31,650	36,542
Lease premium for land	9	10,340	10,460
		41,990	47,002
CURRENT ASSETS			
Lease premium for land	9	240	240
Inventories		16,363	14,024
Trade and bills receivables	10	8,667	6,865
Prepayments, deposits and other receivables		3,770	4,733
Cash and bank balances	11	4,204	1,540
Pledged bank deposits	11	935	-
		34,179	27,402
CURRENT LIABILITIES			
Trade creditors and bills payables	12	21,417	17,196
Tax payable		10,614	10,104
Accrued liabilities and other payables		12,378	13,768
Due to a director	13	24,902	-
Interest-bearing bank and other loans	14	34,239	40,000
		103,550	81,068
NET CURRENT LIABILITIES		(69,371)	(53,666)
TOTAL ASSETS LESS CURRENT LIABILITIES		(27,381)	(6,664)
NON-CURRENT LIABILITIES			
Due to a director	13	-	18,436
Deferred tax liabilities		27	817
		27	19,253
		(27,408)	(25,917)
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued capital	15	8,212	7,060
Reserves		(35,620)	(32,977)
		(27,408)	(25,917)
Minority interest		-	-
		(27,408)	(25,917)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

Movements in the shareholders' equity of the Group for the Relevant Period are as follows:

	Attributable to equity holders of the parent									
	Share			Goodwill reserve	Asset revaluation reserve	Employee share-based compen- sation reserve	Retained profits/ (accumu- lated losses)	Total	Minority interest	Total
	Issued capital	premium account	Contributed surplus							
At 1 April 2004 (Audited)	5,760	14,196	14,878	(1,522)	23,632	-	(38,061)	18,883	3,112	21,995
Prior year adjustments:										
HKAS 17	-	-	-	-	(14,140)	-	2,760	(11,380)	(1,261)	(12,641)
HKFRS 2	-	-	-	-	-	-	-	-	-	-
Balance as at 1 April 2004 restated	5,760	14,196	14,878	(1,522)	9,492	-	(35,301)	7,503	1,851	9,354
Net loss for the period	-	-	-	-	-	-	(3,087)	(3,087)	(327)	(3,414)
At 30 September 2004 (Unaudited)	<u>5,760</u>	<u>14,196</u>	<u>14,878</u>	<u>(1,522)</u>	<u>9,492</u>	<u>-</u>	<u>(38,388)</u>	<u>4,416</u>	<u>1,524</u>	<u>5,940</u>
At 1 April 2005 (Audited)	7,060	20,696	14,878	-	11,281	-	(73,015)	(19,100)	-	(19,100)
Prior year adjustments:										
HKAS 17	-	-	-	-	(8,051)	-	1,234	(6,817)	-	(6,817)
HKFRS 2	-	-	-	-	-	141	(141)	-	-	-
Balance as at 1 April 2005 restated	7,060	20,696	14,878	-	3,230	141	(71,922)	(25,917)	-	(25,917)
Issue of shares	1,152	2,650	-	-	-	-	-	3,802	-	3,802
Share issue expenses	-	(146)	-	-	-	-	-	(146)	-	(146)
Employee share option benefits	-	-	-	-	-	109	-	109	-	109
Revaluation deficit	-	-	-	-	(2,503)	-	-	(2,503)	-	(2,503)
Net loss for the period	-	-	-	-	-	-	(2,753)	(2,753)	-	(2,753)
At 30 September 2005 (Unaudited)	<u>8,212</u>	<u>23,200</u>	<u>14,878</u>	<u>-</u>	<u>727</u>	<u>250</u>	<u>(74,675)</u>	<u>(27,408)</u>	<u>-</u>	<u>(27,408)</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 30 September

	2005 HK\$'000	2004 HK\$'000
Net cash inflow/(outflow) from operating activities	172	(4,634)
Net cash outflow from investing activities	(1,188)	(477)
Net cash inflow from financing activities	3,680	4,559
Increase/(decrease) in cash and cash equivalents	2,664	(552)
Cash and cash equivalents at beginning of the period	1,540	2,539
Cash and cash equivalents at end of the period	4,204	1,987
Analysis of balances of cash and cash equivalents		
Cash and bank balances	4,204	1,987

