



26 June 2007

## Prosperity Minerals Holdings Limited

### 2007 Preliminary Results Q4 Performance

Prosperity Minerals Holdings Limited ('Prosperity' or 'the Company'), which operates a cement manufacturing business in the People's Republic of China ('PRC') and an iron ore trading business serving the same market, today announces its results for the fourth quarter ('Q4') and year ended 31 March 2007 (all financials are expressed in US dollars with volumes in metric tonnes, unless otherwise stated).

#### Financial Highlights

##### For Q4

- Revenue was 142% higher at \$87.5 million (2006: \$36.1 million)
- EBITDA increased 125% to \$13.3 million (2006: \$5.9 million)
- Operating profit rose 78% to \$10.5 million (2006: \$5.9 million)
- Profit before tax was 72% higher at \$10.0 million (2006: \$5.8 million)
- Basic earnings per share were 6.3 cents

##### For the year

- Revenue was 46% higher at \$331.3 million (2006: \$226.4 million)
- EBITDA increased by 65% to \$56.3 million (2006: \$35.3 million)
- Operating profit rose by 16% to \$40.9 million (2006: \$35.3 million)
- Profit before tax was 37% higher at \$45.9 million (2006: \$33.6 million)
- Basic earnings per share were 37.4 cents (2006: 65.3 cents)
- A maiden final dividend of 12 cents per share has been proposed, making a total for the year of 18 cents per share

#### Operating highlights

- Yingde Dragon Mountain Cement Company Limited ('YDM') and Prosperity Conch Cement Company Limited ('PCC') (25% owned) performed in line with expectations during the year, despite a weather affected first half
- The Company's share of the combined cement and clinker sales from these facilities was 3.5 and 3.9 million tonnes respectively
- Cement manufacturing contributed a segmental result (being profit from operations less unallocated operating income and expenses) of \$29.8 million from YDM and \$3.2 million of associate company profits from PCC
- A residual heat electricity generation unit at YDM is scheduled to be commissioned in August and is expected to generate annual savings of some \$8 million net of operating expenses

- Prosperity has recently finalised an expansion of its operations into the key geographical area of Anhui Province in the central PRC
- The Company is also actively investigating opportunities to expand its cement operations into other parts of the PRC
- Iron ore trading experienced difficult market conditions in the first half, but volumes and profits improved in the second half
- Iron ore trading contributed a segmental result of \$21.2 million (2006: \$37.8 million)
- Prosperity developed an alternative source of iron ore in Thailand, which accounted for approximately 10% of its volumes in the year; and this is expected to increase significantly during fiscal 2008

Copies of the Company's Report & Accounts for the year ended 31 March 2007 will be available to download from the Company's website: [www.pmhl.co.uk](http://www.pmhl.co.uk)

**Chairman and CEO, David Wong said:**

“This is a very satisfactory set of results. Furthermore, trading in the opening two months of the new fiscal year has been good with a marked increase in cement prices and increased month on month tonnages of iron ore from Thailand. The Board is looking forward to a year of further progress”.

Notes:

- (i) *The Company acquired YDM and a 25% investment in PCC in April 2006. Prior to these acquisitions, it did not own any cement operations or investments. As such, the prior period comparatives reflect only the results or the financial state of affairs of the iron ore trading business.*
- (ii) *Net profit in the fourth quarter and the year rose in line with profit before tax. However, basic earnings per share in the latest periods are calculated on a substantially larger number of new shares which were issued at the time of the Company's Initial Public Offering ('IPO') in May 2006.*
- (iii) *The average exchange rate in Q4 was \$1 = RMB 7.7722 (2006: 8.0575) and for the year it was \$1 = RMB 7.7410 (2006: 8.1451)*

**Enquiries:**

**Prosperity Minerals Holdings Limited** +44 (0) 20 7638 9571  
 Patrick Li  
 Sandy Chim

**Citigate Dewe Rogerson** +44 (0) 20 7638 9571  
 Media enquiries: Martin Jackson  
 Analyst enquiries: Scott Fulton

**Evolution Securities Limited** +44 (0) 20 7071 4300  
 Robert Collins  
 Tim Redfern

# Prosperity Minerals Holdings Limited

## 2007 Preliminary Results Q4 Performance

### Chairman's Statement

Prosperity was floated on the AIM market of the London Stock Exchange in May 2006 and I am delighted to present its first set of annual results as a listed company.

