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This document comprises an admission document for the purposes of the AIM Rules. This document does not constitute, and the Company is not making, an offer of transferable securities to the public within the meaning of sections 85 and 102B of FSMA. Therefore this document is not an approved prospectus for the purposes of and as defined in section 85 of FSMA and has not been prepared in accordance with the Prospectus Rules and has not been approved by or filed with the Financial Services Authority or by any other authority which could be a competent authority for the purposes of the Prospectus Directive. To the best of the knowledge and belief of the Directors of the Company (whose names appear on page 11 of this document) the information contained in this document is in accordance with the facts and contains no omission likely to affect its import. All of the Directors accept responsibility accordingly including individual and collective responsibility for complying with the AIM Rules.

A copy of this document has been delivered to the registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the issue of securities in the company. It must be distinctly understood that, in giving these consents, neither the registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the company or for the correctness of any statements made, or opinions expressed, with regard to it.

Application will be made to London Stock Exchange plc for the Ordinary Shares, both issued and to be issued pursuant to the Placing, to be admitted to trading on AIM. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange. It is expected that the Ordinary Shares will be admitted to trading on AIM and that dealings in the Ordinary Shares will commence on 24 May 2006.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. Prospective investors should read the whole text of this document and should be aware that investment in the Company is speculative and involves a degree of risk. **In particular, prospective investors should consider the section entitled “Risk Factors” set out in Part II of this document. All statements regarding the Company’s business should be viewed in light of these risk factors.**

Prosperity Minerals Holdings Limited

(Incorporated in Jersey under the Companies (Jersey) Law 1991 with registered no. 92284)

Placing of 77,703,000 Placing Shares at 148p per share

and

Admission to trading on AIM

Evolution Securities Limited

Nominated Adviser and Broker

Authorised		Share capital immediately following Admission	Issued and fully paid	
Amount	Number		Amount	Number
£1,850,000	185,000,000	Ordinary Shares of 1p each	£1,290,563	129,056,392

The Placing is conditional, *inter alia*, on Admission taking place on or before 24 May 2006 (or such later date as the Company and Evolution Securities Limited may agree, being not later than 30 June 2006).

The Placing Shares will, following allotment, rank *pari passu* in all respects with the issued ordinary share capital of the Company on Admission including the right to receive all dividends and other distributions declared on the Ordinary Shares after Admission.

The Placing is not being made, directly or indirectly, to or for the account or benefit of any US Person (within the meaning of Regulation S of the United States Securities Act 1933, as amended (the “Securities Act”)) subject to certain exceptions, or in or into the United States, Canada, Australia, the Republic of Ireland, Japan or South Africa and this document must not be mailed or otherwise distributed or sent in or into the United States, Canada, Australia, the Republic of Ireland, Japan or South Africa. The Placing Shares are being offered in the United States only to Qualified Institutional Buyers (“QIBs”) as defined under the Securities Act. The Placing Shares have not been, and will not be, registered under the Securities Act. Furthermore, the Placing Shares have not been, and will not be, registered under the securities legislation of any state of the United States, any province of Canada, the Commonwealth of Australia, the Republic of Ireland, Japan or South Africa. Accordingly, unless an exemption under relevant securities laws is applicable, the Placing Shares may not be offered, sold or delivered, directly or indirectly to, or for the account or benefit of any US Person, subject to certain exceptions, or in or into the United States, Canada, Australia, the Republic of Ireland, Japan and South Africa.

NOTICE TO RESIDENTS OF HONG KONG

In Hong Kong the Placing Shares may not be offered to, or subscriptions solicited from, any person by means of any document other than to persons (“relevant persons”) who are either (i) “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) and the Companies Ordinance (Cap. 32) of the laws of Hong Kong and any rules made thereunder (the “Ordinances”); or (ii) persons to whom an offering of a solicitation to subscribe for, securities in the Company, if made, would not (a) result in this document being a “prospectus”, or (b) constitute an offering of securities to, or solicitation to subscribe for securities from, the public in Hong Kong, in each case within the meaning of the Ordinances. No invitation, advertisement or document relating to the Placing Shares may be issued in Hong Kong other than in the circumstances specified in (i) or (ii) above. This document has not been and will not be registered with any regulatory authority in Hong Kong. The offering of Placing Shares is confidential and personal to the person to whom this document has been delivered. A subscription for the Placing Shares will only be accepted from such person. This document may not be used, copied, reproduced or distributed in whole or part by the recipient to any other person. Persons in Hong Kong who are not relevant persons and who receive a copy of this document should not act on it and should immediately return this document to the Company or Evolution Securities Limited.

Warning: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Evolution Securities Limited, which is regulated in the United Kingdom by the Financial Services Authority, is acting as the Company’s nominated adviser and broker in connection with the Placing and Admission. Its responsibilities as the Company’s nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. Evolution Securities Limited has not authorised the contents of, or any part of, this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Evolution Securities Limited for the accuracy of any information or opinions contained in this

document or for the omission of any material information from this document for which the Company and the Directors are solely responsible. Evolution Securities Limited will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of any acquisition of Ordinary Shares.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Evolution Securities Limited, 100 Wood Street, London EC2V 7AN, United Kingdom from the date of this document and for a period of one month from Admission.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities offered by this document to or from any person in any jurisdiction to whom it is unlawful to make such offer in such jurisdiction. Neither the delivery of this document nor any sale made under this document shall, in any circumstances, create any implication that the information contained in this document is correct as of any time subsequent to the date of this document.

This document has been prepared by the Directors solely for informational purposes to assist interested parties in making an evaluation of the Company and the Placing Shares. This document does not purport to contain all the information that an interested party may desire. In all cases, interested parties should conduct their own investigation, analysis and evaluation of the Company, the terms of the offering, including the merits and risks of an investment in the Placing Shares, and the data set forth in this document.

The information contained in this document has not been independently verified by Evolution Securities and was provided by the Company and other sources that the Company believes to be reliable. Nothing contained in this document is, or may be relied upon as, a promise or representation by Evolution Securities as to the Company, the terms of the offering, including the merits and risks of an investment in the Placing Shares, or the data set forth in this document. No representation, warranty or covenant, express or implied, is made by Evolution Securities nor any of its affiliates, agents or representatives or any other person, and neither Evolution Securities nor any other person has any responsibility for independently verifying the completeness or accuracy of the information contained in, or for any omission from, this document or for any other matter concerning the offering. Each recipient will be responsible for conducting its own due diligence investigation with respect to the Company should it consider investing in the Placing Shares.

