

Management's Statement

On behalf of the board of directors (the "Board"), I have pleasure in presenting the annual report and the audited consolidated results of Prosperity Investment Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2005.

INVESTMENT PORTFOLIOS

For the year under review, the Group has investment projects in both the People's Republic of China ("PRC") and Hong Kong and they are mainly engaged in:

- (1) production and distribution of dairy products;
- (2) development of funeral services;
- (3) development of internet education services;
- (4) investment of land development.

These investments are expected to bring to the Group steady returns and possible capital appreciations.

BUSINESS REVIEW AND PROSPECTS

During the year, information in relation to those matters set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 are still the factors that continuously influence the investor sentiment over 2005. Looking ahead, the Board believes that the business environment is going to improve and the Board will take precaution measures before the identification of any investment opportunities which may benefit the prospects of the Group directly.

Subsequent to the disposal of its 25% equity interest in Shanghai Yong An Dairy Company Limited in December 2004 and the disposal of the entire paid-up registered capital of Sun Kai Yip (Shanghai) Industrial Investments Limited on 18 March 2005, the Group has continued to focus its efforts in rationalizing its investment portfolio.

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On 28 November 2005, Rich Profits International Limited ("RPIL"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with City Court Properties Limited ("CCPL"), an indirect wholly-owned subsidiary of Golden Resources Development International Limited which is a company incorporated in Bermuda and listed in Hong Kong, for the sale of the entire 18% equity interest of the issued share capital of Dragon Fortune Limited ("DFL"), a limited company incorporated in the British Virgin Islands and is indirectly holding Palm Island Golf Club & Resort at Huizhou of the PRC ("Palm Island"), together with the assignment of an interest-free shareholder's loan of approximately HK\$48 million to CCPL that DFL is originally indebted to RPIL, for a total consideration of HK\$72 million. The said consideration are received in two instalments, the first instalment of the consideration in a sum of HK\$10 million has been received from CCPL upon signing of the sale and purchase agreement and the second instalment of the consideration in a sum of HK\$62 million has also been received in the mid of January 2006. The Board believes that the realization of its investment in DFL at a reasonable price is in the best interest of the Group and its shareholders.

The Group will continue to identify and pursue any investment opportunities and manage the existing investments in accordance with the Company's investment objective and policy of achieving long-term capital appreciation and growth in profits.

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 believes 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 31 December 2005, cash and bank balances of the Group were approximately HK\$65 million. With cash and other current assets of approximately HK\$163 million as at 31 December 2005, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

CAPITAL STRUCTURE

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

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REMUNERATION POLICIES

Remuneration policies for the employees and the directors are reviewed by the Group in accordance with the market situation and their performance from time to time. In addition to salary payments, the Company has participated in the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% of their monthly relevant income.

The Company has also adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the full or part-time employees of the Company or its subsidiaries, options to subscribe for shares in the Company for the purposes of recognising their contributions to the Group.

APPRECIATION

I would like to express my sincere thanks to all our shareholders for their continuing support, and all the directors and staff of the Group for their loyalty, commitment and diligence in the past year.

On behalf of the Board

WONG Kwok Bui, George

Chairman

Hong Kong, 23 March 2006