

2008

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.

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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 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.

FIRST QUARTERLY RESULTS FOR 2008

FINANCIAL HIGHLIGHTS

The financial highlights of Prosperity International Holdings (H.K.) Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2007 (the “Relevant Period”) are summarized as follows:

- The unaudited consolidated turnover for the Relevant Period was approximately HK\$185.7 million, representing a significant increase of approximately 1.1 times as compared with the corresponding period last year.
- The unaudited consolidated net profit for the Relevant Period was approximately HK\$5.8 million, representing an increase of 6.2% as compared with the corresponding period last year.
- Basic earnings per share for the Relevant Period reached HK4.2 cents.
- The directors 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 2007 and comparisons with the results for the corresponding period last year are set out in the accompanying table.

BUSINESS REVIEW

Cement Clinker Business

During the Relevant Period, the Group's total sales volume of cement clinker reached approximately 567,000 metric tons, representing an increase of 62% over the corresponding period last year. In terms of the breakdown of the turnover during the Relevant Period, the African market accounted for 11.8%, the European 19.6%, the Taiwan 47.9% and the other Asian countries 20.7% of the turnover.

Leveraging on the favourable market environment, the Group has made the most of its management expertise and experience in trading of construction materials in the region, as well as its strong network in the overseas market, thus achieving substantial business growth during the Relevant Period. The Group has been poised to seize existing business opportunity to export cement clinker from the PRC to overseas markets.

The Group only placed orders to its supplier after receiving confirmation of sales orders from customers. By entering into supply contracts with its supplier, the Group has been able to secure stable and sufficient supply of prime quality products from a leading cement clinker supplier in the PRC.

Operation of Public Port and Other Related Facilities Business

To further expand our business scope to include the building material-related business, the Group established a joint venture company with a joint venture partner Anhui Conch Venture Investment Company Limited last year. The joint venture company will be involved in the operation of a public port and other related facilities, as well as the provision of warehousing services mainly for building material companies in Jiangsu Province, the PRC. It will also be responsible for producing and selling slag powder, with a target production capacity of 1.5 million tonnes per year. The slag powder can be used for production of cement. The Group owns 25% of the joint venture company with a total investment of RMB25 million. It is expected that the joint venture company will commence operation by the end of calendar year 2008.

Placing of New Shares

A total of 27,800,000 new shares of the Company have been placed at a price of HK\$0.84 per share on 24 July 2007 (the "Placing"). The directors of the Company considered that the Placing represented an ideal opportunity to raise capital for the Company while broadening the shareholder base and the capital base of the Company.

The net proceeds raised from the Placing, after the deduction of the related expenses, amounted to approximately HK\$22.58 million which will be applied to general working capital of the Group and exploring investment or merger and acquisition opportunities.

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 2007, together with the comparative figures for the corresponding period last year, as follows:

	Note	For the three months ended 30 June	
		2007 HK\$'000	2006 HK\$'000
Turnover	2	185,744	87,280
Cost of sales		(172,254)	(78,548)
Gross profit		13,490	8,732
Other income	3	2,011	975
Selling and distribution costs		(6,587)	(2,900)
Administrative expenses		(2,477)	(1,308)
Profit from operating activities		6,437	5,499
Finance costs		(318)	(22)
Profit before taxation		6,119	5,477
Taxation	4	(300)	–
Profit for the period		5,819	5,477
Attributable to:			
Equity holders of the Company		5,819	5,477
Minority interest		–	–
		5,819	5,477
Earnings per share			
– basic	5	HK4.2 cents	HK3.9 cents
– diluted	5	HK4.0 cents	HK3.8 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 2007.

2. Turnover

The Group is principally engaged in the trading of cement clinker and other building materials in both the Relevant Period and the corresponding period last year. The Group's turnover for the Relevant Period is as follows:

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Cement clinker and other building materials	<u>185,744</u>	<u>87,280</u>

3. Other income

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest income	136	63
Others	<u>1,875</u>	<u>912</u>
	<u>2,011</u>	<u>975</u>

4. Taxation

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Current – Hong Kong	300	–
Current – Elsewhere	<u>–</u>	<u>–</u>
	<u>300</u>	<u>–</u>

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profit for the three months ended 30 June 2007 and 30 June 2006. 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.

