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)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2007

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 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 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 Prosperity International Holdings (H.K.) Limited. The directors of Prosperity International Holdings (H.K.) Limited, 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.

* *For identification purpose only*

FINANCIAL AND BUSINESS HIGHLIGHTS

The financial and business highlights of Prosperity International Holdings (H.K.) Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2007 (the "Year") are summarised as follows:

– Turnover for the Year was approximately HK$550.6 million, representing a significant two-fold increase from HK$159.6 million for the financial year 2006.

– Net profit for the Year amounted to approximately HK$19.3 million, representing a significant growth by 185% as compared with the financial year 2006.

– Basic earnings per share for the Year reached HK13.9 cents.

– The Group has successfully extended its business reach to markets outside Taiwan, including the North and South America, Europe, Africa, Middle East and Asia other than Taiwan.

– A joint venture company was formed to operate public port and provide warehousing services in Jiangsu Province, the People's Republic of China. This joint venture company will also be responsible for producing and selling slag powder.

– The directors do not recommend the payment of any dividend for the Year.

The audited consolidated results for the Year and comparisons with the results for the financial year 2006 are set out in the accompanying table.

RESULTS

The directors of the Company are pleased to announce the audited consolidated results of the Group for the year ended 31 March 2007, which have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Continuing operation			
Turnover	3	**550,597**	159,587
Cost of goods sold		**(500,775)**	(143,104)
Gross profit		**49,822**	16,483
Other income		**8,439**	1,072
Selling and distribution costs		**(28,296)**	(1,682)
Administrative expenses		**(8,603)**	(4,665)
Profit from operations		**21,362**	11,208
Finance costs		**(451)**	(51)
Profit before tax		**20,911**	11,157
Income tax expense	4	**(1,565)**	(4)
Profit for the year from continuing operation		**19,346**	11,153
Discontinued operation			
Loss for the year from discontinued operation	5	–	(4,362)
Profit for the year attributable to equity holders of the Company		**19,346**	6,791
Earnings per share			
From continuing and discontinued operations			
– basic	6(a)	**13.9 cents**	7.2 cents
– diluted	6(a)	**13.4 cents**	7.1 cents
From continuing operation			
– basic	6(b)	**13.9 cents**	11.8 cents
– diluted	6(b)	**13.4 cents**	11.6 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**147**	9
Investment in an associate		**12,681**	–
		12,828	9
Current assets			
Inventories		**–**	15,089
Trade and bills receivables	*7*	**47,534**	1,316
Prepayments, deposits and other receivables		**4,113**	615
Pledged bank deposits		**3,212**	3,624
Bank and cash balances		**18,613**	16,215
		73,472	36,859
TOTAL ASSETS		**86,300**	36,868
Capital and reserves			
Share capital		**13,902**	14,496
Reserves		**9,227**	(8,373)
Equity attributable to equity holders of the Company		**23,129**	6,123
Current liabilities			
Trade and bills payables	*8*	**41,632**	8,670
Accrued liabilities and other payables		**7,578**	2,395
Due to a related company		**90**	23
Trade deposits received		**2,000**	12,265
Current tax liabilities		**1,560**	4
Short term interest-bearing borrowings		**10,311**	7,388
		63,171	30,745
TOTAL EQUITY AND LIABILITIES		**86,300**	36,868
Net current assets		**10,301**	6,114
Total assets less current liabilities		**23,129**	6,123

Notes:

1. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; and Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The Group's financial statements have been prepared in accordance with HKFRSs, 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 and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings which are carried at their fair values.

3. TURNOVER

The Group was principally engaged in the trading of cement clinker and other building materials in current year. In prior year, the Group also engaged in the manufacture and sale of decorative sheets. An analysis of the Group's turnover is as follows:

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Cement clinker and other building materials	**550,597**	159,587
Decorative sheets	**–**	41,505
	550,597	201,092
Representing:		
Continuing operation	**550,597**	159,587
Discontinued operation *(note 5)*	**–**	41,505
	550,597	201,092

4. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Hong Kong Profits Tax – current	**1,565**	4
Representing:		
Continuing operation	**1,565**	4
Discontinued operation	**–**	–
	1,565	4

Hong Kong Profits Tax has been provided at a rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year ended 31 March 2007.

