

2007

FIRST QUARTERLY REPORT



Prosperity International Holdings (H.K.) Limited
昌興國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 8139)

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 of 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.

FIRST QUARTERLY RESULTS FOR 2007

FINANCIAL HIGHLIGHTS

The financial highlights of the Prosperity International Holdings (H.K.) Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2006 (the “Relevant Period”) are summarized as follows:

- The unaudited consolidated turnover from continuing operation for the Relevant Period was approximately HK\$87.3 million, representing a significant increase of over 9 times as compared with the same period last year;
- The unaudited consolidated net profit for the Relevant Period was approximately HK\$5.5 million, a significant improvement from a net loss of approximately HK\$2.2 million in the same period last year;
- The loss making decorative sheet business was disposed in January 2006 and the core business for the Relevant Period was supplying of cement clinker;
- The Group successfully extended its business reach from Asia to the United States, Africa and Middle East during the Relevant Period;
- Basic earnings per share for the Relevant Period reached HK3.9 cents;
- The directors of the Company do not recommend the payment of any interim dividend for the Relevant Period.

The unaudited consolidated results of the Group for the three months ended 30 June 2006 and comparisons with the results for the same period last year are set out in the accompanying table.

BUSINESS REVIEW

Cement Clinker Business

Prior to 2005, the core business of the Group was the manufacture and sale of decorative sheets in the People’s Republic of China (the “PRC”). Due to market competition and the introduction of macro-economic austerity measures on the property market in the PRC, the decorative sheet business recorded a net loss in each of the past three financial years. With the aims of enhancing financial performance and improving overall profitability, the Group commenced the cement clinker business in June 2005.

The strong demand for cement clinker in the international export markets contributed to the leading advantage of the PRC in exporting cement clinker. Leveraging on the favorable market environment, the Group capitalized on its unrivaled expertise and experience in supplying construction materials to the region, its ability to provide comprehensive logistic support to customers, as well as its strong network in the international markets, to capture arising business opportunities in exporting cement clinker from the PRC to overseas countries.

The implementation of this business diversification strategy has been proved to be successful. This new business generated an encouraging turnover and gross profit of approximately HK\$87.3 million and HK\$6.3 million respectively for the Relevant Period, representing an increase of 934% and 590% over the same period last year.

During the Relevant Period, the Group's total sales volume of cement clinker reached approximately 349,000 metric tonnes which represented approximately 60% of the total sales volume for the year ended 31 March 2006. The Group successfully extended its business reach to the United States, Africa and Middle East. During the Relevant Period, the Group sold 151,891 metric tonnes of cement clinker to customers in the regions, representing approximately 37% of total turnover for the period. The outstanding performance strengthened the Group's confidence in the future development of the cement clinker business.

As at 30 June 2006, the Group's secured orders for cement clinker which are scheduled to be delivered during the financial year ending 31 March 2007 amounted to approximately 955,000 metric tonnes, creating an ideal platform for robust growth and future business development.

Decorative Sheet Business

During the first quarter last year, market competition for decorative sheets remained intensified, fuel costs continued to rise and the implementation of austerity measures brought forth a negative impact on the Group's profit margin. Under this difficult business environment, the Group found it unrealistic to expect a turnaround in its decorative sheet business in the foreseeable future. As a result, the Group decided to dispose of the decorative sheet business after thorough consideration of the difficult business conditions and of the operating loss incurred over the years so as to improve its overall business performance. On 23 December 2005, the Group published the circular entitled "Very Substantial Disposal, Connected Transaction of Loan Capitalization, and Capital Reduction", disclosing the details of the proposed disposal of its decorative sheet business.

In the special general meeting held on 16 January 2006, the Group successfully obtained shareholders' approval of the proposal. With the proposal completed in January 2006, the Group ceased to be engaged in the manufacture and sale of decorative sheets and concentrated its resources on developing its core cement clinker business.