By accepting this document in the United States, each recipient acknowledges and agrees that all of the information contained herein is highly confidential and that such recipient will keep this information confidential and will not use this information for any purpose other than considering its interest in purchasing the Placing Shares. Each recipient further agrees that it will not copy, reproduce or distribute this document in whole or in part, or disclose its content to anyone without the Company's prior written consent, other than to persons such recipient has retained to advise it in connection with this offering. If a recipient does not wish to pursue this matter, it agrees that it will return this document to Evolution Securities as soon as practicable, together with any other materials relating to the Company that the recipient may have received from Evolution Securities, the Company or any of its affiliates, agents or representatives.

Because of the confidential nature of this offering, all communications or inquiries relating to the Company or the offering should be directed to Evolution Securities. By accepting this document, each recipient agrees that neither it nor its agents or representatives shall, directly or indirectly, contact the Company or any of its directors, officers, employees, shareholders, customers, vendors, related parties, affiliates, at any time, with respect to the information contained in this document, or otherwise.

The Placing Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Placing Shares are being offered in the United States only to qualified institutional buyers ("QIBs") in reliance on the "private placement" exemption and outside the United States in accordance with Regulation S under the Securities Act ("Regulation S").

THE PLACING SHARES SOLD IN THE UNITED STATES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED IN "UNITED STATES SECURITIES LAWS" IN PART V OF THIS DOCUMENT, AND EACH PURCHASER OF THE PLACING SHARES IN THE UNITED STATES WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND WARRANTIES AND AGREEMENTS CONTAINED THEREIN.

Neither the United States Securities and Exchange Commission nor any state securities commission or regulatory authority has approved or disapproved of the transactions contemplated by this document or determined that this document is truthful or complete. Any representation to the contrary is a criminal offence in the United States.

Each prospective purchaser must comply with all applicable laws and regulations (including obtaining required consents, approvals or permissions) in force in any jurisdiction in which such prospective purchaser purchases, offers or sells the securities. Neither the Company nor Evolution Securities or any of Evolution Securities (including its affiliates) has any responsibility for any prospective purchaser's purchase, offer or sale of the Placing Shares.

Neither the Company nor Evolution Securities (including its affiliates) is giving the recipient legal, business, financial or tax advice about any matter. The recipient may not be legally able to participate in this private, unregistered offering. Interested parties should consult with their own attorney, accountant and other advisors about those matters.

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OF, QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Disclosure regarding forward looking statements: Certain statements contained in this document, constitute forward looking statements. Such forward looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These forward looking statements speak only as of the date of this document. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

In addition, this document contains certain forward looking statements concerning the anticipated future performance of the Company. Such statements reflect various assumptions which are not identified in the document but are based on assumptions made and believed to be reasonable by the Directors. These assumptions may or may not prove to be correct. Actual results achieved by the Company in the future will likely vary from the forward looking statements or anticipated events identified in the document, and such variations could be material. No representations or warranties, express or implied, are made as to the accuracy or reasonableness of such assumptions or the projections that have been based thereon.

Enforcement of Civil Liabilities

The Company is a public limited company incorporated under laws of Jersey. Some or all of the Directors are citizens of countries other than the United States, and all or a substantial portion of the assets of the Company and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons, or to enforce against them in the US courts judgements obtained in US courts predicated upon the civil liability provisions of the US federal securities laws. There is doubt as to the enforceability in Jersey, in original actions or in actions for enforcement of judgements of the US courts, of civil liabilities predicated upon US federal securities laws. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Jersey.

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EXPECTED TIMETABLE FOR ADMISSION

Publication of this document	19 May 2006
Admission and dealings to commence in the Ordinary Shares on AIM	24 May 2006
Expected date for CREST accounts to be credited	24 May 2006
Despatch of definitive share certificates (where applicable)	by 2 June 2006

Each of the dates in the above timetable is subject to change.

PLACING STATISTICS

Placing Price	148 pence
Gross cash proceeds raised by the Placing	£115.0 million
Estimated net cash proceeds of the Placing receivable by the Company	£105.0 million
Number of Placing Shares	77,703,000
Number of Ordinary Shares in issue following the Placing and Admission	129,056,392
Placing Shares as a percentage of the Enlarged Issued Share Capital on Admission	60.2 per cent.
Market capitalisation at the Placing Price following completion of the Placing	£191.0 million
ISIN	GB00B145WP66

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“ABIC”	the Administration Bureau of Industry and Commerce
“Admission”	admission of the Ordinary Shares to trading on AIM becoming effective pursuant to Rule 6 of the AIM Rules
“AIM”	the AIM market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers published by London Stock Exchange governing admission to and the operation of AIM
“Anhui Conch”	安徽海螺水泥有限公司, Anhui Conch Cement Company Limited, a joint stock company established under the laws of the PRC in September 1997
“Anhui Huaining Conch Cement Company Limited”	安徽怀宁海螺水泥有限公司, Anhui Huaining Conch Cement Company Limited*
“Articles”	the articles of association of the Company
“BVI”	the British Virgin Islands
“CA 1985”	the Companies Act 1985 of England and Wales, as amended
“CBMIE”	China National Building Materials & Equipment Import & Export Corporation*
“Cement Companies”	Prosperity Conch Cement and Yingde Dragon Mountain
“Cement Plants”	the cement plants owned by the Cement Companies
“Combined Code”	the Combined Code on the principles of good corporate governance and code of best practice published in July 2003 by the Financial Reporting Council
“Company” or “Prosperity”	Prosperity Minerals Holdings Limited
“Conch Cement JV Agreement”	the agreement dated 18 December 2005 between Prosperity Minerals International, Anhui Huaining Conch Cement Company Limited and Anhui Conch in respect of Prosperity Conch Cement
“Controlling Shareholder”	Prosperity Minerals Group Limited, a company incorporated in the BVI with number 661687, the largest shareholder in the Company at the date of Admission and controlled by the Legacy Shareholders
“CPC”	the Communist Party of China
“CREST”	the electronic, paperless transfer and settlement mechanism to facilitate the transfer of title to shares in uncertificated form, operated by CRESTCo
“CRESTCo”	CRESTCo Limited, a company incorporated under the laws of England and Wales and the operator of CREST
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/3755)
“CVRD”	Companhia Vale do Rio Doce