Taxation charges 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 year ended 31 March 2006, the tax rate applicable to a disposed subsidiary established and operating in the People's Republic of China (the "PRC") is 24%. No provision for PRC enterprise income tax has been made for the year ended 31 March 2006 as this disposed subsidiary did not generate any assessable profits arising in the PRC during the period up to the date of disposal.

5. DISCONTINUED OPERATION

Pursuant to an agreement dated 23 November 2005 entered into between a 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 in the year ended 31 March 2006. The disposal was completed on 17 January 2006.

The loss for the year ended 31 March 2006 from the discontinued operation is analysed as follows:

	HK$'000
Loss of discontinued operation	(6,220)
Gain on disposal of discontinued operation	1,858
	(4,362)

The results of the discontinued operation for the period from 1 April 2005 to 17 January 2006, which have been involved in the consolidated income statement for the year ended 31 March 2006, are as follows:

	HK$'000
Turnover	41,505
Cost of goods sold	(38,733)
Gross profit	2,772
Other income	91
Selling and distribution costs	(1,322)
Administrative expenses	(4,218)
Other operating expenses	(1,207)
Loss from operations	(3,884)
Finance costs	(2,336)
Loss before tax	(6,220)
Income tax expense	–
Loss for the year	(6,220)

During the year ended 31 March 2006, the disposed subsidiaries paid approximately HK$3,645,000 in respect of operating activities, paid approximately HK$491,000 in respect of investing activities and paid approximately HK$7,245,000 in respect of financing activities.

No tax charge or credit arose on gain on disposal of the discontinued operation.

6. EARNINGS PER SHARE

(a) From continuing and discontinued operations

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 year attributable to equity holders of the Company of approximately HK$19,346,000 (2006: HK$6,791,000) and the weighted average number of ordinary shares of 139,112,383 (2006: 94,711,567) in issue during the year.

Diluted earnings per share

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately HK$19,346,000 (2006: HK$6,791,000) and the weighted average number of ordinary shares of 144,271,635 (2006: 96,075,297), being the weighted average number of ordinary shares of 139,112,383 (2006: 94,711,567) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 5,159,252 (2006: 1,363,730) 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 year from continuing operation attributable to equity holders of the Company of approximately HK$19,346,000 (2006: HK$11,153,000) and the denominator used is the same as that detailed above for basic earnings 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 year from continuing operation attributable to equity holders of the Company of approximately HK$19,346,000 (2006: HK$11,153,000) and the denominator used is the same as that detailed above for diluted earnings per share.

(c) From discontinued operation

Basic loss per share from the discontinued operation for the year ended 31 March 2006 is HK4.6 cents per share and diluted loss per share from the discontinued operation is HK4.5 cents per share, based on the loss for the year from discontinued operation attributable to the equity holders of the Company of approximately HK$4,362,000 and the denominators used are the same as those detailed above for both basic and diluted earnings per share.

7. TRADE AND BILLS RECEIVABLES

The Group receives from each customer for cement clinker trading 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. The Group's trading terms with other customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**47,511**	1,287
91 to 180 days	**–**	29
181 to 365 days	**–**	–
Over 365 days	**23**	–
	47,534	1,316

As at 31 March 2007, HK$Nil (2006: approximately HK$1,283,000) of trade receivables were pledged to a bank to secure trust receipt loans.

8. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables , based on the date of receipt of goods, is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 to 90 days	**41,620**	8,501
91 to 180 days	**–**	169
181 to 365 days	**12**	–
	41,632	8,670

AUDIT OPINION

RSM Nelson Wheeler have confirmed that an unqualified audit opinion will be given in respect of the Group's financial statements for the year ended 31 March 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENTAL REVIEW

Cement Clinker Business

During 2006, the cement production volume in the People's Republic of China (the "PRC") amounted to 1.204 billion tonnes, representing an increase of 19.07% from 2005. The export volume of cement clinker rose to 16.72 million tonnes in 2006, a 55.06% increase on the previous year.

The year 2006 saw a rise in the selling price of cement in the domestic market. The export price of cement has also increased during the year under review.

