

# 2007

## INTERIM 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)

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

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*This report, for which the directors (the “Directors”) of the 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 Enterprises 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.*

## INTERIM 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 six months ended 30 September 2006 (the “Relevant Period”) are summarized as follows:

- The unaudited consolidated turnover from continuing operation for the Relevant Period was approximately HK\$226.8 million, representing a significant increase of approximately 3.8 times as compared with the corresponding period last year;
- The unaudited consolidated net profit for the Relevant Period was approximately HK\$11.1 million, representing a significant improvement from net a loss of HK\$2.8 million in the corresponding period last year;
- The Group’s business reaches Asia, the United States, Europe, Africa and the Middle East.
- Basic earnings per share for the Relevant Period reached HK8 cents;
- The loss making decorative sheet business was disposed in January 2006 and the core business for the Relevant Period was trading of cement clinker;
- 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 six months ended 30 September 2006 and comparisons with the results for the corresponding 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 the severe 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\$226.8 million and HK\$12.8 million respectively for the Relevant Period, representing an increase of 376% and 172% over the corresponding period last year.

During the Relevant Period, the Group's total sales volume of cement clinker reached approximately 815,928 metric tons which exceeded the total sales volume for the year ended 31 March 2006 by approximately 41%. The Group successfully extended its business reach to the United States, Europe, Africa and the Middle East. During the Relevant Period, the Group sold 403,352 metric tons of cement clinker to customers in the above mentioned regions, representing approximately 49% of total turnover for the Relevant Period. The outstanding performance strengthened the Group's confidence in the future development of the cement clinker business.

As at 30 September 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 675,677 metric tons, laying a solid platform for robust growth and future business development.

### **Operation of Public Port and Other Related Facilities Business**

On 11th October, 2006, Prosperity Trading Limited (the "Prosperity Trading"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Anhui Conch Venture Investment Company Limited (the "JV Partner"), for the establishment of a joint venture company. Pursuant to the joint venture agreement, the joint venture company will be principally engaged in the operation of a public port and other related facilities; provision of warehousing services; and production and sales of slag powder in Jiangdou City, Jiangsu Province, the PRC.

The joint venture company will be owned as to 25% by Prosperity Trading and as to 75% by the JV Partner upon establishment. The registered capital of the joint venture company will be RMB100 million (equivalent to approximately HK\$96.2 million) which shall be contributed by Prosperity Trading and the JV Partner in proportion to their respective equity interests in the joint venture company, that are RMB25 million (equivalent to approximately HK\$24.0 million) from Prosperity Trading and RMB75 million (equivalent to approximately HK\$72.1 million) from the JV Partner.

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On 31 October 2006, the Company published the circular entitled “Major Transaction, Formation of a Joint Venture Company”, disclosing the details of the joint venture agreement and the proforma financial information of the Group that is prepared on the assumption that the formation of the joint venture company had been completed as at 31 March 2006.

The terms of the joint venture agreement have been agreed after arm’s length negotiations between Prosperity Trading and the JV Partner. The directors of the Company (the “Directors”) consider that the joint venture agreement is on normal commercial terms and is fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Directors believe that there will be continuous strong demand from the international market for building materials produced in the PRC. Such demand for the building materials is also expected to lead to strong demand for slag powder which is used in production of cement. The growth in this export business in the PRC will increase demand for ports and warehousing services. As a result, the Directors are optimistic about the potential investment returns from ports and warehousing services to be provided by the joint venture company. The Directors are of view that the joint venture agreement will provide an opportunity for the Group to make a foray into the port and warehousing operations and production and sales of slag powder, thereby enabling the Group to tap the potential growth in these markets.

