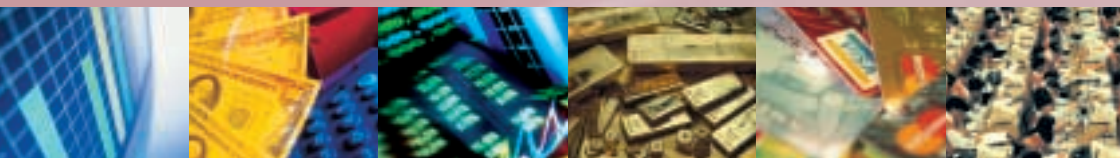




PROSPERITY INVESTMENT HOLDINGS LIMITED
嘉 進 投 資 國 際 有 限 公 司
(Incorporated in Bermuda with limited liability)



2005
Interim Report

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Prosperity Investment Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "Period"), together with the comparative figures for the corresponding period in 2004, as follows:

Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June	
		2005 Unaudited HK\$	2004 Unaudited HK\$
Turnover	2	1,280,936	1,245,423
Other revenues		2,919,409	523,924
		4,200,345	1,769,347
Investment management fee		(1,751,010)	(1,836,796)
Staff costs		(228,024)	(392,119)
Depreciation		—	(44,587)
Other operating expenses		(1,032,777)	(1,947,475)
Total operating expenses		(3,011,811)	(4,220,977)
Operating profit/(loss)	3	1,188,534	(2,451,630)
Finance costs	4	—	(928,499)
Share of net profits of jointly controlled entities		575,386	1,132,963
Share of net profits of associates		—	1,765,702
Loss on disposal of interest in a subsidiary		(1,943,920)	—
Loss on disposal of interest in associates		—	(1,407,961)
Loss before taxation		(180,000)	(1,889,425)
Taxation	5	(155,400)	(310,869)
Loss attributable to shareholders		(335,400)	(2,200,294)
Loss per share	6	(0.08) cent	(0.51) cent

Condensed Consolidated Balance Sheet

	Notes	30 June 2005 Unaudited HK\$	31 December 2004 Restated HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		—	57,399
Investments in associates		17,562,305	17,562,305
Interests in jointly controlled entities		2,997,098	27,656,219
Available-for-sale investments		79,818,735	56,032,185
Other asset		150,000	150,000
		100,528,138	101,458,108
Current assets			
Investments at fair value through profit or loss		27,298,036	15,872,668
Other receivables	7	93,974,988	68,144,912
Amount due from Sinox Fund Management Limited		236,744	885,724
Cash with brokers		6,867,159	767,841
Cash and bank balances		28,043,261	66,861,770
		156,420,188	152,532,915
Current liabilities			
Other payables	8	74,000	525,784
Other borrowing		—	5,460,000
Provision for taxation		13,390,053	13,390,053
		13,464,053	19,375,837
Net current assets		142,956,135	133,157,078
Net assets		243,484,273	234,615,186
CAPITAL AND RESERVES			
Share capital	9	43,195,200	43,195,200
Reserves	10	200,289,073	191,419,986
Shareholders' funds		243,484,273	234,615,186
Net asset value per share	11	0.56	0.54

Condensed Consolidated Statement of Changes in Equity

	Reserves								Total HK\$
	Share capital HK\$	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Investment revaluation reserve HK\$	Accumulated losses HK\$		
At 1 January 2004	43,195,200	169,564,710	468,163	86,752,510	(3,221,417)	—	(59,826,129)	236,933,037	
Realisation of exchange fluctuation on disposal of a jointly controlled entity	—	—	—	—	1,466,243	—	—	1,466,243	
Loss for the year	—	—	—	—	—	—	(3,784,094)	(3,784,094)	
At 31 December 2004 and 1 January 2005	43,195,200	169,564,710	468,163	86,752,510	(1,755,174)	—	(63,610,223)	234,615,186	
Realisation of exchange fluctuation on disposal of a subsidiary	—	—	—	—	1,887,093	—	—	1,887,093	
Revaluation surplus on available- for-sale investments recognized during the Period	—	—	—	—	—	7,317,394	—	7,317,394	
Loss for the Period	—	—	—	—	—	—	(335,400)	(335,400)	
At 30 June 2005	43,195,200	169,564,710	468,163	86,752,510	131,919	7,317,394	(63,945,623)	243,484,273	

Condensed Consolidated Cash Flow Statement

For the six months ended
30 June

	2005 Unaudited HK\$	2004 Unaudited HK\$
NET CASH GENERATED FROM/(USED IN):		
OPERATING ACTIVITIES	(25,702,308)	(5,040,729)
INVESTING ACTIVITIES	(1,556,881)	(41,498,929)
FINANCING ACTIVITIES	(5,460,000)	5,460,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,719,189)	(41,079,658)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	67,629,609	97,734,697
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	34,910,420	56,655,039
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash with brokers	6,867,159	214,336
Cash and bank balances	28,043,261	56,440,703
	34,910,420	56,655,039

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

1. Basis of presentation and accounting policies

The condensed financial statements of the Group are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted in these condensed financial statements are consistent with those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2004 except as described below.