“Directors” or “Board”	the directors of the Company, including the non-executive directors, whose names are set out on page 11 of this document
“Dragon Mountain JV Agreement”	the agreement dated 22 October 2004 between Prosperity Materials, Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited in respect of Yingde Dragon Mountain, as amended
“Enlarged Issued Share Capital”	the issued ordinary share capital of the Company immediately following Admission
“Evolution Securities”	Evolution Securities Limited
“FIE”	foreign investment enterprise, including a sino-foreign equity joint venture, a sino-foreign co-operative joint venture and a wholly foreign-owned enterprise established in the PRC
“FSMA”	the Financial Services and Markets Act 2000
“Greater China Region”	the PRC (including Hong Kong and Macao) and Taiwan
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region
“HK\$” or “Hong Kong Dollars”	the lawful currency of Hong Kong
“Kumba”	Kumba Hong Kong Limited, a subsidiary of Kumba Resources Limited
“Law”	the Companies (Jersey) Law 1991, as amended
“Japanese financial year”	1 April – 31 March
“Legacy Shareholders”	Madam Ching Fong Hon and David Wong
“London Stock Exchange”	London Stock Exchange plc
“Macao”	the Macao Special Administrative Region
“Max Start”	Max Start Holdings Limited, a company incorporated in the BVI with number 686218 and controlled by the Legacy Shareholders
“Max Will”	Max Will Profits Limited, a company incorporated in the BVI with number 684857 and controlled by the Legacy Shareholders
“Memorandum of Association”	the memorandum of association of the Company
“MOP”	Macao Pataca, the lawful currency of Macao
“Ningbo City Jingang Trust and Investment Company Limited”	宁波市金港信托投资有限责任公司, Ningbo City Jingang Trust and Investment Company Limited* of 11th Floor, No. 51, Yang Shan Road, Jian Bei District, Ningbo City, the PRC
“Ordinary Shares”	the ordinary shares in the Company with a nominal value of 1p each
“PD Regulation”	Regulation 809/2004 of the European Commission
“Placing”	the proposed conditional placing of the Placing Shares at the Placing Price by Evolution Securities on behalf of the Company, pursuant to the Placing Agreement

“Placing Agreement”	the agreement between Evolution Securities, the Directors and the Company relating to the Placing, details of which are set out in paragraph 11.2 of Part V of this document
“Placing Price”	148p per Placing Share, being the price at which each Placing Share is to be issued under the Placing
“Placing Shares”	the 77,703,000 new Ordinary Shares being offered to places pursuant to the Placing
“PRC” or “China”	the People’s Republic of China (for the purposes of this document excluding Hong Kong and Macao)
“PRC Government”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities)
“Pro-Rise”	Pro-Rise Business Limited, a wholly-owned subsidiary of the Company incorporated in the BVI with registered number 497691
“Pro-Rise Group”	Pro-Rise, Prosperity Macao, Prosperity Minerals, Prosperity Minerals Management, Super Data Limited, Prosperity Cement and Prosperity Minerals International
“Prospectus Directive”	Directive 2003/71/EC of the European Parliament and of the Council of the European Union
“Prospectus Rules”	the prospectus rules, which set out the regime for statutory responsibility for prospectuses that are published by the Financial Services Authority
“Prosperity Cement”	Prosperity Cement Investment Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong with registered number 1021361, being the immediate holding company of Yingde Dragon Mountain
“Prosperity Conch Cement”	英德海螺水泥有限责任公司, Prosperity Conch Cement Company Limited**, a sino-foreign equity joint venture company, established as a joint stock company under the laws of the PRC on 27 December 2004 under the name Yingde Conch Cement Company Limited* with registered number 001627 and converted into an FIE on 13 April 2006
“Prosperity International Holdings”	Prosperity International Holdings (H.K.) Limited*, a company incorporated in Bermuda and listed on the Growth Enterprise Market of the Hong Kong Stock Exchange
“Prosperity Macao”	Prosperity Materials Macao Commercial Offshore Ltd.*, a wholly-owned subsidiary of the Company incorporated in Macao with registered number 20036
“Prosperity Materials”	Prosperity Materials (International) Limited*, a company incorporated in Hong Kong with registered number 668837 and wholly-owned by Super Chine Holdings Limited, being a company indirectly wholly-owned by the Legacy Shareholders
“Prosperity Minerals International”	Prosperity Minerals (International) Limited*, a wholly-owned subsidiary of the Company incorporated in Hong Kong with registered number 897206

“Prosperity Minerals Management Limited”	Prosperity Minerals Management Limited, a wholly owned subsidiary of Pro-Rise incorporated in Hong Kong with registered number 990392
“QIBs”	Qualified Institutional Buyers, as defined in Rule 144A of the Securities Act
“Relationship Deed”	the agreement dated 18 May 2006 and entered into between the Company, the Controlling Shareholder, Max Start, Max Will, Prosperity Materials and the Legacy Shareholders, further details of which are set out in paragraph 15 of Part I and paragraph 11.5 of Part V of this document
“Renminbi” or “RMB”	Renminbi or Yuan, the lawful currency of the PRC
“SAIC”	the State Administration of Industry and Commerce, a PRC government authority
“SDRC”	the State Development and Reform Commission, a PRC government authority
“SDRT”	stamp duty reserve tax
“Securities Act”	the US Securities Act of 1933, as amended
“Shanghai Aijian Trust and Investment Company Limited”	上海爱建信托投资有限责任公司, Shanghai Aijian Trust and Investment Company Limited* of 16th Floor, No. 1389 Jin Qiao Road, Shanghai, the PRC
“Share Option Scheme”	the Prosperity Minerals Group Unapproved Share Option Scheme, details of which are set out in paragraph 10 of Part V of this document
“Shareholders”	shareholders in the Company
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any state of the US and the District of Columbia
“US\$” or “US Dollars”	the lawful currency of the United States
“WISCO”	Wuhan Iron and Steel Group Corporation
“Yingde Dragon Mountain”	英德龙山水泥有限责任公司, Yingde Dragon Mountain Cement Co., Ltd.*, a wholly-owned foreign enterprise, established as a limited liability company under the laws of the PRC on 10 March 2003 with registered number 001626 and converted into a wholly-owned foreign enterprise on 13 April 2006
“£” and “p”	pounds and pence Sterling, the lawful currency of the United Kingdom

**Unofficial English translation of the company’s Chinese name*

***Adopted English name of the company*

GLOSSARY

The following terms apply throughout this document, unless the context otherwise requires:

“CIQ”	Entry-Exit Inspection and Quarantine of the PRC
“demurrage”	the sum payable by the freighter to the shipowner for detention of the vessel in port beyond the number of days allowed for the purpose of loading or unloading
“Fe”	the chemical element iron which has the atomic number 26
“GDP”	gross domestic product, a measure of the size of an economy
“mt”	tonne
“SP”	suspension preheater dry feed process with pre-calciner

EXCHANGE RATES

For the purposes of reference only, the following exchange rates were prevailing on 15 May 2006 (being the latest day practicable prior to the publication of this document):

HK\$14.564 per £1

RMB15.042 per £1

US\$1.8785 per £1

Certain amounts in Part I of this document expressed in Sterling have, unless otherwise stated, been calculated using the above exchange rates.

