

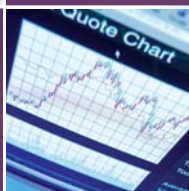


# PROSPERITY INVESTMENT HOLDINGS LIMITED

嘉進投資國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 310)



# 2006

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 2006 (the “Period”), together with the comparative figures for the corresponding period in 2005, as follows:

### Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June	
		2006 Unaudited	2005 Unaudited
		HK\$	HK\$
<b>Turnover</b>	2	<b>64,823,581</b>	6,713,486
Cost of sales		<b>(57,059,914)</b>	(4,076,280)
<b>Gross profit</b>		<b>7,763,667</b>	2,637,206
Other revenues		<b>31,211,623</b>	1,563,139
Investment management fee		<b>(1,413,513)</b>	(1,751,010)
Staff costs		<b>(346,163)</b>	(228,024)
Other operating expenses		<b>(6,057,292)</b>	(1,032,777)
<b>Profit from operations</b>	3	<b>31,158,322</b>	1,188,534
Share of profits of jointly controlled entities		—	575,386
Loss on disposal of a subsidiary		—	(1,943,920)
<b>Profit/(Loss) before taxation</b>		<b>31,158,322</b>	(180,000)
Taxation	4	—	(155,400)
<b>Profit/(Loss) attributable to shareholders</b>		<b>31,158,322</b>	(335,400)
<b>Earnings/(Loss) per share</b>	5	<b>7.21 cents</b>	(0.08) cent

## Condensed Consolidated Balance Sheet

		30 June 2006 Unaudited	31 December 2005 Audited
	Notes	HK\$	HK\$
<b>Non-current assets</b>			
Interests in associates		30,423,503	17,562,305
Interests in jointly controlled entities		2,773,428	2,773,428
Available-for-sale financial assets		75,807,293	73,437,295
Other asset		150,000	150,000
		<b>109,154,224</b>	93,923,028
<b>Current assets</b>			
Available-for-sale financial assets		—	3,698,235
Financial assets at fair value through profit or loss		91,096,722	26,359,349
Other receivables	6	20,987,463	67,528,942
Cash with brokers		14,060,374	1,279,521
Cash and bank balances		40,299,169	64,216,654
		<b>166,443,728</b>	163,082,701
<b>Less: Current liabilities</b>			
Other payables	7	172,781	452,409
Due to Sinox Fund Management Limited		137,672	346,437
Deposit received		—	10,000,000
Provision for taxation		13,390,053	13,390,053
		<b>13,700,506</b>	24,188,899
<b>Net current assets</b>		<b>152,743,222</b>	138,893,802
<b>NET ASSETS</b>		<b>261,897,446</b>	232,816,830
<b>Capital and Reserves</b>			
Share capital	8	4,319,520	43,195,200
Reserves	9	257,577,926	189,621,630
<b>SHAREHOLDERS' FUNDS</b>		<b>261,897,446</b>	232,816,830
<b>Net asset value per share</b>	10	<b>0.61</b>	0.54

## Condensed Consolidated Statement of Changes in Equity

	Reserves						Accumulated losses	Total
	Share capital	Share premium	Capital reserve on consolidation	Contributed surplus	Exchange fluctuation reserve	Changes in fair value of available-for-sale financial assets		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	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 reserve 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	43,195,200	169,564,710	468,163	86,752,510	(1,755,174)	—	(63,610,223)	234,615,186
Effect for the adoption of HKFRS 3	—	—	(468,163)	—	—	—	468,163	—
Effect for the adoption of HKAS 39	—	—	—	—	—	2,280,083	595,122	2,875,205
At 1 January 2005, as restated	43,195,200	169,564,710	—	86,752,510	(1,755,174)	2,280,083	(62,546,938)	237,490,391
Realisation of exchange fluctuation reserve on disposal of a subsidiary	—	—	—	—	1,887,093	—	—	1,887,093
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	1,364,105	—	1,364,105
Loss for the year	—	—	—	—	—	—	(7,924,759)	(7,924,759)
At 31 December 2005	43,195,200	169,564,710	—	86,752,510	131,919	3,644,188	(70,471,697)	232,816,830
Credit arisen on capital reduction set off against accumulated losses of the Company and remaining balance transferred to contributed surplus account	(38,875,680)	—	—	13,630,807	—	—	25,244,873	—
Decrease in fair value of available-for-sale financial assets	—	—	—	—	—	(2,077,706)	—	(2,077,706)
Profit for the Period	—	—	—	—	—	—	31,158,322	31,158,322
At 30 June 2006	4,319,520	169,564,710	—	100,383,317	131,919	1,566,482	(14,068,502)	261,897,446

## Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	HK\$	HK\$
NET CASH GENERATED FROM/(USED IN):		
OPERATING ACTIVITIES	<b>22,819,790</b>	(25,702,308)
INVESTING ACTIVITIES	<b>(32,569,267)</b>	(1,556,881)
FINANCING ACTIVITIES	—	(5,460,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(9,749,477)</b>	(32,719,189)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>64,109,020</b>	67,629,609
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>54,359,543</b>	34,910,420
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash with brokers	<b>14,060,374</b>	6,867,159
Cash and bank balances	<b>40,299,169</b>	28,043,261
	<b>54,359,543</b>	34,910,420

## Notes to the Condensed Financial Statements

For the six months ended 30 June 2006

### 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”) No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

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 2005.

### 2. Turnover and segmental information

An analysis of the Group’s unaudited turnover and profit from operations by principal activity and geographical segment is as follows:

	Turnover		Profit from operations	
	for the six months ended 30 June		for the six months ended 30 June	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
<b>By principal activity:</b>				
Management fees from jointly controlled entities	—	117,924	—	25,522
Dividend income from investment securities and other investments/ financial assets	1,300,962	1,163,012	1,300,962	1,163,012
Proceeds from sale of investment securities/financial assets	63,522,619	5,432,550	29,857,360	—
	<b>64,823,581</b>	6,713,486	<b>31,158,322</b>	1,188,534

	Turnover for the six months ended 30 June	
	2006	2005
	HK\$	HK\$
<b>By geographical segment:</b>		
The People's Republic of China:		
Hong Kong	64,823,581	6,595,562
Other regions	—	117,924
	<b>64,823,581</b>	6,713,486

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 profit from operations.

### 3. Profit from operations

	For the six months ended 30 June	
	2006	2005
	HK\$	HK\$
Unaudited profit from operations is arrived at after crediting:		
Interest income	2,323,351	1,661,491
Gain on disposal of an investee company	<b>20,162,090</b>	—

#### 4. Taxation

Taxation in the unaudited consolidated income statement represents:

	For the six months ended 30 June	
	2006	2005
	HK\$	HK\$
Company and subsidiaries		
Hong Kong profits tax	—	—
Overseas taxation	—	47
Jointly controlled entities and associated companies		
Share of taxation attributable to jointly controlled entities	—	155,353
Share of taxation attributable to associated companies	—	—
	—	155,400

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.

#### 5. Earnings/(Loss) per share

The calculation of the earnings/(loss) per share is based on the following data:

	For the six months ended 30 June	
	2006	2005
	HK\$	HK\$
Profit/(Loss) attributable to shareholders	31,158,322	(335,400)
Weighted average number of ordinary shares	431,952,000	431,952,000



**6. Other receivables**

The ageing analysis of the other receivables is as follows:

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>Unaudited</b>	Audited
	<b>HK\$</b>	HK\$
Within 3 months	—	—
3 to 6 months	—	—
6 to 12 months	—	—
Over 1 year	—	48,139,674
	<hr/>	<hr/>
Others	—	48,139,674
	<b>20,987,463</b>	19,389,268
	<hr/>	<hr/>
	<b>20,987,463</b>	67,528,942
	<hr/>	<hr/>

**7. Other payables**

The ageing analysis of the other payables is as follows:

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>Unaudited</b>	Audited
	<b>HK\$</b>	HK\$
Within 3 months	—	—
3 to 6 months	—	—
6 to 12 months	—	—
Over 1 year	—	—
	<hr/>	<hr/>
Others	—	—
	<b>172,781</b>	452,409
	<hr/>	<hr/>
	<b>172,781</b>	452,409
	<hr/>	<hr/>

**8. Share capital**

	Note	30 June 2006		31 December 2005	
		Number of shares	Nominal Value	Number of shares	Nominal Value
		HK\$		HK\$	
Ordinary shares of HK\$0.01 each (2005: HK\$0.10 each)					
Authorized:					
At beginning of the period		<b>3,000,000,000</b>	<b>300,000,000</b>	3,000,000,000	300,000,000
Capital Reduction	(a)	—	<b>(270,000,000)</b>	—	—
At end of the period		<b>3,000,000,000</b>	<b>300,000,000</b>	3,000,000,000	300,000,000
Issued and fully paid:					
At beginning of the period		<b>431,952,000</b>	<b>43,195,200</b>	431,952,000	43,195,200
Capital Reduction	(a)	—	<b>(38,875,680)</b>	—	—
At end of the period		<b>431,952,000</b>	<b>4,319,520</b>	431,952,000	43,195,200

*Note:*

- (a) Pursuant to a special resolution passed at the special general meeting held on 20 June 2006, the nominal value of each authorized but unissued or issued share of the Company was reduced from HK\$0.10 to HK\$0.01.