5. Earnings per share

Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the three months ended 30 June 2007 of approximately HK\$5,819,000 (three months ended 30 June 2006: approximately profit of HK\$5,477,000) and the weighted average number of ordinary shares of 139,017,106 (three months ended 30 June 2006: 139,604,974) in issue during the three months ended 30 June 2007.

Diluted earnings 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 ended 30 June 2007 of 144,382,443 (three months ended 30 June 2006: 144,834,479), being the weighted average number of ordinary shares of 139,017,106 in issue during the three months ended 30 June 2007 (three months ended 30 June 2006: 139,604,974) used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 5,365,337 (three months ended 30 June 2006: 5,229,505) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

6. Dividend

No interim dividend has been declared by the Board for the three months ended 30 June 2007 (three months ended 30 June 2006: Nil).

7. Movement of reserves

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share-based payments reserve HK\$'000	Accumulated profits/ (losses) HK\$'000	Properties Revaluation reserve HK\$'000	Total HK\$'000
At 1 April 2006,	6,468	14,878	365	(30,084)	-	(8,373)
Repurchase of shares	(2,560)	-	-	-	-	(2,560)
Recognition of share- based payments	-	-	29	-	-	29
Profit for the period	-	-	-	5,477	-	5,477
At 30 June 2006	<u>3,908</u>	<u>14,878</u>	<u>394</u>	<u>(24,607)</u>	<u>-</u>	<u>(5,427)</u>
At 1 April 2007	3,908	14,878	1,179	(10,738)	-	9,227
Recognition of share- based payments	-	-	235	-	-	235
Profit for the period	-	-	-	5,819	-	5,819
At 30 June 2007	<u>3,908</u>	<u>14,878</u>	<u>1,414</u>	<u>(4,919)</u>	<u>-</u>	<u>15,281</u>

8. Comparative amounts

Certain comparative amounts have been reclassified to conform with current period's presentation.

FINANCIAL PERFORMANCE

During the Relevant Period, the turnover and gross profit amounted to approximately HK\$185.7 million and approximately HK\$13.5 million respectively, representing an increase of 113% and 54% over the corresponding period last year.

Selling and distribution costs for the Relevant Period represented commission payable to sales agents and the salaries and expenses incurred by the marketing team to secure cement clinker contracts from customers and exploring business opportunities with potential customers. The substantial increase in the relevant costs was mainly due to the increase in sales volume and the expansion of geographical coverage of the Group's business during the Relevant Period.

Administrative expenses mainly included rental expenses, remunerations of directors, administrative personnel as well as legal and professional fees payable to external auditors and legal consultants.

Finance costs for the Relevant Period represented the interest expenses incurred from the financing offered by principal bankers for the purchase of cement clinker and investment in an associate company.

Profit for the Relevant Period was approximately HK\$5.8 million, representing an increase of 6.2% as compared with the corresponding period last year.

FUTURE GROWTH STRATEGIES

In this financial year, the Group plans to consolidate its cement clinker trading business. To this end, it will expand the market coverage by tapping into new markets including India. Efforts will be made to increase the sales volume in relation to our existing customers. In addition, the Group will expand its client base by enlarging the customer base of existing markets. We will also explore new sources of supply so as to secure stable and sufficient supply of cement clinker. The recent abolishment of export tax rebate on cement and cement clinker products will result in a higher cost of sales for the Group. However, leveraging on our long-term and stable relationship with our overseas clients, the Group will shift part of the burden to our clients in order to ease the negative effects brought by the new policy.

The Group plans on expanding its business scope to cover building material and related ancillary services. We have already extended our reach to public port operation and other related facilities, as well as the production and sales of slag powder. We are now actively seeking investment opportunities to engage in other building material business.