DIRECTORS, SECRETARY AND ADVISERS

Directors:	(David) Ben Koon Wong*	<i>Chairman</i>
		<i>Chief Executive Officer</i>
	Patrick Siu Ming Li	<i>Chief Financial Officer</i>
	Michael James Allen	<i>Chief Technical Officer</i>
	Jian Ping Wu	<i>Executive Director</i>
	John Campbell Robertson	<i>Non-Executive Director</i>
	Anthony John Williams	<i>Non-Executive Director</i>
	Sandy Chun-Kwan Chim	<i>Non-Executive Director</i>
	Ben Ren Liu	<i>Non-Executive Director</i>
	Michael Kim Hung Yuen	<i>Non-Executive Director</i>
	Yu Lin Zhao	<i>Non-Executive Director</i>

**The Chairman of the Company, Mr Ben Koon Wong, is commonly known as David Wong, and is referred to as such throughout this document.*

The business address of each of the Directors is 11th Floor Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong SAR

Registered Office	Whiteley Chambers Don Street St Helier Jersey JE4 9WG Channel Islands
Head Office	11th Floor Prosperity Industrial Building 89 Wai Yip Street Kwun Tong Kowloon Hong Kong SAR
Company Secretary	Ogier Corporate Services (Jersey) Limited Whiteley Chambers Don Street St Helier Jersey JE4 9WG Channel Islands
Nominated Adviser and Broker	Evolution Securities Limited 100 Wood Street London EC2V 7AN United Kingdom
Co-Distribution Agent	Evolution Securities China 5th floor 29-30 Cornhill London EC3V 3NF
Solicitors to the Company as to English law	Norton Rose Kempson House Camomile Street London EC3A 7AN United Kingdom
Solicitors to the Company as to Jersey law	Ogier Whiteley Chambers Don Street St Helier Jersey JE4 9WG Channel Islands
Solicitors to the Placing	McGrigors 5 Old Bailey London EC4M 7BA United Kingdom

Legal advisers to the Company as to PRC law	<p>Grandall Legal Group 9/F Chen Jian Building No. 189 Ti Yu Xi Road Guangzhou 510620 PRC</p> <p>Sino-West Law Associates 31/F, Tower 1, Dongjun Plaza 836 Dongfeng Road East Guangzhou 510080 PRC</p>
Reporting Accountants	<p>KPMG LLP 8 Salisbury Square London EC4Y 8BB United Kingdom <i>Member of the Institute of Chartered Accountants in England and Wales</i></p>
Auditors	<p>KPMG Audit plc 8 Salisbury Square London EC4Y 8BB United Kingdom <i>Member of the Institute of Chartered Accountants in England and Wales</i></p>
Registrars	<p>Computershare Investor Services (Channel Islands) Limited Ordnance House 31 Pier Road St Helier Jersey JE4 8PW Channel Islands</p>
Public Relations	<p>Citigate Dewe Rogerson 3 London Wall Buildings London Wall London EC2M 5SY United Kingdom</p>
Principal Bankers	<p>Fortis Bank Hong Kong Branch Fortis Bank Tower 77-79 Gloucester Road Hong Kong SAR</p> <p>Australia and New Zealand Banking Group Limited Hong Kong Branch 31/F One Exchange Square 8 Connaught Place, Central Hong Kong SAR</p> <p>Rabobank International Hong Kong Branch 43/F Two Exchange Square 8 Connaught Place, Central Hong Kong SAR</p> <p>Industrial and Commercial Bank of China (Asia) Limited 34/F ICBC Tower 3 Garden Road, Central Hong Kong SAR</p> <p>Taishin International Bank Hong Kong Branch 15/F Tower II Admiralty Centre 18 Harcourt Road Hong Kong SAR</p>

PART I

INFORMATION ON THE COMPANY

1. HISTORY AND BACKGROUND

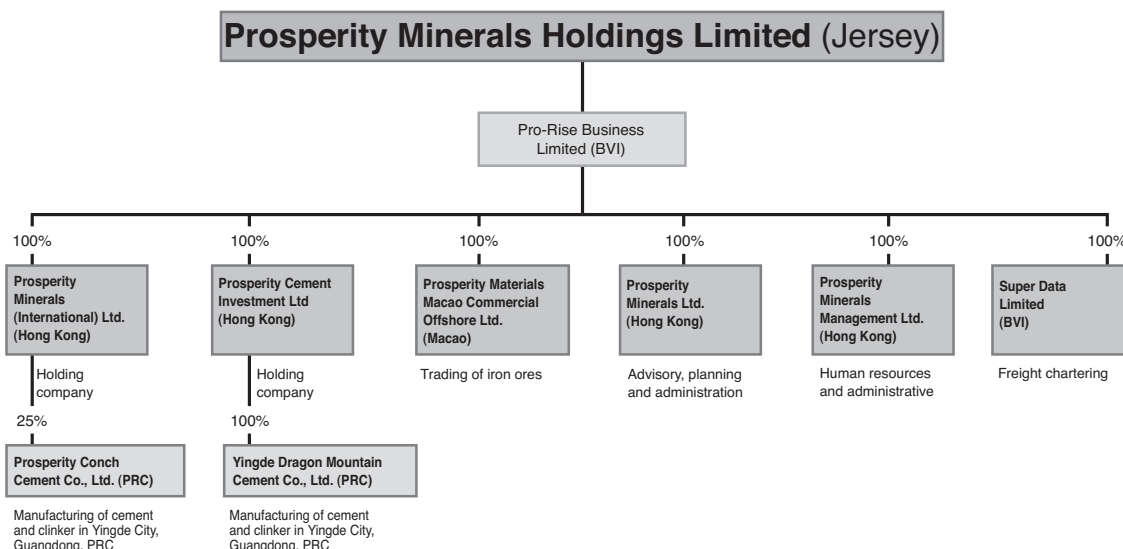
The Group is focused on two key business areas: the manufacture and sale of cement and the trading of iron ore. Prior to Admission, the Group was owned by the Legacy Shareholders through Pro-Rise, a BVI-incorporated company.

The Group owns Yingde Dragon Mountain, a company that owns and operates a large, modern suspension preheater dry process (SP) cement manufacturing plant, and has a 25 per cent. interest in Prosperity Conch Cement which is a joint venture that is currently constructing another large SP cement manufacturing plant. The Cement Companies are located on adjacent sites in Yingde in Guangdong Province in the PRC. The Group also has an iron ore trading business trading from Macao that links iron ore suppliers around the world with end-users, principally steel manufacturers, in the PRC.