UNAUDITED CONSOLIDATED RESULTS

The board of directors of the Company (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 30 June 2006, together with the comparative figures for the same period last year, as follows:

		For the three months ended 30 June	
	<i>Note</i>	2006 HK\$'000	2005 HK\$'000 (Restated)
Continuing operation			
Turnover	2	87,280	8,441
Cost of sales		(80,980)	(7,529)
Gross profit		6,300	912
Other income	3	975	19
Selling and distribution costs		(357)	–
Administrative expenses		(1,419)	(692)
Profit from operating activities		5,499	239
Finance costs		(22)	(4)
Profit before taxation		5,477	235
Taxation	4	–	–
Profit for the period from continuing operation		5,477	235
Discontinued operation			
Loss for the period from discontinued operation	5	–	(2,389)
Profit/(loss) for the period		5,477	(2,154)
Attributable to:			
Equity holders of the Company		5,477	(1,882)
Minority interest		–	(272)
		5,477	(2,154)
Earnings/(loss) per share			
From continuing and discontinued operations			
– basic	6(a)	3.9 cents	(2.3) cents
– diluted	6(a)	3.8 cents	(2.3) cents
From continuing operation			
– basic	6(b)	3.9 cents	0.3 cents
– diluted	6(b)	3.8 cents	0.3 cents

Notes:

1. Basis of preparation

The unaudited consolidated results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of the Hong Kong Limited.

The accounting policies used in preparing the unaudited consolidated results are consistent with those used in the Group's annual financial statements for the year ended 31 March 2006.

Hong Kong Financial Reporting Standard ("HKFRS") 5 Non-current Assets Held for Sales and Discontinued Operations specifies the accounting for assets held for sales, and the presentation and disclosure of discontinued operations. HKFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sales in accordance with HKFRS 5 or when the Group has disposed of the operation. HKFRS 5 is effective for operations that meet the criteria to be classified as discontinued after 1 April 2005.

The new accounting policy by the adoption of HKFRS 5 has resulted in the reclassification of the comparative information for the three months ended 30 June 2005 in conforming with current period's presentation as follows:

	As previously reported <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Continuing operation		
Turnover	24,852	8,441
Cost of sales	(23,637)	(7,529)
Gross profit	1,215	912
Other income	49	19
Selling and distribution costs	(422)	–
Administration expenses	(2,324)	(692)
Profit/(Loss) from operation	(1,482)	239
Finance costs	(672)	(4)
Profit/(Loss) before taxation	(2,154)	235
Taxation	–	–
Profit for the period from continuing operation		235
Discontinued operation		
Loss for the period from discontinued operation		(2,389)
Loss for the period	(2,154)	(2,154)

2. Turnover

The Group is principally engaged in the trading of cement clinker and other building materials in the Relevant Period. For the first quarter last year, the Group was principally engaged in the trading of cement clinker and the manufacture and sale of decorative sheets. An analysis of the Group's turnover for the Relevant Period is as follows:

	For the three months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover		
Cement clinker and other building materials	87,280	8,441
Decorative sheets	—	16,411
	<u>87,280</u>	<u>24,852</u>
Representing:		
Continuing operation	87,280	8,441
Discontinued operation	—	16,411
	<u>87,280</u>	<u>24,852</u>

3. Other Income

	For the three months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest income	63	3
Others	912	46
Total other income	<u>975</u>	<u>49</u>
Representing:		
Continuing operation	975	19
Discontinued operation	—	30
	<u>975</u>	<u>49</u>

4. Taxation

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profit for the year ended 31 March 2006. No provision for Hong Kong profits tax has been made for the three months ended 30 June 2005 and for the three months ended 30 June 2006 as the Group did not generate any assessable profits arising in Hong Kong during the periods.

Taxation charge 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, interpretation and practices in respect thereof.

For the first quarter last year, the tax rate applicable to a subsidiary established and operating in the PRC is 24%. No provision for PRC enterprise income tax has been made for the first quarter last year as the subsidiary did not generate any assessable profits arising in the PRC during the period. The subsidiary was disposed in January 2006.

5. Discontinued operation

Pursuant to an agreement dated 23 November 2005 entered into between a wholly-owned subsidiary of the Company, Profit World Ventures Limited (“Profit World”) and an independent third party (the “Purchaser”), Profit World disposed of 100% interest in two wholly-owned subsidiaries, Golden Tapestry Profits Limited (“Golden Tapestry”) and Xingda Decorative Sheets Company Limited (“Xingda”).

Golden Tapestry was dormant and Xingda held 90% interest in a sino-foreign equity joint venture, Guangzhou Xingda Decorative Sheets Co., Ltd. (“Guangzhou Xingda”). Xingda and Guangzhou Xingda were engaged in the manufacture and sale of decorative sheets before disposal. The disposal was completed on 17 January 2006.