We have recently appointed a chief executive officer to oversee the overall management of the Group. By seizing future market opportunities and making full use of our experienced and professional management team and extensive sales network, the Group is confident in its belief that our business strategies for developing the building material business will generate impressive returns.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company had not redeemed any of its shares during the three months ended 30 June 2007. Neither the Company nor any of its subsidiaries purchased or sold any of the shares of the Company during the three months ended 30 June 2007.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2007, 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 of the Company 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 (Notes 1 & 2)		31,917,600	22.96%

Notes:

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 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.
2. 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 June 2007:

Name	Number of options held	Number of underlying shares
Mr. Wong Ben Koon	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 June 2007, 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 June 2007, none of the directors of the Company 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 June 2007, the number of shares in respect of which options had been granted under the scheme was 13,800,000 (30 June 2006: 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 2007	Granted during the period	Number of options outstanding as at 30 June 2007	Date of grant of share options	Options period	Exercise price of share options HK\$	Price of share at date of grant of options HK\$
Directors							
Mr. Kong Siu Keung	2,400,000	-	2,400,000	30 July 2004	9 August 2004 to 27 June 2014	0.23	0.23
Mr. Wong Ben Koon	6,000,000	-	6,000,000	14 August 2006	15 August 2006 to 27 June 2016	0.78	0.78
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 2004 to 27 June 2015	0.34	0.34
	<u>13,800,000</u>	<u>-</u>	<u>13,800,000</u>				

Save for the above, no share options were granted, exercised, cancelled, or lapsed under the Scheme during the Relevant Period.

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 40.9% interest in Yingde Dragon Mountain Cement Company Limited (the "Dragon Mountain Cement"), a wholly-owned foreign enterprise established in the PRC, approximately 10.2% interest in Prosperity Conch Cement Company Limited (the "Prosperity Conch"), a sino-foreign equity joint venture established in the PRC, and approximately 13.5% interest in Anhui Chaodong Cement Company Limited (the "Anhui Chaodong"), a company listed in the PRC. Mr. Wong is a director of Dragon Mountain Cement, Prosperity Conch and Anhui Chaodong (collectively, the "Cement Companies"). The Cement Companies are 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 the Cement Companies 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 the Cement Companies, the Board considers that there is no direct or indirect competition between the Group and the Cement Companies during the Relevant Period.

During the period between 1 April 2007 and the date of this report, the Group did not have any transactions with the Cement Companies.

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

At 30 June 2007, 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 Part XV of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Wong Ben Koon	(a) & (b)	Directly beneficially owned Interest of controlled corporation	53,385,106 31,917,600	
			85,302,706	61.36%
Well Success	(a)	Directly beneficially owned	31,917,600	22.96%
Advance Success	(b)	Through Well Success	31,917,600	22.96%
Mdm Hon Ching Fong	(a) & (b)	Interest of controlled corporation	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) The entire issued share capital of Advance Success is beneficially owned as to 50% by Mr. Wong, and as to 50% by Madam Hon. The interests of Mr. Wong and Madam Hon in the shares of the Company are disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above.
- (c) Ms. Shing Shing Wai is the spouse of Mr. Wong.

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 2007.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors, namely, Mr. Mo Kwok Choi, 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. The audit committee has reviewed the Group's unaudited first quarterly report for the three months ended 30 June 2007.

CORPORATE GOVERNANCE

In the opinion of the directors of the Company, 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 until 11 June 2007 when Dr. Jiang, Brent Zhiwei ("Dr. Jiang") was appointed as the CEO of the Company. The functions of a CEO before the appointment of Dr. Jiang 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.

Dr. Jiang is responsible for the overall management of the Group, including strategic planning, business development and operations. 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 any general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Whilst the Company endeavours to maintain an on-going dialogue with its shareholders, the chairman of the Company and the chairman of audit committee may not always be able to attend general meetings due to other important business engagements. Mr. Ng Hon Fai and Mr. Kong Siu Keung, both being executive directors of the Company, attended the annual general meeting on 14 August 2006 and were delegated to make themselves available to answer questions if raised at the meeting. The absence of chairman in general meetings and the absence of chairman of audit committee in 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 quarter of the financial year 2008, 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, 10 August 2007

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