Prosperity's iron ore trading business started trading in 1992 when the founder and Chief Executive Officer of the Company, David Wong, began to source and supply iron ore to the PRC through a trading company. David Wong recognised the importance of receiving a stable supply of iron ore and focused on relationships and entering into longer term supply contracts with major mining companies based in Brazil, South Africa and Australia. His iron ore trading business agreed its first long-term supply contract with Transorient Ore Supplies Limited, a representative of Kumba, in 1992.

In December 1999, another trading company controlled by David Wong purchased his iron ore trading business and focused on it as a result of the potential for high profit margins available in the sector. Prosperity Macao became the operating vehicle for the iron ore trading business, bringing it into the Group in March 2005.

Prosperity was incorporated in Jersey on 26 January 2006 as the holding company of all of the Group's businesses and it acquired the entire issued share capital of Pro-Rise on 18 May 2006. The Group is currently structured as follows:



In April 2006, one of the Group's subsidiaries, Prosperity Cement, acquired Yingde Dragon Mountain, which owns a cement production plant that commenced production in 2005. The Yingde Dragon Mountain plant has two clinker production lines and four cement grinding mills in production with a further grinding mill and another production line (which is fully constructed and awaiting government inspection and approval) expected to come into production by the end of 2006. In 2005, the Yingde Dragon Mountain plant sold 2.73 million mt of clinker and 1.56 million mt of cement. Once fully operational, the three production lines

and five grinding mills will have an estimated capacity of saleable output of approximately 5.9 million mt of clinker and cement per annum. Yingde Dragon Mountain holds mining rights enabling it to quarry limestone, the primary raw material used in the manufacture of clinker and cement, for an estimated resource of 136 million mt (with permission to mine up to 7.2 million mt per annum) which is located close to its cement plant.

The cement plant owned by Prosperity Conch Cement (in which the Group has a 25 per cent. interest) has four completed clinker production lines and six cement grinding mills that are scheduled for phased completion by the end of 2006. Once fully operational, the Prosperity Conch Cement plant will have an estimated capacity of saleable output of 7.88 million mt of clinker and cement per annum. Prosperity Conch Cement has applied for mining rights to enable it to quarry an estimated limestone resource of more than 300 million mt located close to its plant.

In comparison, the entire British cement industry produced 11.4 million mt of cement in 2004. Further information on the Cement Companies can be found below under the headings “Yingde Dragon Mountain” and “Prosperity Conch Cement”.

In addition to its cement business, the Group has an iron ore trading business supplying iron ore to customers in the PRC. The PRC is the world’s largest consumer of iron ore and the Directors believe that the Group is well positioned to increase its sales to this market as its iron ore business continues to develop.

Further information on the Group’s iron ore trading business can be found at page 18 of this Part I under the heading “Iron ore trading”.

2. BUSINESS ACTIVITIES

Cement production

The PRC’s economy has undergone fundamental changes since Deng Xiaoping announced the PRC’s “open door” policy in December 1978, moving from a centrally planned to a more market-oriented economic system. The restructuring of the economy and resulting efficiency gains have contributed to a more than ten-fold increase in the PRC’s GDP since 1978. The PRC is now the fourth largest economy in the world and is predicted to increase by more than 9 per cent. per annum in 2006 and 2007. The construction sector within the PRC has undergone significant expansion and has grown every year between 1997 and 2003, increasing by more than 150 per cent. over this period.

The PRC is the world’s largest producer of cement, producing approximately 45 per cent. of global cement output. The PRC’s cement market has grown by more than 8 per cent. per year for the last five years and has been forecast by Credit Suisse First Boston to grow at 7 per cent. per year until 2013. Cement consumption is expected to increase in the PRC, with the PRC’s “New Countryside Construction” policy which requires increased infrastructure construction in rural areas, further increasing demand.

The PRC’s cement industry was established during a period of central planning that aimed at local self-sufficiency when limited transport capacity and sources of finance in many regions of the country prevented the strategic development of the cement sector. As a result, the PRC built a large number of small, local cement plants that lacked economies of scale and focused on serving local markets. The PRC’s cement industry is fragmented and inefficient with more than 5,000 cement producers.

Yingde Dragon Mountain

Background

Yingde Dragon Mountain was formed between Shanghai Aijian Trust and Investment Company Limited and two individuals in 2003 as a joint venture to produce cement and clinker for sale in the PRC, for which it requires a licence renewable every five years, and is currently licenced until August 2010. Ningbo City Jingang Trust and Investment Company Limited invested in Yingde Dragon Mountain in 2003, and Prosperity Materials acquired a 25 per cent. interest in Yingde Dragon Mountain in 2004. Yingde Dragon Mountain made net profits of approximately £13.25 million in 2005.

The Yingde Dragon Mountain plant has been in production since 2005 and has two operating clinker production lines, and a further production line which is fully constructed and awaiting governmental

approval, with a production capacity (once the third line commences commercial production) of approximately 5.4 million mt of clinker per annum. The clinker production lines are currently operating in excess of their originally envisaged capacity in order to meet strong market demand. As the operation of the production lines develops, the Directors believe that operational efficiencies can be delivered such that the increased production will not have a material detrimental effect on the operating life of the production lines. Yingde Dragon Mountain operates four cement grinding mills on its site and an additional mill is under construction. The five cement grinding mills will have an estimated production capacity of 3.3 million mt of cement per annum, for which approximately 2.8 million mt of clinker is required per annum. Yingde Dragon Mountain will use some of the clinker that it produces for the manufacture of cement, and market the remainder of its clinker production to other cement grinding mills in Guangdong Province or elsewhere.

Yingde Dragon Mountain holds a 20 year mining licence from 2003 for an estimated limestone resource of 136 million mt which is located close to its plant. Yingde Dragon Mountain has the right to use open-cast extraction methods to mine up to 7.2 million mt of limestone per year until December 2023 for use in the production of clinker and cement. Under the terms of the licence, Yingde Dragon Mountain is required to pay a tax of approximately 20p per mt of extracted limestone to the PRC Government.

Since 2004 Yingde Dragon Mountain has operated a limestone quarry on the site that provides, and is expected to continue to provide, all of the limestone that Yingde Dragon Mountain requires to manufacture cement at its forecast production rates.

Yingde Dragon Mountain was established with a duration of 25 years. At the end of this period the Group can, subject to government approval, extend the duration of Yingde Dragon Mountain.