For the 12 months ended 31 March 2007, Prosperity generated profit before tax of \$45.9 million, which is a 37% increase over 2006. This is a very satisfactory set of results, which were achieved despite a weather-affected first half and difficult trading conditions in July and August, particularly for iron ore, which saw a sharp fall in both operating profits and margins. This situation improved in the second half of the year and this has continued in the new fiscal year to date.

A maiden final dividend of 12 cents per share has been recommended by the Board and together with the maiden interim dividend of 6 cents makes a total of 18 cents for the year.

Cement manufacturing is a relatively new activity for Prosperity. In April 2006, we acquired 100% of YDM and 25% of PCC – both brand new facilities which employ modern suspension pre-heater dry processing. The design capacity of the clinker\* and cement plant at YDM is 5.9 million tonnes per annum, while at PCC it is 7.9 million tonnes per annum. PCC is a joint venture with Anhui Conch Cement Company Ltd ('Anhui Conch'), which is the largest cement manufacturer in the PRC and listed on the Hong Kong and Shanghai Stock Exchanges. Both YDM and PCC are based in the Guangdong Province in the south of the country.

In addition, Prosperity has recently finalised an expansion of its operations into the key geographical area of Anhui Province in the central PRC, which was protracted by a number of regulatory hurdles. This resulted in the acquisition of a 33.1% interest in Anhui Chaodong Cement Company Limited ('Chaodong') which is listed on the Shanghai Stock Exchange. Similarly, Prosperity is actively investigating opportunities to expand its cement operations into other parts of the PRC.

The PRC has an abundance of limestone, the core raw material for making cement. However, it is not as similarly well endowed with high quality indigenous iron ore reserves; but is, nonetheless, the World's largest user (as it is of cement). This means that vast quantities of iron ore need to be imported and in the calendar year, 2006, total imports were 326 million tonnes (compared to total domestic production of 588 million tonnes, according to Umetal.net), which was an increase of 18% year-on-year.

Prosperity's iron ore trading business commenced operation in 1992 with imports from Brazil, South Africa and Australia. Sourcing from these nations has continued and, last year, we added Thailand, which accounted for approximately 10% of our shipments of iron ore in the period. Thailand is a lot closer to the PRC than the more traditional export nations, which provides a huge advantage on our spot selling price due to substantially lower freight costs. Last year, our total shipments, from all sources, amounted to 3.2 million tonnes.

The achievements in the year and the foundation which has been laid for the future could not have been made without the nearly 900 people who work every day for Prosperity. I, thus, underline my sincerest gratitude to the Directors, management and staff of Prosperity for their hard work throughout the year. I would also like to record my thanks to the new external, mostly European-based, shareholders for their support during the year.

## **Outlook**

Prosperity serves one market, the PRC, which is now the World's fourth largest economy (behind the US, Japan and Germany). The nation's GDP is also growing at a double digit rate and, although this may slow moderately from current levels due to PRC Government fiscal and monetary policy, it is nonetheless expected to remain robust.

It is also noteworthy that the PRC will host the 2008 Olympic Games, 2010 Asian Games and 2010 EXPO, amongst others. These events will be significant for the domestic economy and as an international showcase for the PRC.

At a Company level, operating issues include product manufacturing costs, energy, transportation costs and product pricing. Management, however, is no stranger to these. Furthermore, trading in the opening two months of the new fiscal year has been good with a marked increase in cement prices and increased month on month tonnages of iron ore shipped from Thailand. In the absence of unforeseen events, the Board is looking forward to a year of further progress.

*David Wong*  
*Chairman and Chief Executive Officer*  
*26 June 2007*

*\*clinker is a complex calcium alumino-silicate material produced by the calcination of limestone and clay. It is then ground and mixed with gypsum to form cement or more correctly, Portland Cement.*

## Financial Review

For the fourth quarter ended 31 March 2007, revenue rose 142% from \$36.1 million to \$87.5 million, while gross profit for the period increased from \$6.9 million to \$14.8 million. The gross margin was 16.9% (2006: 19.1%).

For the 12 months ended 31 March 2007, revenue rose 46% from \$226.4 million to \$331.3 million, while gross profit for the period increased from \$38.0 million to \$49.4 million. However, the gross margin dipped from 16.8% to 14.9% due, primarily, to the challenging operating conditions for the iron ore business which prevailed in the first half.