OPERATION REVIEW

Cement Clinker Business

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 year ended 31 March 2007 (the "Year"). The Group has been poised to seize existing business opportunity to export cement clinker from the PRC to overseas markets. During the Year, it has successfully extended its reach to markets outside Taiwan, including the North and South America, Europe, Africa, Middle East and Asian other than Taiwan. The new markets accounted for 52.7% of the turnover in the year under review. In terms of the breakdown of the turnover of each of the new market during the year, the North America market accounted for 1.4%; South America 3%; the European 35.8%; African 7.2%; the Middle East 1.5% and the Asian (except Taiwan) 3.8% of the turnover. These compare to the 100% share of the Taiwan market in the financial year of 2006.

During the Year, the Group has purchased and sold approximately 1,800,000 tonnes of cement clinker, which is tantamount to a significant two-fold increase from 580,000 tonnes in the financial year 2006. The stunning performance has boosted the Group's confidence in the future development of its cement clinker and other building material business.

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

Operation of Public Port and Other Related Facilities Business

To further expand our business scope to include the building material-related business, the Group has established a joint venture company with a joint venture partner Anhui Conch Venture Investment Company Limited ("Anhui Conch"). 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 RMB 25 million. It is expected that the joint venture company will commence operations by the end of calendar year 2008.

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the audited financial statements and the related notes in the annual report.

RESULTS

The Group recorded a turnover and gross profit of approximately HK$550.6 million and approximately HK$49.8 million respectively during the Year. Contribution from the cement clinker business accounted for over 99.7% and 99.3% of the total turnover and gross profit respectively of the Group for the Year.

Selling and distribution costs for the Year represented the salaries and expenses incurred by the marketing team to secure cement clinker contracts from customers and explore business opportunities.

Administrative expenses mainly included remunerations of directors and administrative personnel, and the legal and professional fees paid to external auditors, legal consultants and other professional parties. The increase during the Year was mainly due to the legal professional fees paid for the formation of a joint venture company in the PRC, remuneration incurred for additional staff employed to support the expansion in business scale and discretionary bonus paid to employees for their contribution during the Year.

Finance costs for the Year represented the interest expenses incurred for financing offered by principal bankers for the purchase of cement clinker. The increase during the Year was due to the strong growth in trading volume of cement clinker.

Profit after tax of the Group excluding discontinued operation was approximately HK$19.3 million and HK$11.2 million for the year ended 31 March 2007 and 31 March 2006, respectively.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

During the Year, the Group generally financed its operations and settled its debts with cash generated from its operations and the banking facilities provided by its principal bankers. As at 31 March 2007, the trade facility offered by banks to the Group amounted to approximately HK$168.2 million.

As at 31 March 2007, the bank and cash balances of the Group including pledged bank deposits amounted to approximately HK$21.8 million. The increase in bank balances was contributed by the strong cash inflow generated by sales of cement clinker during the Year.

The Group's gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 11.9% as at 31 March 2007 (2006: 20%). The improvement in gearing ratio demonstrates a strong cash flow from the operation of cement clinker business during the Year.

FOREIGN EXCHANGE EXPOSURE

The sales and purchases of the cement clinker business are predominately in US dollars. The Group does not currently engage in any hedging activities against the foreign exchange exposure, as it considers its cost associated with such hedging arrangements would exceed the benefits. However, management will continue to monitor the relevant circumstances and will take such measure as it deems prudent.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

On 11 October 2006, Prosperity Trading Limited (the "Prosperity Trading"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Anhui Conch, 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 Jiangdu City, Jiangsu Province, the PRC.

The joint venture company is owned as to 25% by Prosperity Trading and as to 75% by Anhui Conch upon establishment. The registered capital of the joint venture company is RMB100 million (equivalent to approximately HK$100.9 million) which shall be contributed by Prosperity Trading and Anhui Conch in proportion to their respective equity interests in the joint venture company, that are RMB25 million (equivalent to approximately HK$25.2 million) from Prosperity Trading and RMB75 million (equivalent to approximately HK$75.6 million) from Anhui Conch. As at the date of this announcement, the registered capital of RMB100 million had been fully paid up in accordance with the required timetable.

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 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 can be used in production of cement. The expected continuing growth in the import and 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.

Save as disclosed above, the Group made no other material or significant investments or acquisitions or disposals of subsidiaries during the Year.

CONTINGENT LIABILITIES

As at 31 March 2007, the Company had provided corporate guarantees to banks to secure banking facilities granted to a subsidiary of the Company. As at the same date, the facilities amount utilised was approximately HK$91.7 million (2006: HK$23.5 million).