Management

Anhui Conch, one of the largest cement manufacturers in the PRC, seconded key management to Yingde Dragon Mountain to run its cement and clinker manufacturing facilities. When the Group became the 100 per cent. owner of Yingde Dragon Mountain it recruited the key management who had previously been seconded to the plant, including the President and two Vice Presidents of the plant. The President and Vice Presidents have an average of more than 20 years' experience working in the cement industry and are responsible for the day-to-day operations of the plant. The President, Jian Ping Wu, is now an Executive Director of the Company.

The Company has entered into a management services agreement with Anhui Conch, pursuant to which Anhui Conch will provide certain services to Yingde Dragon Mountain. Further details of this agreement are contained in paragraph 11.11 of Part V of this document.

Acquisition by the Group

The Company's subsidiary, Prosperity Cement, signed an agreement on 25 January 2006 to acquire a 25 per cent. interest in Yingde Dragon Mountain from Prosperity Materials. Prosperity Cement signed a further agreement on 25 February 2006 with Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited to acquire the outstanding 75 per cent. of Yingde Dragon Mountain's issued share capital.

Yingde Dragon Mountain obtained the formal approval for converting from a domestically funded company into an FIE on 20 March 2006. Having obtained the requisite PRC Government approvals, Prosperity Cement was registered as the sole owner of Yingde Dragon Mountain on 13 April 2006.

Payment obligations

Under the terms of its agreements with Prosperity Materials, Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited, Prosperity Cement must pay the following consideration by 15 June 2006:

- £25 million to acquire 25 per cent. from Prosperity Materials; and
- RMB 642,165,000, representing approximately £43 million at the prevailing exchange rate on 15 May 2006, as shown on page 10 of this document, to acquire 75 per cent. from Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited.

The Company will procure that these payments are made out of the proceeds of the Placing within five business days of receipt of the proceeds of the Placing from Evolution. The Company will bear the cost of any fluctuations in the exchange rate that affect the conversion of such payments from Sterling into Renminbi. In accordance with the Yingde Dragon Mountain share transfer agreement, further consideration payment, equal to the distributable profits of Yingde Dragon Mountain up to the date of payment of the consideration for the acquisition of Yingde Dragon Mountain, will be paid to the former shareholders of Yingde Dragon Mountain following Admission. Distributable profits will be as determined by the preparation of completion accounts and agreed with the former shareholders, subject to arbitration to resolve any disagreement.

Prosperity Conch

Background

In order to capitalise on the strong demand for cement in Guangdong Province, Prosperity Conch Cement is building an SP cement production plant adjacent to the Yingde Dragon Mountain plant. It is intended that the Prosperity Conch Cement plant will produce high quality cement for sale in Guangdong Province of the PRC. The Group was offered the opportunity to invest in Prosperity Conch Cement alongside Anhui Conch.

The Prosperity Conch Cement plant has four clinker production lines with a production capacity, when fully operational, of approximately 7.2 million mt of clinker per annum. These lines have been completed and have been, or are in the process of being, tested. Prosperity Conch Cement will operate six cement grinding mills on its site. These cement grinding mills will have an estimated production capacity of 4.5 million mt of cement per annum, for which approximately 3.82 million mt of clinker is required per annum. Prosperity Conch Cement will use some of the clinker that it produces for the manufacture of cement, and market the remainder of its clinker production to other cement grinding mills in Guangdong Province or elsewhere. Before commencing commercial production, Prosperity Conch Cement will require a production licence from the relevant PRC governmental authorities for each production line. The first three production lines are currently awaiting environmental inspection, after which Prosperity Conch Cement intends to apply for production licences for them. Construction work on the fourth line has only recently been completed and this line is currently undergoing testing.

Prosperity Conch Cement has applied for a mining licence for an estimated limestone resource of more than 300 million mt which is located close to its plant. This licence application is with the PRC authorities and is anticipated to be received within the next few months.

Prosperity Conch Cement was established with a duration of 25 years which, subject to governmental approval, can be extended with the agreement of all parties. Prosperity Conch Cement may also be terminated early with the agreement of the parties or where a party acts in breach of its obligations under the Conch Cement JV Agreement, a summary of which is set out in paragraph 11.8 of Part V.

Management

Prosperity Conch Cement is run by a board comprising five directors, three appointed by the majority shareholder and two by Prosperity Minerals International. Most matters for the board are determined by a simple majority with certain specified constitutional decisions, such as amendments to Prosperity Conch Cement's articles of association or the transfer of shares, requiring unanimous approval of those directors present. The directors appointed by Prosperity Minerals International are entitled to receive notice of, and attend, all meetings of the board.

Anhui Conch acts as the operator of the cement plant and runs it on a day-to-day basis in line with the budgets and operational plans that the board has approved. Prosperity Minerals International will not participate in the day-to-day operations of the cement plant.

Ownership status

One of the Company's subsidiaries, Prosperity Minerals International, entered into the Conch Cement JV Agreement with Anhui Conch and Anhui Huaining Conch Cement Company Limited, a subsidiary of Anhui Conch, on 18 December 2005.

Prior to the Conch Cement JV Agreement, 92 per cent. of Prosperity Conch Cement was owned by Anhui Conch and 8 per cent. by Anhui Huaining Conch Cement Company Limited. In December 2005, Anhui Conch and Prosperity Minerals International agreed to subscribe for equity in Prosperity Conch Cement such that:

- Anhui Conch now holds 70 per cent.;
- Prosperity Minerals International holds 25 per cent.; and
- Anhui Huaining Conch Cement Company Limited now holds 5 per cent..

The PRC Government approved the changes to the share structure of Prosperity Conch Cement on 16 March 2006. Following receipt of this approval, Prosperity Minerals International was registered as a shareholder of Prosperity Conch Cement with a shareholding of 25 per cent. on 13 April 2006.

Payment obligations

Under the terms of the Conch Cement JV Agreement, Prosperity Minerals International has agreed to invest RMB 145 million in Prosperity Conch Cement as payment for its 25 per cent. interest, representing approximately £10 million at the prevailing exchange rate on 15 May 2006 as shown on page 10 of this document. Anhui Conch will contribute a further RMB 73.18 million, representing approximately £4.9 million at the prevailing exchange rate on 15 May 2006 as shown on page 10 of this document to maintain its 70 per cent. interest in the enlarged company.

Prosperity Minerals International will make 35 per cent. of its equity contribution following Admission and is then required to make the remaining 65 per cent. of its equity contribution in the first half of 2007. The Company will procure that these payments are made out of the proceeds of the Placing within five business days of receipt of the proceeds of the Placing from Evolution. The Company will bear the cost of any fluctuations in the exchange rate that affect the conversion of such payments from Sterling into Renminbi so the precise consideration may vary from the indicative Sterling figure set out above.