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. Basis of preparation and significant accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes - Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 32, 33, 36, 37, 38, 39, 40, HKFRS 3, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) *HKAS 17 - Leases*

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interest in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

1. Basis of preparation and significant accounting policies (continued)

(a) HKAS 17 - Leases (continued)

With the adoption of HKAS 17 retrospectively, the consolidated net loss for each of the six months ended 30 September 2004 and 2005 have been adjusted downward by HK\$193,000 and HK\$326,000 respectively. The accumulated loss as at 1 April 2004 and 2005 have been adjusted downward by HK\$2,760,000 and HK\$1,234,000 respectively.

(b) HKFRS 2 - Share-based Payments

The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. The principal impact of HKFRS 2 on Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised.

With the adoption of HKFRS 2 retrospectively, the consolidated net loss for each of the six months the period ended 30 September 2004 and 2005 have been adjusted upward by HK\$34,000 and HK\$109,000 respectively. The accumulated loss as at 1 April 2004 and 2005 have been adjusted upward by Nil and HK\$141,000 respectively.

2. Turnover, other revenue and gains

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of the Group's turnover, other revenue and gains is as follows:

	For the six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover		
Sale of goods	77,174	32,966
Other revenue		
Interest income	5	1
Others	-	112
	5	113
Gains		
Exchange gain/(loss), net	(7)	49
Other revenue and gains	(2)	162

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

3. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

For the six months ended 30 September 2004, the Group's sole business during the period is the manufacture and sale of decorative sheets.

During the six months ended 30 September 2005, the Group's principal activities comprised the manufacture and sale of decorative sheets and trading of cement clinker. The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) The decorative sheets segment engaged in manufacture and sale of decorative sheets.
- (b) The cement clinker segment engaged in trading of cement clinker.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. The revenues attributable to the decorative sheets segment and cement clinker segment are located in Mainland China and Taiwan, respectively.

The following table present revenue and results information of the Group's business segments for the six months ended 30 September 2005.

	For the six months ended 30 September			2004
	2005	(Unaudited)		(Unaudited)
	Decorative sheets	Cement clinker	Total	Decorative sheets
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:				
Sales to external customers	30,269	46,905	77,174	32,966
Other revenue and gains	45	—	45	—
Total	<u>30,314</u>	<u>46,905</u>	<u>77,219</u>	<u>32,966</u>
Segment results	<u>(3,128)</u>	<u>2,563</u>	(565)	(1,851)
Finance costs			(1,678)	(1,563)
Loss before tax			(2,243)	(3,414)
Tax			(510)	—
Loss for the period			<u>(2,753)</u>	<u>(3,414)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

4. Profit/(Loss) from operating activities

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

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Restated) HK\$'000
Amortisation of lease premium for land	120	120
Cost of inventories sold	66,322	24,310
Depreciation	2,093	2,419
Minimum lease payments under operating lease in respect of land and buildings	45	45
Auditors' remuneration	1,000	-
Staff costs (including directors' remuneration)		
Wages and salaries	2,317	2,342
Employee share option benefits*	109	35
Retirement benefits scheme contributions	129	130
	2,555	2,507
Exchange loss/(gain), net	7	(49)

* Employee share option benefits represent fair value of the share options at grant dates of options issued under the share option scheme amortised to the profit and loss account during the period disregarding whether the options have been vested/exercised or not.

5. Finance costs

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	1,585	1,559
Other loans	81	-
Trust receipt loans	12	1
Finance lease payables	-	3
	1,678	1,563

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

6. Tax

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Current – Hong Kong	510	–
Current – Elsewhere	–	–
Total tax charge for the period	510	–

Hong Kong profits tax has been provided at the rate 17.5% for the six months ended 30 September 2005 on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made for the six months ended 30 September 2004 as the Group did not generate any assessable profits arising in Hong Kong during the period. 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.