### **Decorative Sheet Business**

During the corresponding period 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 to 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 six months ended 30 September 2006, together with the comparative figures for the corresponding period last year, as follows:

	Note	For the three months ended 30 September		For the six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Continuing operation</b>					
<b>Turnover</b>	2	<b>139,539</b>	39,218	<b>226,819</b>	47,659
Cost of sales		<b>(133,005)</b>	(35,414)	<b>(213,985)</b>	(42,943)
Gross profit		<b>6,534</b>	3,804	<b>12,834</b>	4,716
Other income	3	<b>1,467</b>	275	<b>2,442</b>	294
Selling and distribution costs		<b>(477)</b>	–	<b>(834)</b>	–
Administrative expenses		<b>(1,780)</b>	(1,594)	<b>(3,199)</b>	(2,286)
<b>Profit from operating activities</b>		<b>5,744</b>	2,485	<b>11,243</b>	2,724
Finance costs		<b>(123)</b>	(8)	<b>(145)</b>	(12)
<b>Profit before taxation</b>		<b>5,621</b>	2,477	<b>11,098</b>	2,712
Taxation	4	<b>(8)</b>	(510)	<b>(8)</b>	(510)
<b>Profit for the period from continuing operation</b>		<b>5,613</b>	1,967	<b>11,090</b>	2,202
<b>Discontinued operation</b>					
Loss for the period from discontinued operation	5	–	(2,468)	–	(4,955)
<b>Profit/(loss) for the period</b>		<b>5,613</b>	<b>(501)</b>	<b>11,090</b>	<b>(2,753)</b>
Attributable to:					
Equity holders of the Company		<b>5,613</b>	(501)	<b>11,090</b>	(2,753)
Minority interest		–	–	–	–
		<b>5,613</b>	<b>(501)</b>	<b>11,090</b>	<b>(2,753)</b>
<b>Earnings/(loss) per share</b>					
From continuing and discontinued operations					
– basic	6(a)	<b>HK4.1 cents</b>	HK(0.6)cents	<b>HK8.0 cents</b>	HK(3.4)cents
– diluted	6(a)	<b>HK3.9 cents</b>	N/A	<b>HK7.7 cents</b>	N/A
From continuing operation					
– basic	6(b)	<b>HK4.1 cents</b>	HK2.4 cents	<b>HK8.0 cents</b>	HK2.7 cents
– diluted	6(b)	<b>HK3.9 cents</b>	HK2.4 cents	<b>HK7.7 cents</b>	HK2.7 cents

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2006 <i>HK\$'000</i>	As at 31 March 2006 <i>HK\$'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		11	9
<b>Current assets</b>			
Inventories		–	15,089
Trade and bills receivables	8	6,701	1,316
Prepayment, deposits and other receivables		1,327	615
Pledged bank deposits		2,644	3,624
Bank and cash balances		12,325	16,215
		<u>22,997</u>	<u>36,859</u>
<b>Total assets</b>		<u><b>23,008</b></u>	<u><b>36,868</b></u>
<b>Capital and reserves</b>			
Share capital	9	13,902	14,496
Reserves		214	(8,373)
<b>Equity attributable to equity holders of the company</b>		<u><b>14,116</b></u>	<u>6,123</u>
<b>Current liabilities</b>			
Trade and bills payables	10	7,515	8,670
Accrued liabilities and other payables		1,272	2,395
Due to a related company		23	23
Trade deposits received		70	12,265
Provision for taxation	4	12	4
Short term interest-bearing borrowings	11	–	7,388
		<u>8,892</u>	<u>30,745</u>
<b>Total liabilities</b>		<u><b>8,892</b></u>	<u>30,745</u>
<b>Total equity and liabilities</b>		<u><b>23,008</b></u>	<u><b>36,868</b></u>
<b>Net current assets</b>		<u><b>14,105</b></u>	<u>6,114</u>
<b>Total assets less current liabilities</b>		<u><b>14,116</b></u>	<u>6,123</u>