EBITDA in Q4 was \$13.3 million (2006: \$6.0 million) and in the year \$56.3 million (2006: \$35.3 million). The latter includes other operating income of \$5.3 million (2006: \$2.7 million), which originated from both of the Company's cement businesses (in 2006 it was demurrage income in iron ore trading).

Operating profit in Q4 was 78% higher at \$10.5 million (2006: \$5.9 million) which reflected the contribution from the cement operations acquired earlier in the fiscal year.

Operating profit for the year was 16% higher at \$40.9 million (2006: \$35.3 million) including a non-income tax refund and other revenue of \$5.3 million (2006: \$2.7 million). As with the gross margin, the operating profit margin in fiscal 2007 was lower at 12.4% (2006: 15.6%).

Fourth quarter finance costs were \$1.6 million (2006: \$93,000) and in the year \$5.8 million, up from \$1.8 million in 2006. The year's costs were covered 7.1 times by operating profit (2006: 19.2 times); and 9.8 times (2006: 19.5 times) by EBITDA. Net finance costs were \$2.2 million in 2007 (2006: \$1.7 million) including an exchange gain of \$1.9 million (2006: exchange loss of \$22,000).

The Company's maiden Q4 and full year share of associate company profits - i.e. 25% of PCC - was \$0.7 million and \$3.2 million respectively. In addition, and shown as a separate item for the year, there were proceeds of \$3.9 million profit (2006: nil) on a sale of land at the Yingde Dragon Mountain cement plant to the Yingde Municipal Government. This was paid for by way of a Government grant.

Profit before tax in the fourth quarter increased 38% from \$5.8 million to \$10.0 million and in the year by 37% from \$33.6 million to \$45.9 million. The tax charge provided for the year was nominal at less than 4% of profits before tax or \$1.8 million (2006: credit of \$1,000).

Net profit in Q4 and the year were both substantially ahead of their comparative periods: 40% to \$8.2 million; and 31% to \$44.1 million respectively. However, earnings per share reflect the Company's Initial Public Offering (IPO) in May 2006. In Q4, basic and diluted earnings per share were 6.3 cents which compares with 11.4 cents a year ago. In the year, basic and diluted earnings per share were 37.4 cents (2006: 65 cents).

A first time final dividend of 12 cents per share has been proposed by the Board. If this is agreed at the Company's AGM on 25 July 2007, the dividend will be payable on 1 August 2007 to ordinary shareholders on the Company's register at the close of business on 6 July 2007. The ex-dividend date is 4 July 2007. Together with the maiden interim dividend of 6 cents per share, the final dividend of 12 cents per share, makes a total for the year of 18 cents. The cost of the dividend in the year (\$7.7 million) shown in the profit and loss account excludes the proposed final payment and is covered 5.7 times by earnings (\$44.1 million).

At the half year, the Company's two founding shareholders, David Wong, Chairman and CEO and Madam Ching Fong Hon, who together hold 40.9% of the issued share capital of the Company, waived their entitlement to the interim dividend. This equates to a sum of \$3.2 million which has been retained by the Company.

There was a net cash inflow from operating activities of \$25.6 million in Q4, which reflected a satisfactory performance in both cement operation and iron ore trading during the period under review. For the year, there was a net cash inflow from operating activities of \$20.6 million (2006: outflow of \$14.3 million). Gross investing activities, including acquisitions, absorbed \$156.7 million (2006: positive cash flow from investing activities of \$93,000) while financing activities comprised principally the issue of new shares. At 31 March 2007, gross cash and cash equivalents were \$51.3 million (2006: \$4.6 million).

For the year, liquidity as measured by the quick ratio (i.e. current assets less inventories divided by current liabilities) was 1.03 (2006: 1.22).

Capital expenditure in the year was \$19.3 million (2006: \$23,000) which represented 5.8% of turnover (2006: 0.1%) and 271% of depreciation (2006: 110%)

Net debt (defined as total borrowings net of cash and cash equivalents) at the year end was \$37.7 million (2006: \$11.4 million) against net assets of \$208.1 million as at 31 March 2007 (2006: \$4.9 million) The gearing ratio (taking the definition of net debt above divided by net assets) was 18% (2006: 233%).

