



**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)*



Third Quarterly 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 nine months ended 31 December 2005 (the “Relevant Period”) are summarised as follows:

- The unaudited consolidated turnover for the Relevant Period was approximately HK\$145.6 million, representing a significant increase of 187% as compared with the same period last year;
- Loss for the Relevant Period was approximately HK\$1.4 million, representing an improvement by 85.8% as compared with the same period last year;
- The Group recorded a profit of approximately HK\$1.7 million for the three months ended 31 December 2005;
- 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 and other building materials for the Relevant Period amounted to approximately HK\$103.7 million and HK\$7.7 million, respectively.

The unaudited consolidated results of the Group for the three months and nine months ended 31 December 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\$6.2 million for the Relevant Period. 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 380,000 metric tons of cement clinker for the period from June to December 2005. The business segment of trading cement clinker and other building materials recorded a turnover and profit of approximately HK\$103.7 million and HK\$7.7 million, respectively. In view of this satisfactory result, the board of directors of the Company (the "Board") 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. The Board believes that the business environment of decorative sheet industry would remain very difficult in the coming years and it would be unrealistic to expect that the performance of the decorative sheet business could be turned around in the foreseeable future. In view of the above, the Group decided to rationalise its business through a proposal as further detailed in the heading "Very Substantial Disposal, Loan Capitalisation and Capital Reduction" below. Upon the successful completion of the proposal in January 2006, the Group ceased to be engaged in the manufacture and sale of decorative sheets and commenced to concentrate its resources on the business of trading cement clinker and other building materials. Given our knowledge on the cement clinker industry in overseas markets and the recent satisfactory performance of cement clinker trading business, the Group is strongly confident that this business will contribute a steady profit and strong cashflow to the Group in coming years.

## UNAUDITED CONSOLIDATED RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and nine months ended 31 December 2005, together with the comparative unaudited consolidated figures for the corresponding periods in 2004, as follows:

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		(Unaudited) 2005 HK\$'000	(Restated) 2004 HK\$'000	(Unaudited) 2005 HK\$'000	(Restated) 2004 HK\$'000
<b>TURNOVER</b>	2	<b>68,415</b>	17,746	<b>145,589</b>	50,712
Cost of sales		<b>(61,614)</b>	(20,042)	<b>(132,195)</b>	(48,986)
Gross profit		<b>6,801</b>	(2,296)	<b>13,394</b>	1,726
Other revenue and gains		<b>46</b>	153	<b>91</b>	266
Selling and distribution costs		<b>(349)</b>	(706)	<b>(1,322)</b>	(2,021)
Administrative expenses		<b>(4,088)</b>	(2,356)	<b>(9,727)</b>	(7,027)
Other operating expenses		<b>-</b>	-	<b>(935)</b>	-
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>		<b>2,410</b>	(5,205)	<b>1,501</b>	(7,056)
Finance costs		<b>(690)</b>	(1,101)	<b>(2,367)</b>	(2,664)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>1,720</b>	(6,306)	<b>(866)</b>	(9,720)
Tax	5	<b>-</b>	-	<b>(510)</b>	-
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>1,720</b>	(6,306)	<b>(1,376)</b>	(9,720)
<b>Attributable to:</b>					
Equity holders of the parent		<b>1,720</b>	(5,739)	<b>(1,376)</b>	(8,826)
Minority interest		<b>-</b>	(567)	<b>-</b>	(894)
		<b>1,720</b>	(6,306)	<b>(1,376)</b>	(9,720)
Earnings/(Loss) per share attributable to the equity holders of the parent during the period	6				
- Basic		<b>HK2.1 cents</b>	HK(10.0) cents	<b>HK(1.7) cents</b>	HK(15.3) cents
- Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## NOTES TO THE UNAUDITED CONSOLIDATED RESULTS

### 1. Basis of preparation and significant accounting policies

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 Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (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 and basis of preparation adopted in the preparation of the consolidated results 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 consolidated results. 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 UNAUDITED CONSOLIDATED RESULTS *(continued)*

### 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 nine months ended 31 December 2004 and 2005 have been adjusted downward by approximately HK\$290,000 and HK\$490,000 respectively. The accumulated loss as at 1 April 2004 and 2005 have been adjusted downward by approximately 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 nine months the period ended 31 December 2004 and 2005 have been adjusted upward by approximately HK\$88,000 and HK\$164,000 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:

	<b>For the nine months ended 31 December</b>	
	<b>2005 HK\$'000 (Unaudited)</b>	2004 HK\$'000 (Unaudited)
<b>Turnover</b>		
Sale of goods	<b>145,589</b>	50,712
<b>Other revenue</b>		
Interest income	<b>6</b>	3
Others	<b>85</b>	262
	<b>91</b>	265
<b>Gains</b>		
Exchange gain/(loss), net	<b>(29)</b>	50
<b>Other revenue and gains</b>	<b>62</b>	315

## NOTES TO THE UNAUDITED CONSOLIDATED RESULTS *(continued)*

### 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 nine months ended 31 December 2004, the Group's sole business during the period is the manufacture and sale of decorative sheets.