Further investment

The estimated investment required to complete the construction of the Prosperity Conch cement plant is £107.7 million. To date, expenditure of approximately £92.4 million has been incurred, funded as to £24 million by equity contributions from the original joint venture partners, £13.3 million bank debt and the original joint venture partners arranged financing of the balance. The equity contributions set out in the Conch Cement JV Agreement provide for investment of £38.6 million (including the £22.7 million already provided by the original venture partners). In the event that Prosperity Conch Cement undertakes any further equity fund raising, Prosperity Minerals International would be required to contribute 25 per cent. of any such fundraising in order to avoid dilution of its 25 per cent. interest in Prosperity Conch Cement, which it is entitled to do.

Cement production licensing requirements

In addition to more generally applicable PRC business licensing and registration requirements, the Cement Companies must undergo the following process to obtain cement production licences, in each case from the relevant competent authority:

- (1) before construction of a particular line, approval must be obtained from the environmental authorities of an environmental impact assessment;
- (2) on completion of construction of a line, the environmental authorities will undertake inspections and testing of the line prior to granting environmental approvals. These approvals may be granted on a phased basis in that certain lines may be approved for production while others remain under construction. However, the environmental authorities may grant a trial production licence to a line after its construction is completed, prior to granting environmental approvals;
- (3) application for a licence to produce cement and clinker; and
- (4) obtain and maintain a pollutant emissions licence.

A table setting out the current status of these various licences in respect of each of the Cement Companies and the production lines is set out in paragraph 19.12 of Part V of this document.

Payment of dividends by the Cement Companies

As FIEs, the Cement Companies are entitled, subject to the approval of the PRC tax authorities, to pay dividends from their distributable reserves to their holding companies in the the Group. The Cement Companies are required to submit their audited accounts to the PRC tax authorities each year. Assuming that the Cement Companies have made all required tax payments, they will be entitled to pay dividends to their holding companies.

Following payment of the outstanding consideration to the vendors, all dividends in respect of Yingde Dragon Mountain will be payable to the Group as Yingde Dragon Mountain's sole shareholder. Under the terms of the Conch Cement JV Agreement and relevant PRC laws and regulations, all distributable profits of Prosperity Conch Cement are to be divided between the shareholders in proportion to the capital contribution actually made by the shareholders to Prosperity Conch Cement and paid by way of dividend once a year.

Iron ore trading

Background

The Group's iron ore trading business has sourced, marketed and delivered iron ore to customers in the PRC since 1992 and the management has developed strong relationships with the steel manufacturers that purchase most of its products. However, recent iron ore supply shortages have limited Prosperity's opportunities to expand its sales beyond the iron ore supply that it has secured from third party mining companies.

The Group intends to develop an integrated chain of iron ore supplies and is investigating opportunities to acquire and develop iron ore resources to enable Prosperity to increase its market share, to complement the iron ore supply that it has under its long-term contracts. In addition, Prosperity is actively seeking new suppliers from developing supply markets such as Thailand.

In the financial year ending 31 March 2006 the Group's iron ore trading business supplied 3.47 million mt of iron ore to customers in the PRC and generated net profits of £17.8 million.

Sales and distribution process

The PRC government limits the number of companies that are allowed to import iron ore into the PRC by restricting the ability of companies to enter this market; currently 118 companies are allowed to import iron ore into the PRC. These import companies primarily comprise large iron ore import companies that have consistently imported significant amounts of iron ore into the PRC in recent years and large steel manufacturers. Prosperity supplies all of its iron ore direct to such importers in the PRC. The majority of Prosperity's iron ore sales are to large steel manufacturers in the PRC which purchase iron ore in the form of fines or lumps and, when available to Prosperity, in the form of pellets. In 2005, the Group made 60 per cent. of its iron ore sales to steel manufacturers and the remaining 40 per cent. to its other customers, including CBMIE, a state-owned company that is one of the largest trade suppliers of building materials in the PRC.

A few weeks before one of Prosperity's iron ore suppliers has a shipment of iron ore ready for Prosperity, the supplier will contact Prosperity and advise them of the quantity and quality of iron ore that will be available, and the shipping window for this. Prosperity then has a short period to confirm whether it is interested in the shipment. After being given the details of the available supply, Prosperity checks the availability and rates for shipping with its shipping brokers. Prosperity will then call its iron ore customers to assess the demand for the proposed shipment. If requested to arrange shipping of the ordered iron ore, Prosperity will then review the availability of cargo vessels and the freight costs of a number of shipping brokers to ensure that the necessary shipping arrangements can be made to deliver the order to the customer's designated port in the PRC. When it has confirmed the availability of the customer's requested iron ore product and identified a shipping provider, as appropriate, Prosperity's trading department negotiates a delivery price with the customer for its order, including Prosperity's margin.

Prosperity uses financing facilities provided by its commercial banks, enabling it to complete transactions that it would not otherwise be able to finance using purely internal funds. The largest asset and liability balances of its iron ore trading business relate to its near back-to-back letters of credit with customers and suppliers. All iron ore trades for both suppliers and customers are priced in US Dollars so Prosperity has no exchange rate risk.

Sales and marketing

Prosperity is focused on developing and maintaining long-standing customer relationships that Prosperity's Chairman, David Wong, and the iron ore trading team have established over the last 14 years. Members of Prosperity's iron ore trading team pay regular site visits to both existing and prospective customers enabling them to improve their understanding of those companies' production capacity, production plans and iron ore requirements. This ongoing dialogue and the iron ore trading team's first-hand knowledge of demand trends and supply conditions means that Prosperity is pro-active in meeting customer needs and developing new business opportunities.

The Group's iron ore trading business has historically entered into both annual and spot sales contracts with its customers, including annual sales contracts with Nanjing Iron and Steel Group and CBMIE which both expired in March 2006. The Group does not currently have any long term sales contracts and for the time being intends to sell its iron ore on spot contracts as the Directors believe that this offers it an opportunity to enhance its profitability.

Shipping and logistics

David Wong and the iron ore trading team have developed strong relationships not only with customers and suppliers but also with the ports and shipping freight companies that Prosperity uses to transport iron ore to customers in the PRC. These relationships are very important to Prosperity's iron ore trading business as it manages the shipping and logistical arrangements for the delivery of iron ore to the majority of its customers.

By monitoring shipping availability and anticipating the volatility in the shipping freight market, Prosperity aims to procure the appropriate vessel at competitive rates on charter to meet its customers' requirements. The Directors believe that this logistical planning enables Prosperity to leverage its competitive advantage and enhance its margins.