During the Period, the Group has applied, for the first time, the new Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statements of changes in equity. The adoption of the new HKFRSs has resulted in the following changes to the Group's accounting policies that have affected the amount reported or disclosures for the Period or prior periods.

The Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement". HKAS 32 requires retrospective application while HKAS 39 does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. Until 31 December 2004, investments of the Group are classified as investment securities held for long-term purpose measured as cost less impairment losses, if any, or otherwise as other investments carried at fair value. From 1 January 2005 onwards, investments are classified under available-for-sale investments and investments at fair value through profit or loss respectively. The classification depends on the purpose for which the investments are held. Available-for-sale investments are carried at fair value, where an active market exists, with any unrealized gains and losses recognized in equity. Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment losses, if any. Investments at fair value through profit or loss are carried at fair value with changes recognized in profit or loss.

The above changes in accounting policy do not have any material effect on the accounts.

2. Turnover and segmental information

An analysis of the Group's unaudited turnover and operating profit/(loss) by principal activity and geographical segment is as follows:

	Turnover for the six months ended 30 June		Operating profit/(loss) for the six months ended 30 June	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
By principal activity:				
Management fees from jointly controlled entities	117,924	213,831	25,522	(3,483,222)
Dividend income from investment securities	1,163,012	1,031,592	1,163,012	1,031,592
	1,280,936	1,245,423	1,188,534	(2,451,630)

	Turnover for the six months ended 30 June	
	2004 HK\$	2003 HK\$
By geographical segment:		
The People's Republic of China:		
Hong Kong	1,163,012	1,031,592
Other regions	117,924	213,831
	1,280,936	1,245,423

Given the nature of the Group's operations as investment holding and the way in which costs are allocated, it is not considered meaningful to provide geographical analysis of operating loss.

3. Operating profit/(loss)

	For the six months ended 30 June	
	2005 HK\$	2004 HK\$
Unaudited operating profit /(loss) is arrived at after crediting:		
Interest income	1,661,491	76,980

4. Finance Costs

	For the six months ended 30 June	
	2005 HK\$	2004 HK\$
Interest on amount due to a related company	—	928,499

5. Taxation

Taxation in the unaudited consolidated income statement represents:

	For the six months ended 30 June	
	2005 HK\$	2004 HK\$
Company and subsidiaries		
Hong Kong profits tax	—	—
Overseas taxation	47	4,969
Jointly controlled entities and associated companies		
Share of taxation attributable to jointly controlled entities	155,353	305,900
Share of taxation attributable to associated companies	—	—
	155,400	310,869

Hong Kong profits tax has not been provided as the individual companies comprising the Group do not have assessable profit arising in Hong Kong during the Period.

Taxation of other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

No deferred tax has been provided in the condensed financial statements as there is no material timing difference.

6. Loss per share

The calculation of the loss per share is based on the following data:

	For the six months ended 30 June	
	2005 HK\$	2004 HK\$
Loss attributable to shareholders	(335,400)	(2,200,294)
Weighted average number of ordinary shares	431,952,000	431,952,000

7. Other receivables

The ageing analysis of the other receivables is as follows:

	30 June 2005 Unaudited HK\$	31 December 2004 Audited HK\$
	Within 3 months	30,723,371
3 to 6 months	—	—
6 to 12 months	—	—
Over 1 year	—	13,311,645
	30,723,371	13,811,645
Others	63,251,617	54,333,267
	93,974,988	68,144,912

8. Other payables

The ageing analysis of the other payables is as follows:

	30 June 2005 Unaudited HK\$	31 December 2004 Audited HK\$
Within 3 months	—	—
3 to 6 months	—	—
6 to 12 months	—	—
Over 1 year	—	—
Others	74,000	525,784
	74,000	525,784

9. Share capital

	30 June 2005 Unaudited HK\$	31 December 2004 Audited HK\$
Authorized: 3,000,000,000 ordinary shares of HK\$0.10 each	300,000,000	300,000,000
Issued and fully paid: 431,952,000 ordinary shares of HK\$0.10 each	43,195,200	43,195,200

10. Reserves

	30 June 2005 Unaudited HK\$	31 December 2004 Audited HK\$
Share Premium	169,564,710	169,564,710
Capital reserve on consolidation	468,163	468,163
Contributed surplus	86,752,510	86,752,510
Exchange fluctuation reserve	131,919	(1,755,174)
Investment revaluation reserve	7,317,394	—
Accumulated losses	(63,945,623)	(63,610,223)
	200,289,073	191,419,986

11. Net asset value per share

Net asset value per share is computed based on the net assets of HK\$243,484,273 (31 December 2004: HK\$234,615,186) and the number of issued and fully paid up shares of 431,952,000 (31 December 2004: 431,952,000) as at 30 June 2005.