**9. Reserves**

	30 June 2006 Unaudited	31 December 2005 Audited
	HK\$	HK\$
Share Premium	<b>169,564,710</b>	169,564,710
Contributed surplus	<b>100,383,317</b>	86,752,510
Exchange fluctuation reserve	<b>131,919</b>	131,919
Changes in fair value of available-for-sale financial assets	<b>1,566,482</b>	3,644,188
Accumulated losses	<b>(14,068,502)</b>	(70,471,697)
	<b>257,577,926</b>	189,621,630

**10. Net asset value per share**

Net asset value per share is computed based on the net assets of HK\$261,897,446 (2005: HK\$232,816,830) and the number of issued and fully paid up shares of 431,952,000 (2005: 431,952,000) as at 30 June 2006.

**11. Comparative figures**

Certain comparative figures have been reclassified in order to reflect more accurately and effectively the presentation of the financial statements.

## Disclosure pursuant to rules 13.16 and 13.22 of the listing rules

### 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 2006 in aggregate exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules are as follows:

Affiliated Companies	Attributable interest held by the Group	Financial assistance (A)	Guarantees given (B)	Extent of guaranteed facilities utilized	Aggregate of financial assistance and guarantees given	Notes
					(A+B)	
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Halway Development Limited	30.00%	4,830	—	—	4,830	a
Happy Online Group Limited	33.75%	173	—	—	173	b
Bright Honest Limited	25.00%	12,000	7,250	5,500	19,250	c
<b>Total</b>		<b>17,003</b>	<b>7,250</b>	<b>5,500</b>	<b>24,253</b>	<b>d</b>

The combined balance sheet of the above affiliated companies as at 30 June 2006 is as follows:

	HK\$'000
Non-current assets	17,590
Current assets	50,024
Current liabilities	492
Net current assets	49,532
Non-current liabilities	63,792
Shareholders' funds	3,330

*Notes:*

- a. The financial assistance was made as shareholder's loans to finance the investment made by Halway Development 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 2006 (2005: 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 Group has continued to focus its efforts in rationalizing its investment portfolio. 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 was originally indebted to RPIL, for a total consideration of HK\$72 million. The said consideration was fully received in January 2006 and resulted in a gain of approximately HK\$20.16 million. 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.

Pursuant to a special resolution passed at the special general meeting held on 20 June 2006, the nominal value of each authorized but unissued or issued share of the Company was reduced from HK\$0.10 to HK\$0.01 (“Capital Reduction”).

A credit of HK\$38,875,680 was arisen as a result of the Capital Reduction and set off against the accumulated losses of the Company, and any remaining credit was transferred to the contributed surplus account of the Company. The Board believes that it would be in the Company’s interests to reduce its capital in order to eliminate such accumulated losses and it will also provide greater flexibility with the Company for raising fund through the issue of new shares in the future.

Hong Kong, being an international financial centre, is inevitably affected by the global economic changes. The potential inflationary pressure resulting from high energy prices and fluctuating interest rates would impede the pace of global economic growth and might dampen the performance of major international capital markets.

Looking ahead, the Board however believes that the business environment still remains challenging and highly competitive and both the global and Hong Kong economies will continue to be growing steadily.

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. The Board believes that the Group 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 2006, cash and bank balances of the Group were approximately HK\$54 million. With cash and other current assets of approximately HK\$166 million as at 30 June 2006, 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 has been changed with details shown in note 8 to the condensed financial statements.

## 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 Scheme Authority under the Mandatory Provident 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.

## Directors' interests and short positions in the shares, underlying shares and debentures

As at 30 June 2006, 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 2006.

Save as disclosed above, at no time during the year 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 2006, 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 Financial Holdings Limited	—	—	78,261,016	78,261,016	18.12%	1
Wan Chuen Chung, 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 Financial Holdings Limited which in turn was wholly owned by Mr. Wan Chuen Chung, Joseph. Accordingly, Baron Capital Limited, Baron Financial 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 2006, 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

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules with the exception of code A.2.1 that an individual chief executive officer is not appointed during the six months ended 30 June 2006.

Though the Company does not appoint an individual 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 based on the existing size and structure of the Company, the appointment of an individual 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 2006.

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

On specific enquiries made, all directors have confirmed that, in respect of the six months ended 30 June 2006, 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. Cheuk Yuk Lung and Miss Tsui Yee Ni 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  
**CHEUK Yuk Lung**  
*Chairman*

Hong Kong, 7 September 2006