During the nine months ended 31 December 2005, the Group's principal activities comprised the manufacture and sale of decorative sheets and trading of cement clinker and other building materials. 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 and other building materials segment engaged in trading of cement clinker and other building materials.

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 and other building materials segment are primarily located in Mainland China and Taiwan, respectively.

The following table presents revenue and results information of the Group's business segments for the nine months ended 31 December 2005.

	<b>For the nine months ended 31 December</b>			<b>2004</b>
	<b>2005</b>			<b>(Restated)</b>
	<b>(Unaudited)</b>			
	<b>Cement</b>			
	<b>clinker</b>			
	<b>and other</b>			
	<b>building</b>			
	<b>materials</b>			
	<b>Total</b>			
	<b>Decorative</b>	<b>Decorative</b>	<b>Decorative</b>	<b>Decorative</b>
	<b>sheets</b>	<b>sheets</b>	<b>sheets</b>	<b>sheets</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:				
Sales to external customers	41,896	103,693	145,589	50,712
Other revenue and gains	91	–	91	265
	<u>41,987</u>	<u>103,693</u>	<u>145,680</u>	<u>50,977</u>
Total				
Segment results	<u>(6,179)</u>	<u>7,680</u>	1,501	(7,056)
Finance costs			(2,367)	(2,664)
Loss before tax			(866)	(9,720)
Tax			(510)	–
Loss for the period			<u>(1,376)</u>	<u>(9,720)</u>



## NOTES TO THE UNAUDITED CONSOLIDATED RESULTS *(continued)*

### 4. Staff costs (including directors' remuneration)

Staff costs which include salaries, bonuses, share-based payment and retirement benefit scheme contribution for the three months and nine months ended 31 December 2005 amounted to HK\$1,422,000 (2004: HK\$1,159,000) and HK\$3,977,000 (2004: HK\$3,666,000) respectively.

### 5. Tax

	<b>For the nine months ended 31 December</b>	
	<b>2005 (Unaudited) HK\$'000</b>	2004 (Unaudited) HK\$'000
Current – Hong Kong	510	–
Current – Elsewhere	–	–
	<hr/>	<hr/>
Total tax charge for the period	<b>510</b>	–
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

Hong Kong profits tax has been provided at the rate 17.5% for the six months ended 31 December 2005 on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made for the nine months ended 31 December 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 nine months ended 31 December 2004 and 2005 as the subsidiary did not generate any assessable profits arising in Mainland China during the periods.

### 6. Earnings/(Loss) per share

The calculation of basic earnings/loss per share is based on the profit attributable to equity holders of the parent for the three months ended 31 December 2005 of approximately HK\$1,720,000 and the loss attributable to equity holders of the parent of approximately HK\$1,376,000 for the nine months ended 31 December 2005 (three months and nine months ended 31 December 2004: loss attributable to equity holders of the parent of approximately HK\$5,739,000 and HK\$8,826,000 respectively) and the weighted average of 82,120,000 ordinary shares in issue for the three months ended 31 December 2005 and 81,783,650 ordinary shares in issue for the nine months ended 31 December 2005 (three months and nine months ended 31 December 2004: 57,600,000). 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 "Share Consolidation"). The number of shares adopted for calculation above have been adjusted to reflect the Share Consolidation.

Diluted earnings/loss per share amounts for nine months ended 31 December 2004 and 2005 have not been disclosed because the share options outstanding during the respective period had an anti-dilutive effect on the basic earnings/loss per share.