During the periods, the tax rate applicable to a subsidiary established and operating in Mainland China is 24%. No provision for corporate income tax has been made for the six months ended 30 September 2004 and 2005 as the subsidiary did not generate any assessable profits arising in Mainland China during the periods.

7. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share is based on the loss attributable to equity holders of the parent for the three months ended 30 September 2005 of approximately HK\$501,000 and HK\$2,753,000 for the six months ended 30 September 2005 (three months and six months ended 30 September 2004: profit of approximately HK\$442,000 and loss of HK\$3,087,000, respectively) and the weighted average of 82,120,000 ordinary shares in issue for the three months ended 30 September 2005 and 81,614,000 ordinary shares in issue for the six months ended 30 September 2005 (three months and six months ended 30 September 2004: 57,600,000). The number of shares have been adjusted to reflect the share consolidation detailed in note 15 below.

Diluted earnings/(loss) per share amounts for six months ended 30 September 2004 and 2005 have not been disclosed because the share options outstanding during the respective period had an anti-dilutive effect on the basic loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

8. Property, plant and equipment

	Medium term leasehold buildings outside Hong Kong HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 April 2005 (Audited)	36,400	44,592	4,649	794	86,435
Prior year adjustment: HKAS 17	(20,000)	-	-	-	(20,000)
Balance as at 1 April 2005 restated	16,400	44,592	4,649	794	66,435
Additions (Unaudited)	-	467	8	19	494
Transfer from CIP to FA	-	813	-	(813)	-
Revaluation	(3,433)	-	-	-	(3,433)
At 30 September 2005 (Unaudited)	12,967	45,872	4,657	-	63,496
Accumulated depreciation and impairment:					
At 1 April 2005 (Audited)	-	26,594	3,299	-	29,893
Provided during the period (Unaudited)	140	1,696	257	-	2,093
Written back on revaluation	(140)	-	-	-	(140)
At 30 September 2005 (Unaudited)	-	28,290	3,556	-	31,846
Net book value:					
At 31 March 2005 (Restated)	16,400	17,998	1,350	794	36,542
At 30 September 2005 (Unaudited)	12,967	17,582	1,101	-	31,650

All of the Group's buildings were revalued by independent professional qualified valuers at 31 March 2005 and 31 July 2005 at HK\$16,400,000 and HK\$12,967,000, respectively, on open market value, comparison approach basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

8. Property, plants and equipment (continued)

As at 30 September 2005, certain building of the Group with an aggregate carrying value of HK\$10,633,000 (31 March 2005: HK\$13,448,000), certain plant and machinery with an aggregate carrying value of HK\$15,341,000 (31 March 2005: HK\$15,685,000), and certain motor vehicles with an aggregate carrying value of HK\$76,500 (31 March 2005: HK\$129,000) were pledged to secure bank and other loans granted to the Group.

9. Lease premium for land

	<i>HK\$'000</i>
Cost:	
At 1 April 2005 (Audited)	–
Prior year adjustment: HKAS17	12,000
	<hr/>
At 1 April 2005 (Restated) and at 30 September 2005 (Unaudited)	12,000
Accumulated amortisation:	
At 1 April 2005 (Audited)	–
Prior year adjustment: HKAS17	1,300
	<hr/>
At 1 April 2005 (Restated)	1,300
Amortisation for the period	120
	<hr/>
At 30 September 2005 (Unaudited)	1,420
	<hr/>
Net book value:	
At 1 April 2005 (Restated)	10,700
Portion classified as current assets	(240)
	<hr/>
Long term portion	10,460
	<hr/>
At 30 September 2005 (Unaudited)	10,580
Portion classified as current assets	(240)
	<hr/>
Long term portion	10,340
	<hr/>

The leasehold land of the Group as at 31 March 2005 and 30 September 2005 is located outside Hong Kong and is held under medium term leases.