Finally, a note is made of acquisition accounting on the balance sheet. On the acquisition of YDM, goodwill was reported as \$67 million in Prosperity's unaudited half year and third quarter results. However, approximately \$26 million of this amount has been reclassified to a Merger Reserve on the Company's balance sheet as at 31 March 2007 in compliance with International Financial Reporting Standards (see notes to the balance sheet). There is no effect on the income statement as a result of this reclassification.

## Operating Review

### Cement manufacturing

YDM performed in line with expectations despite the unusually wet weather and Typhoon Bilis hitting Guangdong in the first half. In Q4, YDM sold 0.86 million tonnes of cement and 0.75 million tonnes of clinker. This generated \$33.9 million of revenue and \$8.6 million of segmental profits. During the fiscal year ended 31 March 2007, YDM sold 3.04 million tonnes of cement and 2.73 million tonnes of clinker. Annual revenue was \$124.4 million and segmental profits \$29.8 million.

Construction of a residual heat electricity generation unit is underway at YDM. The system utilises the exhaust heat emitted during the production of clinker to generate electricity. This is an environmentally friendly optimisation of available energy, as it reduces the amount of coal burned in the production of clinker and, thereby, lowers carbon dioxide emissions by approximately 75,000 tonnes per annum. The system is also expected to generate an annual saving of some \$8 million net of operating expense and is scheduled to commence operation in August 2007.

At PCC, the four clinker production lines were completed to schedule and on 9 December 2005, the first production line commenced operation, followed by the second on 6 January 2006, the third on 3 March and the fourth on 13 April.

All six grinding mills at PCC commenced operation during 2006: number one on 10 August; number two on 25 June; number three on 16 August; number four on 25 September; number five on 12 September; and number six on 30 September.

PCC also performed in line with expectations, despite the unusually wet weather in the first half, which adversely affected the cement industry in Guangdong. For the fiscal year ended 31 March 2007, PCC sold a total of 1.80 million tonnes of cement and 4.51 million tonnes of clinker, generating a net profit of \$13.0 million.

Cement prices recovered in the year and Prosperity raised its prices by 4.7% in September. However, the realised price of cement in Guangdong was lower year-on-year due primarily to additional new capacity coming on stream and the incidence of regional imports. Both of these factors proved to be temporary influences. Furthermore, demand is already beginning to reflect the building work associated with the forthcoming Asian Games, combined with the continued elimination of inefficient cement operators by the Guangdong Provincial Government. This means that in the first two months of the new fiscal year, Prosperity has seen a marked increase in cement prices.

Prosperity has successfully expanded operations into the key geographical area of Anhui Province in central PRC with the acquisition of a 40% interest in Chaodong. Under the same share purchase agreement, Anhui Conch Cement Company Limited – Prosperity's partner in PCC – acquired a 19.7% interest in Chaodong.

On 29 November 2006, Prosperity obtained approval from the State-owned Assets Supervision and Administration Commission of the PRC State Council for the acquisition. Subsequently, approval from the PRC Ministry of Commerce was granted on 28 December 2006. On 13 April 2007, Prosperity obtained a waiver from the China Securities Regulatory Commission ('CSRC'), whereby Prosperity is exempted from making a general offer for the entire share capital of Chaodong. On 1 June 2007, Prosperity completed the shares transfer process.

Subsequent to the CSRC waiver, the Chaodong shares, which bear full voting rights and entitlements, are being restructured from non-tradable to tradable (which will be explained in detail below). However, under the terms of the share purchase agreement, Prosperity has undertaken not to sell the Chaodong shares it acquires within three years of the date the shares are transferred to Prosperity.

The share reform (or restructure) scheme of Chaodong was approved at a Shareholders' Meeting on 8 May 2007 whereby the non-tradable shares, of which Prosperity holds 80 million, were approved to be converted into tradable shares. In exchange the existing tradable shareholders are to be issued with 5.25 additional new shares for every 10 existing tradable shares. As result of such reform, the shareholding of Prosperity in Chaodong (being at 80 million shares unchanged after the enlargement of the share capital from the issuance of the new shares) will be diluted from 40.00 percent to 33.06 percent. This plan of share reform approved by Chaodong's shareholders is to be approved by the Ministry of Commerce as a matter of formality. Once this approval is obtained, Chaodong will issue these additional new shares to the current tradable shareholders and convert the current non-tradable shares of Prosperity and other such non-tradable shareholders to ordinary tradable shares.