## 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 Company						Total HK\$'000
	Share Capital	Share premium account	Contributed surplus	Share-based payments reserve	Accumulated profits/ (losses)	Properties Revaluation reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2005	7,060	20,696	14,878	141	(71,922)	3,230	(25,917)
Issue of shares on placement	1,152	2,650	-	-	-	-	3,802
Issue share expenses	-	(146)	-	-	-	-	(146)
Recognition of share- based payments	-	-	-	109	-	-	109
Revaluation deficit on building	-	-	-	-	-	(2,503)	(2,503)
Loss for the period	-	-	-	-	(2,753)	-	(2,753)
At 30 September 2005	<u>8,212</u>	<u>23,200</u>	<u>14,878</u>	<u>250</u>	<u>(74,675)</u>	<u>727</u>	<u>(27,408)</u>
At 1 April 2006	14,496	6,468	14,878	365	(30,084)	-	6,123
Repurchase of shares	(594)	(2,560)	-	-	-	-	(3,154)
Recognition of share- based payments	-	-	-	57	-	-	57
Profit for the period	-	-	-	-	11,090	-	11,090
At 30 September 2006	<u>13,902</u>	<u>3,908</u>	<u>14,878</u>	<u>422</u>	<u>(18,994)</u>	<u>-</u>	<u>14,116</u>



## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Net cash inflow from operating activities	5,676	172
Net cash inflow/(outflow) from investing activities	976	(1,188)
Net cash (outflow)/inflow from financing activities	(10,542)	3,680
(Decrease)/increase in cash and cash equivalents	(3,890)	2,664
Cash and cash equivalents at beginning of the period	16,215	1,540
Cash and cash equivalents at end of the period	12,325	4,204
Analysis of balances of cash and cash equivalents		
Cash and bank balances	12,325	4,204

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 sale 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 of the adoption of HKFRS 5 has resulted in the reclassification of the comparative information for the six months ended 30 September 2005 in conforming with current period's presentation as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	As previously reported 2005 <i>HK\$'000</i>	As restated 2005 <i>HK\$'000</i>	As previously reported 2005 <i>HK\$'000</i>	As restated 2005 <i>HK\$'000</i>
<b>Continuing operation</b>				
<b>Turnover</b>	<b>52,322</b>	39,218	<b>77,174</b>	47,659
Cost of sales	<b>(46,650)</b>	(35,414)	<b>(70,581)</b>	(42,943)
Gross profit	<b>5,672</b>	3,804	<b>6,593</b>	4,716
Other income	<b>15</b>	275	<b>45</b>	294
Selling and distribution costs	<b>(551)</b>	–	<b>(974)</b>	–
Administrative expenses	<b>(3,183)</b>	(1,594)	<b>(5,294)</b>	(2,286)
Other operating expenses	<b>(935)</b>	–	<b>(935)</b>	–
<b>Profit from operating activities</b>	<b>1,018</b>	2,485	<b>(565)</b>	2,724
Finance costs	<b>(1,009)</b>	(8)	<b>(1,678)</b>	(12)
<b>Profit before taxation</b>	<b>9</b>	2,477	<b>(2,243)</b>	2,712
Taxation	<b>(510)</b>	(510)	<b>(510)</b>	(510)
<b>Profit/(loss) for the period from continuing operation</b>	<b>(501)</b>	1,967	<b>(2,753)</b>	2,202
<b>Discontinued operation</b>				
Loss for the period from discontinued operation		(2,468)		(4,955)
<b>Loss for the period</b>	<b>(501)</b>	<b>(501)</b>	<b>(2,753)</b>	<b>(2,753)</b>

## 2. Turnover

The Group is principally engaged in the trading of cement clinker and other building materials in the Relevant Period. For the corresponding period 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 six months ended 30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Cement clinker and other building materials	226,819	47,659
Decorative sheets	—	29,515
	<u>226,819</u>	<u>77,174</u>
Representing:		
Continuing operation	226,819	47,659
Discontinued operation	—	29,515
	<u>226,819</u>	<u>77,174</u>

## 3. Other Income

	For the six months ended 30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	132	5
Others	2,310	334
	<u>2,442</u>	<u>339</u>
Representing:		
Continuing operation	2,442	294
Discontinued operation	—	45
	<u>2,442</u>	<u>339</u>

#### 4. Taxation

	For the six months ended 30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong	8	510
Current – Elsewhere	–	–
	<u>8</u>	<u>510</u>

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profit for the six months ended 30 September 2006 and 30 September 2005. 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 corresponding period 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 corresponding period 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 corresponding period last year, which have been involved in the consolidated results, are analysed as follows:

	<b>For the three months ended 30 September 2005 HK\$'000</b>	For the six months ended 30 September 2005 HK\$'000
Turnover	<b>13,104</b>	29,515
Cost of sales	<b>(11,511)</b>	(27,932)
Gross profit	<b>1,593</b>	1,583
Other income	<b>15</b>	45
Selling and distribution costs	<b>(551)</b>	(974)
Administrative expenses	<b>(1,589)</b>	(3,008)
Other operating expenses	<b>(935)</b>	(935)
Loss from operations	<b>(1,467)</b>	(3,289)
Finance costs	<b>(1,001)</b>	(1,666)
Loss before taxation	<b>(2,468)</b>	(4,955)
Taxation	—	—
Loss for the period	<b>(2,468)</b>	(4,955)

## 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 three months and six months ended 30 September 2006 of approximately HK\$5,613,000 and HK\$11,090,000 respectively (three months and six months ended 30 September 2005: loss of approximately HK\$501,000 and HK\$2,753,000 respectively) and the weighted average number of ordinary shares of 139,017,106 and 139,207,139 respectively (three months and six months ended 30 September 2005: 81,368,696 and 81,742,295 respectively) in issue during the three months and six months ended 30 September 2006.

#### *Diluted earnings/(loss) per share*

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profits and weighted average number of ordinary shares for the three months and six months ended 30 September 2006 of 143,974,113 and 144,300,717 respectively (three months and six months ended 30 September 2005: 82,538,242 and 82,911,841 respectively), being the weighted average number of ordinary shares of 139,017,106 and 139,207,139 in

issue during the three months and six months ended 30 September 2006 (three months and six months ended 30 September 2005: 81,368,696 and 81,742,295 respectively) used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 4,957,007 and 5,093,578 respectively (three months and six months ended 30 September 2005: 1,169,546) 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 three months and six months ended 30 September 2006 of approximately HK\$5,613,000 and HK\$11,090,000 respectively (three months and six months ended 30 September 2005: profit of approximately HK\$1,967,000 and HK\$2,202,000 respectively) 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 three months and six months ended 30 September 2006 of approximately HK\$5,613,000 and HK\$11,090,000 (three months and six months ended 30 September 2005: profit from continuing operation attributable to equity holders of the Company of approximately HK\$1,967,000 and HK\$2,202,000 respectively) and the denominator used is the same as that detailed above for diluted earnings/(loss) per share.

**(c) From discontinued operation**

For the three months and six months ended 30 September 2005, basic loss per share from the discontinued operation are HK0.6 cents and HK3.4 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\$2,468,000 and HK\$4,955,000 and the denominators used are the same as those detailed above for both basic earnings/(loss) per share.

Diluted earnings/(loss) per share amounts for three months and six months ended 30 September 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.

**7. Dividend**

No interim dividend has been declared by the Board for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

## 8. Trade and bills receivables

For cement clinker 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, is as follows:

	<b>As at 30 September 2006 HK\$'000</b>	<b>As at 31 March 2006 HK\$'000</b>
0 to 90 days	6,606	1,287
91 to 180 days	70	29
181 to 365 days	25	–
	<u>6,701</u>	<u>1,316</u>

## 9. Share capital

	<b>Number of shares</b>	<b>As at 30 September 2006 HK\$'000</b>
Authorised:		
ordinary shares of HK\$0.1 each (31 March 2006: HK\$0.1)	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
ordinary shares of HK\$0.1 (31 March 2006: HK\$0.1)		
At 1 April 2006	144,961,106	14,496
Repurchase of shares	<u>(5,944,000)</u>	<u>(594)</u>
At 30 September 2006	<u>139,017,106</u>	<u>13,902</u>

During the six months ended 30 September 2006, the Company repurchased and cancelled 5,944,000 of its own shares on the Stock Exchange. The total amount paid to acquire the shares was approximately HK\$3,154,000 and has been deducted from the share capital and share premium account.