The loss of the discontinued operation for the first quarter last year, which have been involved in the consolidated results, are analysed as follows:

	For the three months ended 30 June 2005 <i>HK\$'000</i>
Turnover	16,411
Cost of sales	(16,108)
	<hr/>
Gross profit	303
Other income	30
Selling and distribution costs	(422)
Administrative expenses	(1,632)
	<hr/>
Loss from operations	(1,721)
Finance costs	(668)
	<hr/>
Loss before taxation	(2,389)
Taxation	–
	<hr/>
Loss for the period	<u>(2,389)</u>

6. Earnings/(loss) per share

(a) From continuing and discontinued operations

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to equity holders of the Company is based on the profit for the Relevant Period attributable to equity holders of the Company of approximately HK\$5,477,000 (three months ended 30 June 2005: loss attributable to equity holders of the Company of approximately HK\$1,882,000) and the weighted average number of ordinary shares of 139,604,974 (three months ended 30 June 2005: 81,360,440, as adjusted to reflect the share consolidation of every 10 shares of HK\$0.01 each into one consolidated share of HK\$0.1 each in July 2005) in issue during the Relevant Period.

Diluted earnings/(loss) per share

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profit for the Relevant Period attributable to equity holders of the Company of approximately HK\$5,477,000 and the weighted average number of ordinary shares of 144,834,479 (three months ended 30 June 2005: 82,532,731, as adjusted to reflect the share consolidation in July 2005), being the weighted average number of ordinary shares of 139,604,974 in issue during the Relevant Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 5,299,505 (three months ended 30 June 2005: 1,172,291, as adjusted to reflect the share consolidation in July 2005) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

(b) From continuing operation

Basic earnings per share

The calculation of basic earnings per share from continuing operation attributable to equity holders of the Company is based on the profit for the Relevant Period from continuing operation attributable to equity holders of the Company of approximately HK\$5,477,000 (three months ended 30 June 2005: profit from continuing operation attributable to equity holders of the Company of approximately HK\$235,000) and the denominator used is the same as that detailed above for basic earnings/(loss) per share.

Diluted earnings per share

The calculation of diluted earnings per share from continuing operation attributable to equity holders of the Company is based on the profit for the Relevant Period from continuing operation attributable to equity holders of the Company of approximately HK\$5,477,000 (three months ended 30 June 2005: profit from continuing operation attributable to equity holders of the Company of approximately HK\$235,000) and the denominator used is the same as that detailed above for diluted earnings/(loss) per share.

(c) From discontinued operation

For the first quarter last year, basic loss per share and diluted loss per share from the discontinued operation are HK\$2.6 cents per share respectively, based on the loss for the period from discontinued operation attributable to the equity holders of the Company of approximately HK\$2,117,000 and the denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

7. Dividend

No dividend has been declared by the Board for the three months ended 30 June 2006 (three months ended 30 June 2005: Nil).

8. Movement of reserves

	Share premium account HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Share-based payments reserve HK\$'000	Accumulated profits /(losses) HK\$'000	Properties Revaluation reserve HK\$'000	Total HK\$'000
At 1 April 2005, as restated	20,696	14,878	-	141	(71,922)	3,230	(32,977)
Loss for the period	-	-	-	-	(1,882)	-	(1,882)
Issue of shares on placement	2,504	-	-	-	-	-	2,504
Goodwill arising from acquisition of a subsidiary	-	-	(88)	-	-	-	(88)
Recognition of share- based payments	-	-	-	36	(36)	-	-
At 30 June 2005	<u>23,200</u>	<u>14,878</u>	<u>(88)</u>	<u>177</u>	<u>(73,840)</u>	<u>3,230</u>	<u>(32,443)</u>
At 1 April 2006	6,468	14,878	-	365	(30,084)	-	(8,373)
Profit for the period	-	-	-	-	5,477	-	5,477
Repurchase of shares	(2,560)	-	-	-	-	-	(2,560)
Recognition of share- based payments	-	-	-	29	-	-	29
At 30 June 2006	<u>3,908</u>	<u>14,878</u>	<u>-</u>	<u>394</u>	<u>(24,607)</u>	<u>-</u>	<u>(5,427)</u>

FINANCIAL PERFORMANCE

The Group disposed of the operation of manufacture and sale of decorative sheets in January 2006 (the “Discontinued Operation”) while the remaining businesses (the “Continuing Operation”), mainly the supplying of cement clinker which was commenced in June 2005, have become the core business of the Group.