In the year ended 31 December 2006, Chaodong sold 2.69 million tonnes of cement. Chaodong intends to invest in two more cement projects in Anhui Province: Chao Hu and Liu An which will add an additional 4.20 million tonnes of cement and clinker capacity.

### **Iron ore trading**

In the fourth quarter, iron ore trading revenue was \$53.7 million, which compares with \$27.5 million in the corresponding period a year earlier, while segmental profit was \$6.0 million (2006: \$6.6 million). In the year, revenue was \$206.9 million which was a decrease of 9% on the previous year (2006: \$226.4 million). This reflected the lower annual tonnage of 3.2 million tonnes, which was down 8.6% year on year (2006: 3.5 million tonnes).

Segmental profit in 2007 came in at \$21.2 million which compares with \$37.8 million in 2006 i.e. a decline of 44%.

The iron ore trading business experienced difficult trading conditions during the period from July to September 2006. This was due to a number of factors:

- There was a significant and sudden increase in freight rates in July and August. On long distance shipments from Brazil or Australia to the PRC, freight is a significant part of the CIF (Cost, Insurance & Freight) price of iron ore.
- The contract price for the iron ore year commencing 1 April 2006 was only agreed in late June 2006. Similarly, the 19% increase in the contract price was above the expected 10-15% range. This reduced the ability of the steel mills to absorb the impact of the higher freight rates, as they were, by then, extremely resistant to input price changes.
- The PRC Government's austerity measures, which were first introduced in 2004, continued to develop and gather momentum in the year. This has led to the rationalisation of a number of sectors including steel and will, ultimately, favour the large and more efficient steel mills, which are the Company's main customers. However, it also caused a surge in domestic steel supply in 2006, which negatively impacted steel prices and the

spot price for iron ore during that time. Furthermore, the unusually severe weather during the summer of 2006 adversely affected the construction industry.

- In an effort to reduce the impact of the fluctuating freight market, Prosperity has been actively investigating opportunities for sourcing iron ore to the PRC from alternative locations within South East Asia. This would significantly lower transport costs, giving Prosperity a cost advantage over competitors sourcing from Brazil or Australia (note that three countries, Australia, Brazil and South Africa, supply 70-80% of world demand).

To this end, Prosperity has developed an alternative source of iron ore in Thailand. During the fiscal year ended 31 March 2007, Prosperity imported 331,505 tonnes of iron ore from Thailand. The amount of iron ore imported from Thailand has gained momentum in the first two months of the new fiscal year and this is expected to increase significantly during fiscal year 2008.

ENDS

# Prosperity Minerals Holdings Limited

## Consolidated Income Statement

|                                    | Year ended 31 March |               |
|------------------------------------|---------------------|---------------|
|                                    | 2007                | 2006          |
|                                    | US\$'000            | US\$'000      |
| Revenue                            | 331,339             | 226,444       |
| Cost of sales                      | (281,918)           | (188,414)     |
| <b>Gross profit</b>                | <b>49,421</b>       | <b>38,030</b> |
| Other operating income             | 5,337               | 2,673         |
| Distribution expenses              | (3,733)             | (2,941)       |
| Administrative expenses            | (10,100)            | (2,477)       |
| <b>Profit from operations</b>      | <b>40,925</b>       | <b>35,285</b> |
| Finance costs                      | (5,746)             | (1,834)       |
| Finance income                     | 3,510               | 116           |
| Non-operating income               | 3,944               | -             |
| Share of profits of associate      | 3,236               | -             |
| <b>Profit before taxation</b>      | <b>45,869</b>       | <b>33,567</b> |
| Income tax (expense)/credit        | (1,793)             | 1             |
| <b>Profit of the year</b>          | <b>44,076</b>       | <b>33,568</b> |
| Attributable to:                   |                     |               |
| Equity shareholders of the company | 44,076              | 33,568        |
| <b>Dividends</b>                   | <b>7,743</b>        | <b>35,739</b> |
| <b>Earning per share</b>           |                     |               |
| Basic and diluted                  | 0.37                | 0.65          |