At 31 March 2005 and 30 September 2005, all land use rights were pledged to secure bank loans granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

10. Trade and bills receivables

The Group's trading terms with its decorative sheet customers are mainly on credit, except for new customers where payment in advance is normally required. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

For cement clinker trading business, the Group receives from each customer an irrevocable documentary credit issued at sight by a bank undertaking payment to the Group upon the presentation of relevant documents as required by the issuing bank.

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the invoice date, and net of provisions, is as follows:

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
0-90 days	7,872	6,540
91-180 days	425	269
181-365 days	370	56
Over 365 days	—	—
	8,667	6,865

11. Cash and bank balances and pledged bank deposits

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Cash and bank balances	4,204	1,540
Time deposits	935	—
	5,139	1,540
Less: Time deposit pledged for short term bank loans	(935)	—
	4,204	1,540

At 31 March 2005 and 30 September 2005, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK\$1,497,000 and HK\$1,656,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

12. Trade creditors and bills payables

An aged analysis of the Group's trade creditors and bills payables as at 30 September 2005, based on the date of the receipt of goods, is as follows:

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
0-90 days	7,071	5,050
Over 90 days	14,346	12,146
	21,417	17,196

13. Due to a director

At 30 September 2005 and 31 March 2005, the amount due to a director is unsecured and interest-free, and the director has undertaken not to demand repayment before 1 September 2006.

14. Interest-bearing bank and other loans

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Secured bank loans	32,744	38,505
Secured other loans	187	187
Unsecured other loans	1,308	1,308
	34,239	40,000
Secured bank loans repayable:		
Within one year	32,744	38,505
In the second year	-	-
	32,744	38,505
Other loans repayable within one year	1,495	1,495
	34,239	40,000
Portion classified as current liabilities	(34,239)	(40,000)
Long term portion	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

14. Interest-bearing bank and other loans (continued)

At 30 September 2005, the Group's interest-bearing bank and other loans were secured by the following:

- (a) first legal charges over certain medium term lease premium for the land and buildings of the Group with an aggregate net book value of HK\$20,973,000 (31 March 2005: HK\$24,148,000);
- (b) the pledge of certain plant and machinery and motor vehicles with an aggregate net book value of HK\$15,417,000 (31 March 2005: HK\$15,814,000); and
- (c) the pledge of time deposits of HK\$935,000 (31 March 2005: Nil).

As at 31 March 2005 and 30 September 2005, the Group's bank loan facilities were secured by a corporate guarantee executed by a related company in which Mr. Wong, a director of the Company, is a director of the related company.

As at 30 September 2005, the Group's bank loans bear interest at rates ranging from 6.903% to 6.975% (31 March 2005: from 6.638% to 7.169%) per annum.

As at 30 September 2005, the Group's other loans bear interest at rates ranging from 6% to 12% (31 March 2005: from 6% to 12%) per annum and are repayable within one year.

Of the total bank loans, HK\$3,024,000 was overdue as at 30 September 2005. The Group is currently in discussion with the relevant bank to refinance this overdue balance. The Group is confident that the refinancing will be successful.

Of the total other loans, HK\$0.2 million was overdue as at 30 September 2005. The remaining balance of HK\$1.3 million was rescheduled with repayment due date extended to 30 June 2006 onwards.

15. Share capital

Shares

Authorised:

1,000,000,000 ordinary shares of HK\$0.1 each
(31 March 2005: 10,000,000,000 ordinary shares
of HK\$0.01 each)

Issued and fully paid:

82,120,000 ordinary shares of HK\$0.1 each
(31 March 2005: 706,000,000 ordinary shares
of HK\$0.01 each)

30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
100,000	100,000
8,212	7,060

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 September 2005

15. Share capital (continued)

- (i) On 7 April 2005, the Company and Oriental Patron Asia Limited entered into a placing agreement in respect of the placement of 115,200,000 shares of HK\$0.01 each issued to independent investors at a price of HK\$0.033 per share. The placement was completed on 7 April 2005 and the premium on the issue of shares, amounting to HK\$2,504,000, net of share issue expenses, was credited to the Company's share premium account.
- (ii) Pursuant to an ordinary resolution passed on 28 July 2005, every ten shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.1 each in the issued and unissued share capital of the Company.