DISCLOSURE PURSUANT TO RULES 13.13 AND 13.16 OF THE LISTING RULES

Advance to entities under Rule 13.13 of the Listing Rules

Details of the relevant advance to entities by the Group as at 30 June 2005 in which individually exceeds the relevant percentage ratios of 8% under Rule 13.13 of the Listing Rules are as follows:

Entities	Attributable interest held by the Group %	Advances (A) HK\$'000	Guarantees given (B) HK\$'000	Extent of guaranteed facilities utilized HK\$'000	Aggregate of advances and guarantees given (A+B) HK\$'000	Notes
Dragon Fortune Limited	18.00%	48,140	—	—	48,140	a
Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited	14.40%	—	10,471	10,471	10,471	b
Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited	14.40%	—	6,899	6,899	6,899	c
Aggregate of Dragon Fortune Limited and its subsidiaries		48,140	17,370	17,370	65,510	d
Yuen Loong Steel Company Limited	—	5,100	—	—	5,100	e

Notes:

- a. The advances were made as shareholder's loans to finance the investment made by Dragon Fortune Limited ("Dragon Fortune") and were interest free, unsecured and not repayable within the next twelve months.
- b. The entire paid up capital of Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited ("FL Real Estate") is owned as to 80% by Fortune Leader Investment Limited ("FLIL"), a direct wholly-owned subsidiary of Dragon Fortune, and as to 20% by an independent third party, who is not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The guarantee was given for loan facilities granted to FL Real Estate.
- c. The entire paid up capital of Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited ("FL Investment") is owned as to 80% by FLIL, a direct wholly-owned subsidiary of Dragon Fortune, and as to 20% by an independent third party, who is not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The guarantee was given for loan facilities granted to FL Investment.
- d. Aggregated pursuant to Rule 13.11(2)(c) of the Listing Rules.
- e. The interest bearing advance was made as loan to Yuen Loong Steel Company Limited, it carried interest at Hong Kong dollar prime rate and was unsecured and with maturity date on 9 September 2005. The advance has been fully repaid on 9 September 2005.

Financial assistance and guarantees given for facilities granted to affiliated companies under Rule 13.16 of the Listing Rules

Details of the financial assistance and guarantees given for facilities granted to affiliated companies by the Group as at 30 June 2005 in aggregate exceeds the relevant percentage ratios of 8% under Rule 13.16 of the Listing Rules are as follows:

Affiliated Companies	Attributable interest held by the Group %	Financial assistance (A) HK\$'000	Guarantees given (B) HK\$'000	Extent of guaranteed facilities utilized HK\$'000	Aggregate of financial assistance and guarantees given (A+B) HK\$'000	Notes
Luck Point Investments Limited	35.00%	5,022	—	—	5,022	a
Happy Online Group Limited	33.75%	173	—	—	173	b
Bright Honest Limited	25.00%	12,000	4,750	4,750	16,750	c
Total		17,195	4,750	4,750	21,945	d

The proforma combined balance sheet of the above affiliated companies as at 30 June 2005 is as follows:

	HK\$'000
Non-current assets	<u>11,120</u>
Current assets	50,465
Current liabilities	<u>492</u>
Net current assets	<u>49,973</u>
Non-current liabilities	<u>61,978</u>
Shareholders' deficits	<u>(885)</u>

Notes:

- a. The financial assistance was made as shareholder's loans to finance the investment made by Luck Point Investments Limited and were interest free, unsecured and not repayable within the next twelve months.
- b. The financial assistance was made as shareholder's loans to finance the investment made by Happy Online Group Limited and were interest free, unsecured and not repayable within the next twelve months.
- c. The financial assistance was made as shareholder's loans to finance the investment made by Bright Honest Limited and were interest free, unsecured and not repayable within the next twelve months. The guarantees were given by the Company for loan facilities granted to Great Fidelity Limited, a direct wholly-owned subsidiary of Bright Honest Limited.
- d. Aggregated pursuant to Rule 13.16 of the Listing Rules.

INTERIM DIVIDEND

The Board resolved not to pay an interim dividend for the six months ended 30 June 2005 (2004: Nil).

REVIEW AND OUTLOOK

During the Period under review, information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules and the performance of the investment projects of the Group have not been changed materially since the most recent published annual report.

The Hong Kong capital market seems to be benefit from the stable economic growth in Hong Kong and the vigorous growth in the Mainland. However, increases in interest rates, macro economic measures adopted in the Mainland, fluctuation in the global oil prices and the currency markets will still be the factors that continuously influence the investor sentiment over the remaining part of 2005. Looking ahead, the Board believes that the business environment is going to remain challenging and highly competitive and both the global and Hong Kong economies will continue to be growing steadily.

