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Prosperity International Holdings (H.K.) Limited

昌興國際控股（香港）有限公司*

(Incorporated in Bermuda with limited liability)

CONNECTED TRANSACTIONS

The Board of Directors (the “Board”) of Prosperity International Holdings (H.K.) Limited (the “Company”) wishes to announce that the Company had carried out a number of continuing connected transactions (“Transactions”) with 上海昌興國際貿易公司 (“上海昌興”) during the year ended 31 March 2003.

Mr. Hong Cheng Chang (“Mr. Hong”), who was appointed as a director of the Company effective from 12 September 2002, has been a director of and has 60% interest in 上海昌興 since January 2000. Accordingly, 上海昌興 is a connected party to the Company and each Transaction constituted a continuing connected transaction of the Company under Rule 20.13 of the GEM Listing Rules. Since the aggregated amount of approximately HK\$1,118,000 involved in the Transactions during 12 September 2002 to 26 November 2002 (the “Relevant Period”), the Last Transaction Date, was above the higher of HK1,000,000 or 0.03% of the consolidated net tangible asset of the Company as set out in the Company’s latest published audited financial statement for the year ended 31 March 2002, the Company was required by the GEM Listing Rules to disclose the details of the Transactions by way of an announcement, to obtain prior approval by independent shareholders of the Company and include the details thereof in the annual report of the Company for the year ended 31 March 2003. Although the Company had disclosed the Transactions in its annual report for the year ended 31 March 2003, it did not and has failed to announce the Transactions nor obtained shareholders’ approval in accordance with Rule 20.25 of the GEM Listing Rules when, and after, the aggregated amount of the Transactions exceeded the higher of HK\$1,000,000 or 0.03% of the consolidated net tangible asset of the Company as set out in the Company’s latest published audited financial statement for the year ended 31 March 2002.

上海昌興 has focused on its other core businesses since December 2002. As such, there has been no provision of goods from the Company to 上海昌興 since the Last Transaction Date. Up to the date of this Announcement, there is no outstanding receivables due from 上海昌興. The Company would not rule out the possibility of carrying out any similar connected transactions in future. Should there be such transactions by the Company in future, the Company will fully comply with the GEM Listing Rules.

As the Company has only disclosed the Transactions in its annual report for the year ended 31 March 2003 but has failed to announce the Transactions by way of an announcement and failed to obtain shareholders' approval at the relevant time(s) as required under the GEM Listing Rules, the Stock Exchange has indicated that it would reserve its right to take appropriate action against the Company and/or members of the Board.

THE TRANSACTIONS

Under the Transactions during the Relevant Period, the Company supplied decorative sheets, with no formal sales and purchase agreement entered between the parties, to 上海昌興 for a total consideration of approximately HK\$1,118,000. The consideration paid by 上海昌興 in each Transaction was dependent on the quantity of decorative sheets purchased and each of such Transaction was of a consideration of not more than HK\$1,000,000. The Directors, including the independent non-executive directors, are of the view that the Transactions were entered into on normal commercial terms and on terms no less favorable to the Company than terms available to any of the independent customers. The Directors, including the independent non-executive directors, considered the Transactions entered into by the Company represented a fair and reasonable price and was in the interests of the Company and its shareholders as a whole.

上海昌興 has to focused on its other core businesses since December 2002. As such, there has been no provision of goods from the Company to 上海昌興 since the Last Transaction Date. Up to the date of this Announcement, there is no outstanding receivables due from 上海昌興.

The Company would not rule out the possibility of carrying out any similar connected transactions in future. Should there be such transactions by the Company in future, the Company will fully comply with the GEM Listing Rules.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacturing and trading of decorative sheets, formally known as high pressure laminates, mainly in the PRC.

INFORMATION ON 上海昌興

上海昌興, a private limited liability company owned as to 60% by Mr. Hong and 40% by an independent third party, not connected with the directors, chief executives, substantial shareholders and management shareholders and their respective associate of the Company, is principally engaged in the trading and consulting services of building materials. As Mr. Hong was appointed as directors of the Company since September 2002, 上海昌興 became a connected person to the Company.

GENERAL

Mr. Hong, who was appointed as a director of the Company effective from 12 September 2002, has been a director of and has beneficial interest in 上海昌興. Accordingly, each Transaction constituted a continuing connected transaction of the Company under the GEM Listing Rules. Since the aggregate amount of approximately HK\$1,118,000 involved in the Transactions during the Relevant Period was above the higher of HK1,000,000 or 0.03% of the consolidated net tangible asset of the Company as set out in the Company's latest published audited financial statement for the year ended 31 March 2002, the Company was required by the GEM Listing Rules to disclose the details of the Transactions by way of an announcement, to obtain prior approval by independent shareholders of the Company and to include the details thereof in the annual report of the Company for the year ended 31 March 2003. Although the Company had disclosed the Transactions in its annual report for the year ended 31 March 2003, it did not and has failed to announce the Transactions nor obtained shareholders' approval in accordance with Rule 20.25 of the GEM Listing Rules when, and after, the aggregate amount of the Transactions exceeded the higher of HK\$1,000,000 or 0.03% of the consolidated net tangible asset of the Company as set out in the Company's latest published audited financial statement for the year ended 31 March 2002.

With a view to remedy the deficiencies in the compliance procedure, the following steps have been implemented by the Company:

1. The Company has modified the existing procedure in monitoring connected transactions by providing its subsidiaries with a list of the connected person(s) of the Company from time to time and requesting its subsidiaries to notify all proposed transactions to be entered into by the subsidiaries with the connected person(s) to the finance department of the Company immediately after the terms of such transactions have been approved in principle by the management of the relevant subsidiary(ies), and that none of the connected transactions will be entered into until the approval has been given by the Board or finance department of the Company;
2. The finance department of the Company will ensure that the procedures above are complied with by its subsidiaries of the Company by general operational meeting; and
3. The Company will arrange further seminars to be given to the staff and management of its subsidiaries on or before end of October 2003 about the relevant requirements of connected transactions under the Listing Rules.

Well Success Group Limited, an independent shareholder to the Transactions, held approximately 64.93% issued share capital of the Company throughout the Relevant Period and holds 55.41% issued share capital of the Company on 13 October 2003, confirmed that had there been a shareholders' vote on the Transactions, they would have voted in favour to it and consenting the Transactions to be conducted prior to the Last Transaction Date. Furthermore, as at the date of this announcement, Well Success Group Limited has also ratified and confirmed the Transactions.

In this circumstances only a circular containing details of the Transactions carried out during the Relevant Period by the Company together with a letter of independent financial adviser will be depatched to the shareholders of the Company for their information as soon as possible.

The Stock Exchange reserve the right to take appropriate action regarding an omission to announce the Transaction by way of an announcement and obtained prior shareholders' approval in accordance with Rule 20.25 of the GEM Listing Rules.

The Company would not rule out the possibility of carrying out any similar connected transactions in future. Should there be such transactions by the Company in future, the Company will fully comply with the GEM Listing Rules.

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

Hong Kong, 14 October 2003

This announcement, for which the directors of Prosperity International Holdings (H.K.) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Prosperity International Holdings (H.K.) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- i. the information contained in this announcement 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 announcement misleading; and iii. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the day of its posting.

* *for identification purpose only*