## 10. Trade and bills payables

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

	<b>As at 30 September 2006 HK\$'000</b>	<b>As at 31 March 2006 HK\$'000</b>
0 to 90 days	7,346	8,501
91 to 180 days	–	169
181 to 365 days	169	–
	<u>7,515</u>	<u>8,670</u>

## 11. Short term interest-bearing borrowings

	<b>As at 30 September 2006 HK\$'000</b>	<b>As at 31 March 2006 HK\$'000</b>
Secured trust receipt loans repayable within one year	<u>–</u>	<u>7,388</u>

As at 31 March 2006, the trust receipt loans bear interest at rates ranging from 6.5% to 7% and were secured by:

- (a) charge over certain bank deposits of the Group;
- (b) corporate guarantees of the Company;
- (c) personal guarantee of a director of the Company; and
- (d) charge over certain trade receivables of the Group.



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## 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 trading 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\$226.8 million and approximately HK\$12.8 million respectively, representing an increase of 376% and 172% over the corresponding 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\$11.1 million, representing an increase of over 3 times as compared with the corresponding 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 corresponding period last year amounted to approximately HK\$29.5 million. Due to the difficult operating environment, the Discontinued Operation recorded a gross profit of approximately HK\$1.6 million and a net loss of approximately HK\$4.9 million for the corresponding period last year.

During the corresponding period last year, the Group recorded a net profit of approximately HK\$2.2 million which were 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\$2.8 million for the corresponding period last year.

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## **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 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 new customers. At the same time, the Group will continue to strengthen its business foothold and expand 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 a 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2006, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, 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")	53,385,106	31,917,600 (Note 1)	85,302,706	61.36%
Madam Hon Ching Fong ("Madam Hon")	–	31,917,600 (Note 1)	31,917,600	22.96%
Mr. Ng Hon Fai ("Mr. Ng") (Note 2)	–	31,917,600 (Note 1 & 2)	31,917,600	22.96%

#### Notes:

- Mr. Wong, Madam Hon and Mr. Ng are interested in the shares of the Company through their interests in Well Success Group Limited ("Well Success"), which is owned as to 25.2% by Mr. Wong, 16.4% by Mr. Ng and 58.4% 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.
- Mr. Ng resigned as executive director of the Company with effect from 16th August 2006.

## (b) Long positions in share options

Number of share options held by directors as at 30 September 2006:

Name	Number of options held	Number of underlying shares
Mr. Wong	6,000,000	6,000,000
Mr. Kong Siu Keung	2,400,000	2,400,000
	<u>8,400,000</u>	<u>8,400,000</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 September 2006, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

## 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.

## DIRECTORS' SERVICE CONTRACTS

As at 30 September 2006, none of the Directors had any existing or proposed service contracts with any member of the Group which does not expire or is not determinable by

the Group within one year without payment of compensation, other than statutory compensation.

## 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 September 2006, the number of shares in respect of which options had been granted under the scheme was 13,800,000 (30 September 2005: 7,800,000).

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 September 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\$
<b>Director</b>							
Mr. Wong Ben Koon	–	6,000,000	6,000,000 <i>(Note a)</i>	14 August 2006	15 August 2006 to 27 June 2016	0.78	0.78
Mr. Kong Siu Keung	2,400,000	–	2,400,000 <i>(Note b)</i>	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
<b>Other employees</b>							
2005 options	3,000,000	–	3,000,000 <i>(Note c)</i>	28 July 2005	8 August 2005 to 27 June 2015	0.34	0.34
2004 options	2,400,000	–	2,400,000 <i>(Note b)</i>	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
	<u>7,800,000</u>	<u>6,000,000</u>	<u>13,800,000</u>				

*Notes:*

- (a) The options shall not be exercised within 12 months from 28 June 2006.
- (b) The options shall not be exercised within 18 months from 28 June 2004.
- (c) The options shall not be exercised within 18 months from 28 June 2005.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

At 30 September, 2006, the interests of Directors, management Shareholders or their respective associates in the businesses which compete or may compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the GEM Listing Rules were as follows:

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, Mr. Wong and the Relevant Companies effectively hold approximately 40.9% interest in Yingde Dragon Mountain Cement Co., Ltd. ("Yingde Cement"), a wholly-owned foreign enterprise established in the Mainland China, and approximately 10.2% 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.