# Prosperity Minerals Holdings Limited

## Consolidated Balance Sheet

|  | 31 March         |                  |
|--|------------------|------------------|
|  | 2007<br>US\$'000 | 2006<br>US\$'000 |
| <b>Non-current assets</b>                    |                  |                  |
| Property, plant and equipment                | 148,226          | 41               |
| Mining rights                                | 17,330           | -                |
| Lease prepayments                            | 15,045           | -                |
| Interest in an associate                     | 22,455           | -                |
| Goodwill                                     | 36,828           | -                |
|  | <u>239,884</u>   | <u>41</u>        |
| <b>Current assets</b>                        |                  |                  |
| Inventories                                  | 10,635           | -                |
| Trade and other receivables                  | 67,517           | 21,223           |
| Other financial assets                       | -                | 1,000            |
| Pledged deposits                             | 2,724            | -                |
| Cash and Cash equivalents                    | 51,320           | 4,633            |
|  | <u>132,196</u>   | <u>26,856</u>    |
| <b>Current liabilities</b>                   |                  |                  |
| Interest bearing loans and borrowings        | 45,718           | 16,055           |
| Trade and other payables                     | 71,482           | 5,885            |
| Income tax payable                           | 1,307            | 18               |
|  | <u>118,507</u>   | <u>21,958</u>    |
| <b>Net current assets</b>                    | <u>13,689</u>    | <u>4,898</u>     |
| <b>Total assets less current liabilities</b> | <u>253,573</u>   | <u>4,939</u>     |
| <b>Non-current liabilities</b>               |                  |                  |
| Interest bearing loans and borrowings        | 29,712           | -                |
| Long-term payables                           | 13,578           | -                |
| Deferred tax liabilities                     | 2,199            | 5                |
|  | <u>45,489</u>    | <u>5</u>         |
| <b>Net assets</b>                            | <u>208,084</u>   | <u>4,934</u>     |
| <b>Capital and reserves</b>                  |                  |                  |
| Share capital                                | 2,351            | 13               |
| Retained earnings                            | 34,584           | 4,921            |
| Other reserves                               | 171,149          | -                |
| <b>Total equity</b>                          | <u>208,084</u>   | <u>4,934</u>     |

# Prosperity Minerals Holdings Limited

## Consolidated Cash Flow Statement

|   | Year ended 31 March |          |
|---|---------------------|----------|
|   | 2007                | 2006     |
|   | US\$'000            | US\$'000 |
| <b>Operating activities</b>                                   |                     |          |
| Profit before taxation  | 45,869              | 33,567   |
| Adjustments for:  |                     |          |
| - Non-operating income  | (3,944)             | -        |
| - Depreciation  | 7,122               | 21       |
| - Amortisation  | 1,051               | -        |
| - Finance costs   | 5,746               | 1,812    |
| - Finance income  | (3,510)             | (94)     |
| - Share of profits of associate                               | (3,236)             | -        |
|   | <hr/>               | <hr/>    |
| <b>Operating profit before changes in working capital</b>     | 49,098              | 35,306   |
| Increase in inventories                                       | (1,173)             | -        |
| (Increase)/decrease in trade and other receivables            | (35,197)            | 3,243    |
| Decrease in other financial assets                            | 1,000               | -        |
| Increase in amounts due from shareholders                     | -                   | (35,739) |
| Increase/(decrease) in trade and other payables               | 2,992               | (11,660) |
| Decrease in amounts due to shareholders                       | -                   | (5,418)  |
|   | <hr/>               | <hr/>    |
| <b>Cash generated from/(used in) operations</b>               | 16,720              | (14,268) |
| Receipt of government grant                                   | 3,944               | -        |
| Hong Kong Profits Tax paid                                    | (18)                | (28)     |
|   | <hr/>               | <hr/>    |
| <b>Net cash generated from/(used in) operating activities</b> | 20,646              | (14,296) |
|   | .....               | .....    |