## NOTES TO THE UNAUDITED CONSOLIDATED RESULTS (continued)

### 7. Movement of reserves

	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>	Employee share-based compensation reserve <i>HK\$'000</i>	Retained profits/ accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004 (Audited)	14,196	14,878	(1,522)	23,632	-	(38,061)	13,123
Prior year adjustments:							
HKAS 17	-	-	-	(14,140)	-	2,760	(11,380)
HKFRS 2	-	-	-	-	-	-	-
Balance as at 1 April 2004 restated	14,196	14,878	(1,522)	9,492	-	(35,301)	1,743
Net loss for the period	-	-	-	-	-	(3,087)	(3,087)
As 30 September 2004 and 1 October 2004	14,196	14,878	(1,522)	9,492	-	(38,388)	(1,344)
Employee share option benefits	-	-	-	-	88	-	88
Net loss for the period	-	-	-	-	-	(5,739)	(5,739)
At 31 December 2004 (Unaudited)	<u>14,196</u>	<u>14,878</u>	<u>(1,522)</u>	<u>9,492</u>	<u>88</u>	<u>(44,127)</u>	<u>(6,995)</u>
At 1 April 2005 (Audited)							
Prior year adjustments	20,696	14,878	-	11,281	-	(73,015)	(26,160)
HKAS 17	-	-	-	(8,051)	-	1,234	(6,817)
HKFRS 2	-	-	-	-	141	(141)	-
Balance as at 1 April 2005 restated	20,696	14,878	-	3,230	141	(71,922)	(32,977)
Issue of shares	2,650	-	-	-	-	-	2,650
Share issue expenses	(146)	-	-	-	-	-	(146)
Employee share option benefits	-	-	-	-	109	-	109
Revaluation deficit	-	-	-	(2,503)	-	-	(2,503)
Net loss for the period	-	-	-	-	-	(2,753)	(2,753)
At 30 September 2005 and 1 October 2005 (Unaudited)	23,200	14,878	-	727	250	(74,675)	(35,620)
Employee share option benefits	-	-	-	-	55	-	55
Net profit for the period	-	-	-	-	-	1,720	1,720
At 31 December 2005 (Unaudited)	<u>23,200</u>	<u>14,878</u>	<u>-</u>	<u>727</u>	<u>305</u>	<u>(72,955)</u>	<u>(33,845)</u>

## **INTERIM DIVIDEND**

The Directors has not declared a dividend for the nine months ended 31 December 2005 (nine months ended 31 December 2004: Nil).

## **FINANCIAL PERFORMANCE**

During the Relevant Period, the Group recorded a turnover of approximately HK\$145.6 million, representing a significant increase of approximately 187% as compared with the same period last year. The Group recorded a gross profit of approximately HK\$13.4 million, representing an increase of approximately 676% 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\$1.4 million, representing an improvement by approximately 84% as compared with the same period last year.

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 380,000 metric tons of cement clinker during the period from June to December 2005. The business segment of trading cement clinker and other building materials recorded a turnover of approximately HK\$103.7 million and a profit of approximately HK\$7.7 million during the Relevant Period. The gross margin of cement clinker and other building materials for the period was approximately 8.7%.

The loss attributable to the manufacture and sale of decorative sheets for the Relevant Period amounted to approximately HK\$6.2 million. The continuing loss was mainly due to the intense competition in the decorative sheet industry in Mainland China, which resulted in a 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 approximately 35% 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 in relation to decorating sheets business 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.

## **VERY SUBSTANTIAL DISPOSAL, LOAN CAPITALISATION AND CAPITAL REDUCTION**

On 5 December 2005, the Company announced a proposal (the “Proposal”) to rationalise the Group’s business and to restructure the capital of the Company in order to eliminate the consolidated net deficiency of the Group so that it could concentrate its resources on the business of trading of cement clinker and other building materials. The Proposal comprised the Disposal, the Loan Capitalisation and the Capital Reduction which are defined below.

### **The Disposal**

On 23 November 2005, Profit World Ventures Limited (the “Vendor”), a direct wholly-owned subsidiary of the Company, entered into an agreement (the “Agreement”) with a purchaser (the “Purchaser”) whereby (i) the Vendor agreed to sell and the Purchaser agreed to acquire the entire issued ordinary shares (the “Sale Shares”) of Xingda Decorative Sheets Company Limited and Golden Tapestry Profits Limited, being direct wholly-owned subsidiaries of the Vendor, (together with their respective subsidiaries, the “Disposal Group”); and (ii) the Vendor agreed to sell and procure the sale of and the Purchaser agreed to acquire the loans granted by the Group excluding the Disposal Group (the “Remaining Group”) to the Disposal Group as at the completion date of the Agreement (the “Sale Loans”). The total consideration payable by the Purchaser for the acquisition of the Sale Shares and the Sale Loans (collectively, the “Disposal”) is approximately HK\$1.2 million.