The Group has continued to focus its efforts in rationalizing its investment portfolio. Pursuant to an agreement dated 29 December 2004, the Group committed to dispose its 25% equity interest in Shanghai Yong An Dairy Company Limited to a third party for a consideration of RMB2.8 million (approximately HK\$2.6 million). The procedure for getting approval for the sale from relevant government authorities is still in progress and the said consideration should be received in the foreseeable future.

As announced before, the name of the Company was changed from GR Investment International Limited (金源投資國際有限公司) to Prosperity Investment Holdings Limited (嘉進投資國際有限公司) with effect from 15 March 2005. The Board believe that the Group under the new name will continue to evaluate potential investments with a view of gaining high investment returns and yields for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

Operations of the Group are generally financed through internal cash resources. As at 30 June 2005, cash and bank balances of the Group were approximately HK\$35 million. With cash and other current assets of approximately HK\$156 million as at 30 June 2005, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

CAPITAL STRUCTURE

During the Period, the share capital structure of the Company remained the same as that as at 31 December 2004.

EMPLOYEES AND REMUNERATION POLICY

Total number of employees for the Group is about 5. Remuneration policies are reviewed by the Group from time to time. In addition to salary payments, other fringe benefits for the staff include retirement benefits scheme. The contributions to the retirement benefit scheme for the staff of the Company are charged to the income statement as they become payable. The only obligation of the Group with respect to the scheme is to make the specified contributions.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, none of the directors nor any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company has adopted a share option scheme on 10 December 2001 which will remain in force for a period of 5 years.

No option was granted, exercised, lapsed or cancelled during the Period or remained outstanding as at 30 June 2005.

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company

Name	Personal* Interests	Family+ Interests	Corporate# Interests	Total Interests	Percentage of issued share capital of the Company	Notes
Baron Strategic Holdings Limited	—	—	78,261,016	78,261,016	18.12%	1
Wan Chuen Chun, Joseph	—	—	78,261,016	78,261,016	18.12%	1
Aimstar Investments Limited	—	—	34,000,000	34,000,000	7.87%	2
Sze Sun Sun, Tony	—	—	34,000,000	34,000,000	7.87%	2
Cosmopolitan International Holdings Limited	—	—	29,092,084	29,092,084	6.74%	

* Beneficial owner

+ Interests of spouse

Interests beneficially held by the company itself or through companies controlled by it

Notes:

1. International Securities Investments Limited held 78,261,016 shares and was a wholly-owned subsidiary of Baron Capital Limited. Baron Capital Limited was a wholly-owned subsidiary of Baron Strategic Holdings Limited which in turn was wholly-owned by Mr. Wan Chuen Chung, Joseph. Accordingly, Baron Capital Limited, Baron Strategic Holdings Limited and Mr. Wan Chuen Chung, Joseph were all deemed to be interested in the 78,261,016 shares held by International Securities Investments Limited.
2. Aimstar Investments Limited was wholly-owned by Mr. Sze Sun Sun, Tony. Mr. Sze Sun Sun, Tony was therefore deemed to be interested in 34,000,000 shares held by Aimstar Investments Limited.

Save as disclosed above, as at 30 June 2005, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register that required to be kept by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

CORPORATE GOVERNANCE

On 1 January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules. The Company adopted all the code provisions in the CG Code as its own code on corporate governance practices. The Company has complied with the code provisions as set out in the CG Code with the exception that a chief executive officer is not appointed during the six months ended 30 June 2005.

Though the Company does not appoint a chief executive officer, the role of chairman and chief executive officer is separated and not performed by the same individual. Besides, the Company is being managed by its investment manager, Sinox Fund Management Limited, pursuant to the terms of the written management agreement. The division of responsibilities between the chairman and chief executive officer is clearly established and set out in writing. The Company considers that the appointment of a chief executive officer of the Company is not necessary.

The Audit Committee comprises three independent non-executive directors namely Mr. Chan Siu Wing, Raymond, Mr. Yan Mou Keung, Ronald and Mr. Chan Fai Yue, Leo. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial statements and the interim report for the six months ended 30 June 2005.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the CG Code).

On specific enquiries made, all directors have confirmed that, in respect of the six months ended 30 June 2005, they have complied with the required standard as set out in the Model Code.

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises two executive directors, namely Mr. Lam Wo and Mr. Cheuk Yuk Lung and three independent non-executive directors, namely Mr. Chan Siu Wing, Raymond, Mr. Yan Mou Keung, Ronald and Mr. Chan Fai Yue, Leo.

On behalf of the Board

LAM Wo

Chairman

Hong Kong, 15 September 2005