

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 2006.

INVESTMENT PORTFOLIOS

For the year under review, the Group has mainly engaged in the following investment projects:

- (1) investment in land development;
- (2) investment in travel industry; and
- (3) development of internet education services

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 (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 People's Republic of China (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 (the "Capital Reduction").

Management's Statement

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 31 December 2006, cash and bank balances of the Group were approximately HK\$76 million. With cash and other current assets of approximately HK\$128 million as at 31 December 2006, 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 has been changed with details shown in note 24 to the 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 (the "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.

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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

CHEUK Yuk Lung

Chairman

Hong Kong, 14 March 2007