During the Relevant Period, the turnover and gross profit from the Continuing Operation amounted to approximately HK\$87.3 million and approximately HK\$6.3 million respectively, representing an increase of 934% and 590% over the same period last year.

Selling and distribution costs of the Continuing Operation for the Relevant Period represented the salaries and expenses incurred by the marketing team to secure cement clinker contracts from customers and exploring business opportunities with potential customers.

Administrative expenses of the Continuing Operation mainly included remunerations of directors, administrative personnel as well as legal and professional fees paid to external auditors and legal consultants. The increase during the Relevant Period was mainly due to the additional staff and assistance from external consultants sought to upgrade the quality of corporate governance of the Group.

Finance costs of the Continuing Operation for the Relevant Period represented the interest expenses incurred from the financing offered by principal bankers for the purchase of cement clinker.

Net profit for the Relevant Period from the Continuing Operation was approximately HK\$5.5 million, representing an increase of over 22 times as compared with the same period last year.

As shown under note 5 to the unaudited consolidated results of the Group in this report, the turnover of Discontinued Operation for the first quarter last year amounted to approximately HK\$16.4 million. Due to the difficult operating environment, the Discontinued Operation recorded a gross profit of approximately HK\$0.3 million and a net loss of approximately HK\$2.4 million for the first quarter last year.

During the Relevant Period, the Group recorded a net profit of approximately HK\$5.5 million which was contributed by the Continuing Operation. Taking into account contribution from the Continuing Operation and the loss arising from the Discontinued Operation, the Group recorded a net loss of approximately HK\$2.2 million for the first quarter last year.

FUTURE GROWTH STRATEGIES

In view of the growing market demand for cement clinker in overseas market, the Group is confident of the growth of cement clinker business in the coming years.

Looking ahead, the Group will put more efforts into cultivating the cement clinker business and has formulated a series of development strategies to propel profit growth.

The Group will continue to extend its business reach to new markets with a view to expanding its network and securing potential customers. At the same time, the Group will continue to consolidate its business foothold and expanding its client base in the current markets.

In addition, the Group will also consider further providing ancillary logistics and value-added services in order to provide more comprehensive logistic support to customers. Since transportation cost is one of the key factors affecting the profit margin of the cement clinker business, the Group is seeking several means to secure stable and long-term logistic support, so as to reduce related operating costs and minimize business risk.

Lastly, the Group will explore other sources of cement clinker supply to guarantee a stable and sufficient supply of cement clinker at competitive prices with top quality for its customers.

By leveraging on its experienced and professional management team as well as its extensive international sales network, the Group is committed to capturing the arising opportunities for expansion of sales network in the international markets, becoming one of the leading enterprises supplying cement clinker and related building materials, and generating fruitful returns to shareholders.

PURCHASE, REDEMPTION OR SALES OF LISTED SHARES OF THE COMPANY

The Company purchased and cancelled 5,944,000 shares of the Company (the “Repurchase”) during the Relevant Period. The Board considers that the Repurchase enhanced the earnings per share of the Company and benefited the Company and its shareholders as a whole. Apart from the foregoing, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the Relevant Period, respectively.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, 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 the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation		
Mr. Wong Ben Koon ("Mr. Wong")	65,185,106	31,917,600 (Note 1)	97,102,706	69.85%
Madam Hon Ching Fong ("Madam Hon")	–	31,917,600 (Note 1)	31,917,600	22.96%
Mr. Ng Hon Fai ("Mr. Ng")	–	31,917,600 (Note 1)	31,917,600	22.96%

Note:

1. Mr. Wong, Madam Hon and Mr. Ng are interested in the shares of the Company through their interests in Well Success Group Limited ("Well Success"), which is owned as to 22.05% by Mr. Wong, 19.55% by Mr. Ng and 58.4% by Advance Success Limited ("Advance Success"). Advance Success is equally owned by Mr. Wong and Madam Hon.