Save as disclosed above, none of Directors, the management Shareholders or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the businesses of the Group.

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

So far as is known to any Director or chief executive of the Company, as at 30 September 2006, Shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital, or which were recorded in

the register required to be kept by the Company under Section 336 of the SFO were as follows:

**Long positions:**

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Well Success	(a)	Directly beneficially owned	31,917,600	22.96%
Advance Success	(b)	Through Well Success	31,917,600	22.96%
Ms. Shing Shing Wai	(c)	Interest of substantial shareholder's spouse	85,302,706	61.36%
Harmony Asset Ltd.		Directly beneficially owned	11,800,000	8.49%

*Notes:*

- (a) The entire issued share capital of Well Success is beneficially owned as to 25.2% by Mr. Wong, as to 16.4% by Mr. Ng and as to 58.4% by Advance Success.
- (b) Advance Success is equally owned by Mr. Wong and Madam Hon. Mr. Wong is the sole director of Advance Success.
- (c) Ms. Shing Shing Wai is the spouse of Mr. Wong.

Save as disclosed above, as at 30 September 2006, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

**AUDIT COMMITTEE**

The Company has established an audit committee which comprises the three independent non-executive Directors. Its principal duties include the review of the Company's annual report and accounts, half-yearly report and quarterly reports, and review and supervision

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of the Company's financial reporting and internal control procedures. The details of the members are as follow:

Mr. Mo Kwok Choi had served as a general manager of Nanjing Iron & Steel Group Import and Export Group Limited from 1984 to 1999.

Mr. Yuen Kim Hung, Michael ("Mr. Yuen") is a member of the Hong Kong Institute of Certified Public Accountants, fellow member of the Association of Chartered Certified Accountant and a member of Certified General Accountants Association of Ontario. Mr. Yuen has over 12 years of experience in auditing, tax and accounting field. Mr. Yuen is currently an independent non-executive director of New Universe International Group Limited, a company listed on GEM, and a non-executive director of Prosperity Minerals Holdings Limited, a company listed under the AIM market operated by the London Stock Exchange.

Mr. Yung Ho has extensive experience in the industries of trading and property development in the PRC.

During the Relevant Period, the audit committee held two meetings 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 interim report for the six months ended 30 September 2006.

## **CORPORATE GOVERNANCE**

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

### **(i) Chairman and chief executive officer ("CEO")**

Mr. Wong Ben Koon is the chairman of the Company. The CG Code provides that the roles of chairman and CEO should be segregated 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 Relevant Period. The functions of a CEO have been instead carried out by the executive directors who have different expertise in managing the business and other matters of the Group. This constitutes a deviation from the provisions of the CG Code.

The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes are necessary.



## (ii) Communications with shareholders

Under the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

Whilst the Company endeavours to maintain an on-going dialogue with its shareholders, the chairman of the Board and the chairman of audit committee may not always be able to attend general meetings due to other important business engagements. Mr. Kong Siu Keung being executive director of the Company, attended the annual general meeting on 14 August 2006 and was delegated to make himself available to answer questions if raised at the meeting. Mr. Yuen Kim Hung, Michael, a member of audit committee, was delegated attend the same annual general meeting to answer questions if raised at the meeting. The absence of chairman of the Board at the annual general meeting constituted a deviation from the CG Code.

## Appreciation

On behalf of the Company, I would like to express my sincere gratitude to our shareholders and business partners for their confidence and loyal support to the Group. In addition, I would like to take this opportunity to thank the management and all staff members for their dedication and valuable contribution. As we enter into the second half of the financial year 2007, we look forward to achieving continued growth for the Group.

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

Hong Kong, 14 November 2006

The directors of the Company as at the date of this report are:

### Executive Directors

Mr. Wong Ben Koon (*Chairman*)  
Mdm. Hon Ching Fong  
Mr. Kong Siu Keung

### Independent Non-Executive Directors

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