|   | Year ended 31 March |                 |
|---|---------------------|-----------------|
|   | 2007                | 2006            |
|   | US\$'000            | US\$'000        |
| <b>Investing activities</b>                                   |                     |                 |
| Interest received   | 1,562               | 116             |
| Payment for purchase of property, plant and equipment         | (19,316)            | (23)            |
| Acquisition of associate                                      | (18,088)            | -               |
| Net cash outflow from acquisition of minority interest        | (45,550)            | -               |
| Net cash outflow from acquisition of subsidiaries             | (75,287)            | -               |
| <b>Net cash (used in)/generated from investing activities</b> | <b>(156,679)</b>    | <b>93</b>       |
| <b>Financing activities</b>                                   |                     |                 |
| Decrease in pledged deposits                                  | 13,697              | 33              |
| Proceeds from bank loans                                      | 70,365              | 16,055          |
| Repayment of bank loans                                       | (80,501)            | -               |
| Interest paid   | (4,227)             | (1,812)         |
| Foreign exchange gain/(loss)                                  | 1,947               | (22)            |
| Proceeds from issue of new shares, net of expenses            | 191,039             | -               |
| Dividend paid to ex-equity shareholder                        | (4,921)             | -               |
| Interim dividend paid   | (4,576)             | -               |
| <b>Net cash generated from financing activities</b>           | <b>182,823</b>      | <b>(14,254)</b> |
| <b>Net increase in cash and cash equivalents</b>              | <b>46,790</b>       | <b>51</b>       |
| <b>Cash and cash equivalents at 1 April</b>                   | <b>4,633</b>        | <b>4,582</b>    |
| <b>Effect of foreign exchange rate changes</b>                | <b>(103)</b>        | <b>-</b>        |
| <b>Cash and cash equivalents at 31 March</b>                  | <b>51,320</b>       | <b>4,633</b>    |

## **Selected Notes to the Consolidated Financial Statements**

Full notes are set out in the Company's Report & Accounts for the year ended 31 March 2007 which will be available to download from the Company's website: [www.pmhl.co.uk](http://www.pmhl.co.uk)

### **BASIS OF PRESENTATION**

Prosperity Minerals Holdings Limited ("the Company"), was incorporated and registered in Jersey on 26 January 2006 as a limited liability company with registered number 92284 under the Companies (Jersey) Law 1991. The registered office of the Company is Whiteley Chambers, Don Street, St Helier, Jersey JE4 9WG, Channel Islands.

The Company's shares were admitted to trading on AIM on 24 May 2006 by way of a placing ("the Placing") of shares with institutional investors. The Placing comprised 77,703,000 ordinary shares, following which the issued share capital of the Company was 129,056,392 shares of 1 pence each.

- (i) The Company acquired the companies comprising the Pro-Rise Business Limited ("Pro-Rise") and its subsidiaries ("the Pro-Rise Group") via a share for share exchange with Pro-Rise on 18 May 2006. Prior to the share for share exchange, Pro-Rise was owned by two shareholders, Madam Ching Fong Hon and Mr David Wong.

The Company and its subsidiaries (collectively "the Group") is regarded as a continuing entity resulting from the reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 18 May 2006. Accordingly, the consolidated results of the Group for the years ended 31 March 2006 and 2007 include the results of the Company and its subsidiaries with effect from 1 April 2005 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 March 2006 is a combination of the balance sheets of the Company and its subsidiaries at 31 March 2006. All material intra-group transactions and balances have been eliminated on combination.

- (ii) On 13 April 2006, the Group acquired a 75% equity interest in Yingde Dragon Mountain Cement Company Limited ("YDM") from two independent parties. The purchase method of accounting is used to account for this acquisition.

In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

## SEGMENT REPORTING

The Group is principally engaged in the manufacture and sale of cement and clinker and the trading of iron ore. Business segment information is chosen as the Group's primary format because this is more relevant to the Group's internal financial reporting. Revenue from external customers (turnover) represents the sales value of goods supplied to customers.

### Business segments

The Group comprises the following business segments:

- Trading of iron ore; and
- Manufacture and sale of cement and clinker.

There are no sales between the business segments.