16. Related party transaction

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

		For the six months ended 30 September	
	Note	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Rental expenses paid to Prosperity Materials (International) Limited ("PMIL")	(a)	—	8
Rental expenses paid to Cheong Sing Merchandise Agency Limited ("CMAL")	(a)	45	37

Note:

- (a) The rental expenses paid to PMIL and CMAL during the six months ended 30 September 2005 and 2004 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.

17. Operating lease arrangements

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

At 30 September 2005, the Company and the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
Within one year	53	90

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 September 2005

18. Contingent liabilities

As at 30 September 2005, the Company provided corporate guarantees to a bank for banking facilities of HK\$11,700,000 granted to a subsidiary, which were utilised to the extent of approximately HK\$8,206,000. As at 31 March 2005, the Company did not have any significant contingent liability.

19. Commitments

In addition to the operating lease commitment detailed in note 17 above, the Group had contracted, but not provided for commitments in respect of acquisitions of plant and machinery that amounted to HK\$433,000 as at 31 March 2005. The Group did not have significant commitment as at 30 September 2005.

INTERIM DIVIDEND

The board of directors of the Company has not declared an interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: 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 2005, the Group had cash of approximately HK\$4.2 million and bank borrowings of approximately HK\$32.7 million. 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 77.6% as at 30 September 2005 (31 March 2005: 78.5%).

CAPITAL STRUCTURE

On 7 April 2005, the Company and Oriental Patron Asia Limited entered into a placing agreement in respect of the placement of 115,200,000 shares of HK\$0.01 each issued to independent investors at a price of HK\$0.033 per share. The net proceeds of approximately HK\$3.6 million was applied for general working capital purpose.

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, HK\$ or US\$. The Group does not currently engage in hedging and 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 INVESTMENT AND ACQUISITION

During the six months ended 30 September 2005, the Group has no significant investment and acquisition activities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2005, the Group had a total of 372 staff of which 361 are based in Mainland China and 11 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 new 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 Relevant Period, the Group recorded a turnover of approximately HK\$77.2 million, representing an increase of approximately 57.3% as compared with the same period last year. The Group recorded a gross profit of approximately HK\$6.6 million, representing an increase of approximately 64% as compared with the same period last year. Loss attributable to equity holders of the parent of the Company for the Relevant Period amounted to approximately HK\$2.8 million, representing an improvement by approximately 10.8% as compared with the same period last year.

FINANCIAL PERFORMANCE *(continued)*

The substantial improvement in the financial performance of the Group during the Relevant Period was attributed to the turnover and profit contributed by a new business commenced 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 173,000 metric tons of cement clinker during the period from June to September 2005 and recorded a turnover of approximately HK\$46.9 million and a profit of approximately HK\$2.6 million during the period. The gross margin of cement clinker for the period was approximately 5.5%.

The loss attributable to the manufacture and sale of decorative sheets for the Relevant Period amounted to approximately HK\$3.1 million, representing an increase by 69% as compared with the same period last year. The deteriorating result was mainly due to intense competition in the decorative sheet industry in Mainland China, which resulted in a continuing decline in the market price of major products of the Group during the period.

As the business environment of decorative sheet industry is deteriorating, the Company reduced resources placed on market development of this business. The selling and distribution costs were therefore reduced by 26% during the Relevant Period.

The increase in administrative expenses during the Relevant Period was attributable to the additional human resources required to establish good corporate governance practices and to support the new business of cement clinker commenced in June 2005.

Other operating expenses represented a general provision for doubtful debts during the Relevant Period.

Taxation for the Relevant Period represented the Hong Kong profit tax provided for the estimated assessable profits of certain cement clinker trading activities conducted in Hong Kong.