For the past three financial years, the Disposal Group was principally engaged in the manufacture and sale of decorative sheets in Mainland China and the Group’s financial results and positions largely represented the Disposal Group’s performance and financial positions. Following the completion of the Disposal in mid January 2006, the companies comprising the Disposal Group ceased to be subsidiaries of the Company and the Group commenced to concentrate on the trading of cement clinker and other building materials. The Board considers that the Disposal is part of the Proposal to rationalise the Group’s business and to restructure the capital of the Company in order to eliminate the consolidated net deficiency of the Group so that the Remaining Group could concentrate its resources on the trading of cement clinker and other building materials which is profit making.

## VERY SUBSTANTIAL DISPOSAL, LOAN CAPITALISATION AND CAPITAL REDUCTION

(continued)

### Loan Capitalisation and Capital Reduction

(a) *The Loan Capitalisation Agreement*

On 23 November 2005, the Company, Prosperity Trading Limited (an indirect wholly-owned subsidiary of the Company) and Mr. Wong Ben Koon ("Mr. Wong"), an executive director and substantial shareholder of the Company, entered into an agreement, pursuant to which Mr. Wong conditionally agreed to subscribe for 63,241,106 new shares of the Company at HK\$0.3795 each in consideration for the settlement in full HK\$24 million of the loan advanced by Mr. Wong to the Group (the "Loan Capitalisation"). Following the completion of the Loan Capitalisation in mid January 2006, Mr. Wong's direct personal interest in the issued share capital of the Company increased from approximately 18.2% to approximately 53.79%. The shareholding structure of the Company before and after completion of the Loan Capitalisation is as follows:

Name of shareholders	Before completion of the Loan Capitalisation		After completion of the Loan Capitalisation	
	Number of shares	%	Number of shares	%
<b>Mr. Wong and his concert parties</b>				
Well Success Group Limited (Notes a, b)	31,917,600	38.87	31,917,600	21.96
Mr. Wong	14,944,000	18.20	78,185,106	53.79
Mr. Ng Hon Fai	280,000	0.34	280,000	0.19
	<u>47,141,600</u>	<u>57.41</u>	<u>110,382,706</u>	<u>75.94</u>
Public (Note c)	<u>34,978,400</u>	<u>42.59</u>	<u>34,978,400</u>	<u>24.06</u>
Total	<u>82,120,000</u>	<u>100.00</u>	<u>145,361,106</u>	<u>100.00</u>

Notes:

- (a) The entire issued share capital of Well Success Group Limited ("Well Success") is beneficially owned as to 22.05% by Mr. Wong, as to 19.55% by Mr. Ng Hon Fai, an executive director of the Company and as to 58.4% by Advance Success Limited ("Advance Success"). Mr. Wong is the sole director of Well Success.
- (b) The entire issued share capital of Advance Success is equally and beneficially owned by Mr. Wong and Madam Hon Ching Fong, an executive director of the Company. Mr. Wong is the sole director of Advance Success.
- (c) The shares of the Company were initially listed on the Stock Exchange in August 2001 and according to Rule 11.23(1) note 2 of the GEM Listing Rules, the minimum public float that the Company is required to maintain is 20%.

## **VERY SUBSTANTIAL DISPOSAL, LOAN CAPITALISATION AND CAPITAL REDUCTION**

*(continued)*

### **Loan Capitalisation and Capital Reduction** *(continued)*

*(a) The Loan Capitalisation Agreement (continued)*

Following the completion of the Loan Capitalisation in mid January 2006, the Group was relieved from substantially all of its debts owed to Mr. Wong and the equity base of the Company was substantially strengthened. Based on its latest unaudited management accounts, the Group was restored from a net deficiency position to a net asset position upon completion of the Disposal and the Loan Capitalisation. This provided a healthy financial condition for the Group to further develop the business of trading cement clinker and other building materials. In view of the current sales contracts on hand and the business environment of trading cement clinker, the Board believes that the Group would be able to maintain the net asset position.