(b) Long positions in share options

Number of share options held by a director as at 30 June 2006:

Name	Number of options held	Number of underlying shares
Mr. Kong Siu Keung	<u>2,400,000</u>	<u>2,400,000</u>

The details of share options held by the director are disclosed in the section headed “Details of share options granted by the Company” below.

Mr. Wong has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2006, 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 the Model Code.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the options holdings disclosed above, at no time during the Relevant Period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire such rights in any other body corporate.

DETAILS OF SHARE OPTIONS GRANTED BY THE COMPANY

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company’s subsidiaries. The Scheme became effective on 25 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

At 30 June 2006, the number of shares in respect of which options had been granted under the scheme was 7,800,000 (30 June 2005: 4,800,000 as adjusted to reflect the share consolidation of every 10 shares of HK\$0.01 each into 1 consolidated share of HK\$0.1 each in July 2005).

Details of the shares options granted and outstanding during the Relevant Period are as follows:

Name or category of participant	Number of options outstanding as at 1 April 2006	Granted during the period	Number of options outstanding as at 30 June 2006	Date of grant of share options	Options period	Exercise price of share options HK\$	Price of share at date of grant of options HK\$
Director							
Mr. Kong Siu Keung	2,400,000	–	2,400,000	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
Other employees							
2004 options	2,400,000	–	2,400,000	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
2005 options	3,000,000	–	3,000,000	28 July 2005	8 August 2005 to 27 June 2015	0.34	0.34
	<u>7,800,000</u>	<u>–</u>	<u>7,800,000</u>				

At the Company's annual general meeting held on 14 August 2006, the shareholders of the Company passed the ordinary resolution to grant an option to Mr. Wong Ben Koon ("Mr. Wong") to subscribe for 6,000,000 shares of the Company at an exercise price of HK\$0.78 per share. The options granted to Mr. Wong shall not be exercised within 12 months from 28 June 2006. The options period will be from the date of acceptance of the options up to 27 June 2016. The Company has given an offer letter to Mr. Wong on 14 August 2006.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Wong and Madam Hon have beneficial interests in Prosperity Minerals Group Limited, Max Start Holdings Limited and Max Will Profits Limited (collectively, the "Relevant Companies"), respectively. Mr. Wong is also a director of Prosperity Minerals Group Limited. As at the date of this report, the Relevant Companies effectively hold approximately 39.7% interest in Yingde Dragon Mountain Cement Co., Ltd. ("Yingde Cement"), a wholly-owned foreign enterprise established in the Mainland China, and approximately 9.9% interest in Prosperity Conch Cement Company Limited ("Prosperity Conch"), a sino-foreign equity joint venture established in the Mainland China. Mr. Wong is a director of both Yingde Cement and Prosperity Conch. Yingde Cement and Prosperity Conch are both 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 and Prosperity Conch were sold in domestic market in the PRC without any export to overseas countries.

In view of the completely different target markets between the Group and Yingde Cement and Prosperity Conch, the Board considers that there is no direct or indirect competition between the Group and Yingde Cement and Prosperity Conch 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 and Prosperity Conch.

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

At 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Wong Ben Koon	<i>(a) & (b)</i>	Directly beneficially owned	65,185,106	
		Interest of controlled corporation	31,917,600	
			97,102,706	69.85%
Well Success	<i>(a)</i>	Directly beneficially owned	31,917,600	22.96%
Advance Success	<i>(b)</i>	Through Well Success	31,917,600	22.96%
Madam Hon Ching Fong	<i>(a) & (b)</i>	Interest of controlled corporation	31,917,600	22.96%

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 58.4% (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. The interests of Mr. Wong and Madam Hon in the shares of the Company are disclosed under the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares" above.

Save as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 June 2006.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

In the opinions of the directors, the Company has complied with the board practices and procedures of Rules 5.34 to 5.45 of the GEM Listing Rules throughout the Relevant Period.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Mo Kwok Choi (Chairman of the Audit Committee), Mr. Yuen Kim Hung, Michael and Mr. Yung Ho.

The main duties of the Audit Committee are to review the quarterly, half-yearly and annual financial information of the Company and oversee the Company's financial reporting system and internal control procedures.

During the Relevant Period, the Audit Committee held one meeting and reviewed the financial results and reports, financial reporting and compliance procedures and risk management review and processes. The audit committee has reviewed the Group's unaudited quarterly report for the three months ended 30 June 2006.

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

Hong Kong, 14 August 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