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 September 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 <i>(Note 2)</i>			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Mr. Wong Ben Koon ("Mr. Wong")	14,944,000	31,917,600 <i>(Note 1)</i>	46,861,600	57.06%
Madam Hon Ching Fong ("Madam Hon")	–	31,917,600 <i>(Note 1)</i>	31,917,600	38.87%
Mr. Ng Hon Fai ("Mr. Ng")	280,000	31,917,600 <i>(Note 1)</i>	32,197,600	39.21%

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 22.05% by Mr. Wong, 19.55% by Mr. Ng and 58.40% by Advance Success Limited ("Advance Success"). Advance Success is equally owned by Mr. Wong and Madam Hon. Mr. Wong is the sole director of Advance Success.
- 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 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. 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.

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 corporations	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 September 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.

DIRECTOR'S 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.

DIRECTOR'S 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 Mr. Kong Siu Keung, the details of which are as follows:

Name of director	Date of grant and accepted	Number of share options					Outstanding as at 30 September 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	Outstanding as at 30 September 2005			
Mr. Kong Siu Keung ("Mr. Kong")	9/8/2004	2,400,000	-	-	-	2,400,000	9/8/2004- 27/6/2014	0.23	

The options granted to 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 director 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 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 number of share options granted above had been adjusted into 2,400,000 Consolidated Shares and the subscription price was adjusted into HK\$0.23 per Consolidated Share accordingly.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

Date of grant	Number of share options					Outstanding as at 30 September 2005	Option period	Subscription price per share HK\$
	Outstanding as at 1 April 2005	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
30/7/2004	4,800,000*	-	-	-	-	4,800,000	9/8/2004 to 27/6/2014	0.23
28/7/2005	-	3,000,000*	-	-	-	3,000,000	8/8/2005 to 26/6/2015	0.34
						7,800,000		

* The number was adjusted assuming the aforesaid share consolidation became effective.

DETAILS OF OPTIONS GRANTED BY THE COMPANY *(continued)*

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 announcement, 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 announcement.

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

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

As of 30 September 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	14,944,000	18.19%
Well Success	(a)	Directly beneficially owned	31,917,600	38.87%
Advance Success	(b)	Through Well Success	31,917,600	38.87%
Lamex Investment Limited ("Lamex")	(c)	Directly beneficially owned	7,692,000	9.37%
Mr. Lam Ching Wah	(c)	Interest of controlled corporation	7,692,000	9.37%
Mr. Lam Andy Siu Wing	(c)	Interest of controlled corporation	7,692,000	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 58.40% (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. Mr. Wong is the sole director of Advance Success. 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 September 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.

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 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.

CORPORATE GOVERNANCE

In the opinion of the directors, during the Relevant Period, the Company complied with the code on corporate governance practices (the "Code") as set out in the Appendix 15 to the GEM Listing Rules except the following:

- (a) The chairman and members of the audit committee were unable to attend the annual general meeting of the Company held 28 July 2005 because they were out of Hong Kong at that time for their personal business commitment or had urgent personal commitment. This constitutes a deviation from the first sentence of the code provision E.1.2 of the Code; and
- (b) There is a deviation from code provision A.2.1 in respect of the requirement for the segregation of the roles of the chairman and chief executive officer ("CEO"). Code provision A.2.1 provides that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. The Company did not have a CEO during the period. The functions of an CEO have been instead carried out by the executive directors, including Mr. Wong, the Chairman of the Company, who have different expertise in managing the business and other matters of the Group. The board of directors of the Company will review the current organisation structure from time to time and make appropriate changes when necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the accounting period covered by the interim report.

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 interim report for the six months ended 30 September 2005.

APPRECIATION

The Board would like to express its sincere appreciation to its bankers, suppliers, customers and shareholders for their continued support to the Group. The Board also wishes to thank the Group's management and staff for achieving major progress in the Group's business and their dedication and commitment for improving the Group's financial performance.

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

Hong Kong, 11 November 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