|   | Year ended 31 March                |   |                   |                                    |   |                   |
|---|------------------------------------|---|-------------------|------------------------------------|---|-------------------|
|   | 2007                               |   |                   | 2006                               |   |                   |
|   | Trading of<br>iron ore<br>US\$'000 | Manufacture<br>and sale<br>of cement<br>and clinker<br>US\$'000 | Total<br>US\$'000 | Trading of<br>iron ore<br>US\$'000 | Manufacture<br>and sale<br>of cement<br>and clinker<br>US\$'000 | Total<br>US\$'000 |
| Revenue from external customers           | 206,938                            | 124,401   | 331,339           | 226,444                            | -   | 226,444           |
| Other revenue from external customers     | <u>2,587</u>                       | <u>2,750</u>  | <u>5,337</u>      | <u>2,673</u>                       | <u>-</u>  | <u>2,673</u>      |
| Total                                     | <u>209,525</u>                     | <u>127,151</u>  | <u>336,676</u>    | <u>229,117</u>                     | <u>-</u>  | <u>229,117</u>    |
| Segment result                            | <u>21,200</u>                      | <u>29,825</u>   | 51,025            | <u>37,762</u>                      | <u>-</u>  | 37,762            |
| Unallocated operating income and expenses |                                    |   | <u>(10,100)</u>   |                                    |   | (2,477)           |
| Profit from operations                    |                                    |   | 40,925            |                                    |   | 35,285            |
| Finance costs                             |                                    |   | (5,746)           |                                    |   | (1,834)           |
| Finance income                            |                                    |   | 3,510             |                                    |   | 116               |
| Share of profits of associate             |                                    |   | 3,236             |                                    |   | -                 |
| Non-operating income                      |                                    |   | 3,944             |                                    |   | -                 |
| Income tax (expense)/ credit              |                                    |   | <u>(1,793)</u>    |                                    |   | <u>1</u>          |
| Profit for the year                       |                                    |   | <u>44,076</u>     |                                    |   | <u>33,568</u>     |

|  | Year ended 31 March                |   |                   |                                    |   |                   |
|--|------------------------------------|---|-------------------|------------------------------------|---|-------------------|
|  | 2007                               |   |                   | 2006                               |   |                   |
|  | Trading of<br>iron ore<br>US\$'000 | Manufacture<br>and sale<br>of cement<br>and clinker<br>US\$'000 | Total<br>US\$'000 | Trading of<br>iron ore<br>US\$'000 | Manufacture<br>and sale<br>of cement<br>and clinker<br>US\$'000 | Total<br>US\$'000 |
| Depreciation and amortisation                | 40                                 | 8,133   | 8,173             | 21                                 | -   | 21                |
| Segment assets                               | 54,360                             | 275,282   | 329,642           | 26,897                             | -   | 26,897            |
| Interest in an associate                     | -                                  | 22,455  | 22,455            | -                                  | -   | -                 |
| Unallocated assets                           |                                    |   | <u>19,983</u>     |                                    |   | <u>-</u>          |
| Total assets                                 |                                    |   | <u>372,080</u>    |                                    |   | <u>26,897</u>     |
| Segment liabilities                          | 10,172                             | 75,726  | 85,898            | 21,963                             | -   | 21,963            |
| Unallocated liabilities                      |                                    |   | <u>78,098</u>     |                                    |   | <u>-</u>          |
| Total liabilities                            |                                    |   | <u>163,996</u>    |                                    |   | <u>21,963</u>     |
| Capital expenditure incurred during the year | 227                                | 19,089  |                   | 23                                 | -   |                   |

### Geographic segment

The Group's turnover and operating profit are almost entirely derived in the PRC. Accordingly, no analysis by geographical segment is provided.

### DIVIDENDS

#### Dividend payable to equity shareholders of the Company attributable to the year:

|   | Year ended 31 March |                  |
|---|---------------------|------------------|
|   | 2007<br>US\$'000    | 2006<br>US\$'000 |
| Interim dividend declared and paid of US6 cents per share (2006: Nil cents per share) | 7,743               | -                |
| Dividend declared and paid to the controlling shareholder of Pro-Rise                 | <u>-</u>            | <u>35,739</u>    |
|   | <u>7,743</u>        | <u>35,739</u>    |

- (a) An interim dividend of US\$35,739,000 was declared and paid to the controlling shareholder of Pro-Rise prior the Placing of shares of the Company on the AIM market operated by the London Stock Exchange.
- (b) The interim dividend declared included US\$3,168,000 waived by certain shareholders.

## **EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of basic earnings per share for the year ended 31 March 2007 is based on the profit attributable to equity shareholders of the Company of US\$44,076,000 and the weighted average number of ordinary shares of 117,773,489 in issue during the year.

The calculation of basic earnings per share for the year ended 31 March 2006 is based on the profit attributable to equity shareholders of the Company of US\$33,568,000 and the weighted average number of ordinary shares of 51,353,392, as if the Company has been in existence throughout the entire year, and immediately before the Placing of the Company shares.

### **(b) Diluted earnings per share**

There were no dilutive potential ordinary shares in existence during the years ended 31 March 2006 and 2007.