As at 31 March 2007, the Group did not have any significant contingent liabilities (2006: Nil).

CHARGE ON GROUP ASSETS

As at 31 March 2007, certain bank deposits of the Group approximately HK$3.2 million (2006: HK$3.6 million) and trade receivables of the Group totalling HK$Nil (2006: HK$1.3 million) were pledged to banks in respect of banking facilities granted to the Group.

COMMITMENTS

As at 31 March 2007, the Group had the following commitments:

(a) Operating lease commitments – as lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**135**	–
In the second to fifth years inclusive	**–**	–
	135	–

Operating lease payments represent rentals payable by the Group for an office premises and a staff quarter. Leases are negotiated for a term of one year and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Capital commitments

	2007	2006
	HK$'000	*HK$'000*
Contracted but not provided for acquisition of property, plant and equipment	**580**	–
Capital expenditure contracted but not provided for in the financial statements in respect of unpaid balance of capital contributions to an associate	**12,594**	–

Pursuant to an equity joint venture agreement dated 11 October 2006 the Group has a 25% investment in an associate, which was incorporated in the PRC on 30 October 2006 for a period of twenty years with principal activities of operating a public port and other related facilities, provision of warehouse services and production and sales of slag powder. The associate has yet to commence business as at the balance sheet date. The total investment cost of the Group in proportion to its respective interest in the associate is RMB25 million which is to be financed in the form of cash by the Group. As at 31 March 2007 the Company has fulfilled its investment obligation in the associate to the extent of approximately RMB12.5 million. The remaining balance of approximately RMB12.5 million has been paid up on 17 April 2007.

HUMAN RESOURCES

As at 31 March 2007, the Group had a total of 18 staff of which 2 are based in the PRC and 16 are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	The PRC	**Hong Kong**	**Total**
Management	–	5	5
Sales and marketing	2	5	7
Purchases and transportation	–	2	2
Finance and administration	–	4	4
	2	16	18

The Group remunerates its employees based on their performance, experience and the prevailing industry practice. The Group will pay discretionary bonus to its employees based on individual performance in recognition of their contribution and hard work. With the view to retaining certain important employees who will continue to make valuable contribution to the Group, share options to subscribe for shares of the Company in accordance with the new share option scheme adopted on 25 August 2003 may be granted.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labor disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The directors believe that the Group has a good working relationship with its employees.

FUTURE GROWTH STRATEGIES

In the coming 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, 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 Year through purchases on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The total amount paid to purchase the shares was approximately HK$3,154,000. 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 Year, respectively.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Mr. Wong Ben Koon is the chairman of the Company. The Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (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 Year. 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.

Dr. JIANG, Brent Zhiwei was appointed as the CEO of the Company with effective from 11 June 2007. Dr. Jiang's biographical details are set out in the annual report.

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

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.

The Audit Committee held four meetings during the Year for reviewing the financial results and reports, financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditors. The Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

DIRECTOR' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are responsible for overseeing the preparation of financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report in the annual report.

REMUNERATION COMMITTEE

The Remuneration Committee was set up in March 2005, constituted by two independent non-executive directors, namely, Mr. Yuen Kim Hung, Michael (Chairman of the Remuneration Committee) and Mr. Yung Ho.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and senior management. The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing such remuneration policy and structure.

Three meetings had been held during the Year to discuss remuneration related matters and recommended to the Board bonus payments and increment in salary for the executive directors and senior management staff by way of written resolutions passed by the committee. Both Mr. Yuen Kim Hung, Michael and Mr. Yung Ho attended all the meetings.

NOMINATION COMMITTEE

The Company does not have a nomination committee. The power to nominate or appoint additional directors is vested in the Board according to the Articles of Association, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Articles of Association of the Company and the laws of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. A meeting of the Board was held during the Year in connection with the resignation of Mr. Ng Hon Fai as director with effect from 16 August 2006. The nomination procedures basically follow the provisions of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

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 ("Mr. Ng") and Mr. Kong Siu Keung ("Mr. Kong"), 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.

PUBLICATION OF ANNUAL REPORT ON THE GEM WEBSITE

The Annual Report of the Company containing all the information required by the GEM Listing Rules will be published on the GEM website in due course.

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

Hong Kong, 20 June 2007

The directors of the Company as at the date of this announcement 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

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.