*(b) Capital Reduction*

The Company carried out a capital reduction by way of cancellation of approximately HK\$34,320,000 standing to the credit of the share premium account of the Company (the "Capital Reduction") upon completion of the Loan Capitalisation in mid January 2006. Following the completion of the Loan Capitalisation, the Company issued and allotted 63,241,106 new shares to Mr. Wong in January 2006 which resulted in an additional share premium of the Company of approximately HK\$17,676,000 based on the issue price of HK\$0.3795 per new share. The share premium account of the Company was increased to approximately HK\$40,876,000 accordingly. The Company transferred the credit arising from the Capital Reduction to the contributed surplus account of the Company (the balance of which was increased from approximately HK\$38,342,000 to approximately HK\$72,662,000) and apply the entire amount of the contributed surplus to eliminate almost the entire accumulated losses of the Company. The Capital Reduction was duly completed in January 2006.

The ordinary resolutions for the Disposal and the Loan Capitalisation and the special resolution for the Capital Reduction were duly approved in the special general meeting held on 16 January 2006. Further details of the Disposal, the Loan Capitalisation and the Capital Reduction were disclosed in the circular of the Company dated 23 December 2005.

## **FUTURE PROSPECTS**

In view of the difficult market environment of decorative sheet industry in Mainland China, the Group had 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.

## **FUTURE PROSPECTS** *(continued)*

As the business environment of manufacture and sale of decorative sheets in Mainland China has been deteriorating, the Group decided to rationalise its business and to restructure the capital of the Company through the Proposal so that the Group could concentrate its resources on the business of trading of cement clinker and other building materials which are profit-making. Following the successful completion of the Proposal in January 2006, the financial position of the Group has been significantly improved and has been restored into a net asset position. In addition, the Group ceased to be engaged in the business of manufacture and sale of decorative sheets and has concentrated its resources on the business of trading cement clinker and other building materials. Given this significant improvement in financial performance and position, many reputable banks are offering banking facilities to the Group to support its further development of cement clinker trading business.

The Group is in the process of negotiating with existing customers in Taiwan in relation to their sales orders for the year ending 31 March 2007. At the same time, the Group placed more resources on the development of other overseas markets. Leveraging on the Group's experienced management team in trading building materials between Mainland China and overseas countries, the Group is confident that the business of trading cement clinker and other building materials will bring fruitful rewards to the Company's shareholders in coming years.

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

As of 31 December 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 GEM Listing Rules, were as follows:

### **Long positions in ordinary shares of the Company:**

<b>Name of director</b>	<b>Number of shares held, capacity and nature of interest</b> <i>(Note 2)</i>			<b>Percentage of the Company's issued share capital</b>
	<b>Directly beneficially owned</b>	<b>Through controlled corporation</b>	<b>Total</b>	
Mr. Wong	14,944,000	31,917,600 <i>(Note 1)</i>	46,861,600	57.07%
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%

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

Note:

1. Mr. Wong, Madam Hon and Mr. Ng are interested in the shares of the Company through their interests in Well Success, which is owned as to 22.05% by Mr. Wong, 19.55% by Mr. Ng and 58.40% by Advance Success. Advance Success is equally owned by Mr. Wong and Madam Hon. Mr. Wong is the sole director of Advance Success.
2. 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").

On 23 November 2005, the Company, Mr. Wong and Prosperity Trading Limited ("Prosperity Trading"), an indirect wholly-owned subsidiary of the Company, entered into the conditional agreement for capitalisation of loans, pursuant to which Mr. Wong has conditionally agreed to subscribe for 63,241,106 new shares of HK\$0.1 each in the share capital of the Company in consideration for the settlement of HK\$24,000,000 being part of the interest-free and unsecured loans advanced to Prosperity Trading. The resolutions approving the loan capitalisation was passed at the special general meeting held on 16 January 2006. The listing committee of the Stock Exchange has granted approval for the listing of, and permission to deal in the above new shares.

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.

### 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%



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

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 31 December 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.

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

Name of director	Date of grant and accepted	Number of share options					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	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 report, 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
	<u>4,800,000*</u>					<u>7,800,000</u>		

\* The number was adjusted assuming the Share Consolidation became effective.

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 overseas 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.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS *(continued)*

In view of the completely different target markets between the Group and Yingde Cement, the Board considers that there is no direct or indirect competition in business between the Group and Yingde Cement during the Relevant Period and up to the date of this report.

During the Relevant Period 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 31 December 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 <i>(Note d)</i>	Percentage of the Company's issued share capital
Mr. Wong		Directly beneficially owned	14,944,000	18.20%
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:

- (a) 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.
- (b) 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.

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

Notes: *(continued)*

- (c) 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.
- (d) 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 31 December 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 Relevant 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 quarterly report for the nine months ended 31 December 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, 13 February 2006

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