Prosperity also provides value-added services such as co-ordinating the unloading of the cargo at the ports when requested by its customers. By co-ordinating the critical cost elements in the chartering business such as tugboat services, harbour services and unloading equipment, Prosperity seeks to minimise losses resulting from demurrage delays.

Quality assurance

Prosperity actively seeks to increase its secured supply of iron ore from both existing and potential suppliers. When it is offered a new supply of iron ore Prosperity has samples tested in CIQ laboratories, or at its customers' laboratories, to ensure that it meets Prosperity's quality standards. Prosperity's quality control measures form an integral part of its operations, enabling it to deliver appropriate iron ore products that meet its customers' requirements.

Quality assurance procedures enable Prosperity to supply its customers with products of a consistent quality, helping it to maintain good customer relationships. Prosperity's understanding of the qualities of its iron ore supply also gives it additional flexibility in meeting customer needs and helps it to provide specific iron ore grades at customer request.

Some of Prosperity's major iron ore suppliers include a price adjustment mechanism in their purchase contracts relating to the minimum Fe content of the iron ore that they supply, but are also contractually bound to deliver a consistent quality of iron ore specification that meets Prosperity's customers' requirements.

Trade finance facilities

Prosperity Macao currently has trade facilities with seven banks. The banks have confirmed that these facilities may continue after Admission, in respect of which they will require parental guarantees from the Company.

3. KEY STRENGTHS

Experienced management team

Prosperity's Chairman and CEO, David Wong, has more than 30 years' experience in the cement and building materials industries in the Greater China Region. Over the last 14 years, David Wong has built the Group's iron ore trading business, operating this through Prosperity Minerals (Asia) Limited, Prosperity Materials and Prosperity Macao. Prosperity's Chief Financial Officer, Patrick Li, has more than 20 years' experience in the banking and financial services industry and has acted in a variety of financial and risk management roles before joining the Group. Mr Li's hands-on experience addressing finance and risk management issues in the resources sector give the Company a strong focus and robust approach to achieving its strategic objectives and complement David Wong's extensive experience and contacts.

The President of the Yingde Dragon Mountain plant, Jian Ping Wu, has 18 years' experience in the cement industry and planned and project managed the construction of the Yingde Dragon Mountain plant. Mr Wu has been in charge of the day-to-day operations of the plant since construction and his energy and drive will be important in enabling Yingde Dragon Mountain to continue to achieve its commercial objectives. Mr Wu will work with Prosperity's Chief Technical Officer, Michael Allen, who has 30 years' experience in a variety of practical and management roles in the cement and mining industries, to optimise the performance of the Yingde Dragon Mountain plant.

The iron ore trading team have, on average, more than ten years' experience in the iron ore trading business. Their extensive experience and continuous on-the-job training enable them to provide effective customer solutions through understanding customers' needs and industry trends.

Modern cement plants

The Cement Plants are located in Guangdong Province where, at the start of 2005, nearly 80 per cent. of cement was produced using vertical kiln manufacturing methods. The Cement Plants have a higher efficiency using modern technology. In the SP process the raw material fed into the rotary kiln is pre-heated by a suspension pre-heater. Many of the Group's competitors use wet process vertical kilns, mixing the raw meal with water before it enters the kiln, and not employing a pre-heating stage. Whilst this simplifies the blending process and allows plants to use limestone with a high water content it requires more energy to evaporate the water from the mixture, making production more expensive with more adverse environmental consequences than the SP process, a problem that the PRC government is trying to address through regulatory measures.

The Cement Plants' use of rotating kilns and SP technology enables them to make significant energy savings when compared to producers using vertical kiln methods. The Cement Plants use less coal and so are less pollutive and enjoy lower operating costs than producers using vertical kiln methods. Additionally, the modern technology employed by the Cement Plants gives greater control over the critical processes in the clinker formation allowing the production of consistently high quality cement.

The PRC government requires a minimum equity contribution for new cement production lines of 35 per cent., making large-scale SP plants, such as the Cement Plants, capital intensive to build. In addition to the time involved in gaining government approval for any cement manufacturing projects, these capital requirements create a significant barrier for new cement producers seeking to enter the Guangdong cement market or small producers seeking to upgrade their facilities.

Access to limestone reserves

Limestone is the primary raw material used in the production of cement, and cement plants require access to reliable limestone deposits within a short distance. Yingde Dragon Mountain has mining rights over limestone reserves close to its plant that is expected to provide sufficient limestone for at least 18 years' production at its current estimated annual production capacity. Prosperity Conch Cement has applied for a mining licence over a resource located close to its plant, which is expected to be received within the next few months and, assuming that Prosperity Conch Cement is allowed to extract sufficient limestone to fulfil its estimated annual production capacity, would provide sufficient limestone for at least 25 years' production at its current estimated annual production capacity.

Stable supply of high quality iron ore

Prosperity's sourcing capabilities are the key to the success of its iron ore trading business. In July 2005, the Group completed an iron ore supply agreement on a long-term contractual basis with Transorient Ore Supplies Limited, a representative of Kumba, for annual supplies of iron ore until 31 March 2012. Additionally, the Group has a three-year supply contract with Midwest Corporation Limited that expires in March 2007. The price of the iron ore supply secured on these contracts is fixed in line with industry benchmark prices on an annual basis, meaning that Prosperity is not as exposed to the price fluctuations on the supply side that affect trading companies which source all of their iron ore on the spot market.

The Group has close relationships with its key suppliers which the Directors believe enable it to secure a stable supply network, the benefits of which are illustrated in periods of tight supply when it still receives a reliable supply of iron ore on competitive terms. In order to fulfil customer orders that exceed the volume available under its supply contracts, Prosperity retains the flexibility to enter into spot purchase contracts with iron ore suppliers when it obtains orders from customers that require additional iron ore supply.

The Group has secured approximately half of its budgeted tonnage of iron ore for the current financial year under its supply contracts. The iron ore trading business usually sources any iron ore that it requires in excess of its secured supply on the spot market or from the same suppliers as under its supply contracts but on a spot basis. The majority of the iron ore that the Group supplies contains an average Fe content in excess of 65 per cent., giving the Group the ability to deliver a stable supply of iron ore that is of the high and consistent quality that its customers require.

Under its supply contract with Midwest Corporation Limited, the Group has undertaken to supply iron ore through authorised importers to a specified end-user, Liyang Xingang Steel Making Co. Ltd., a company in which David Wong is a 50 per cent. shareholder and a director.

Strong risk management culture

Prosperity's iron ore trading business maintains a conservative risk profile through its centralised risk management and decision-making structure. The management team's experience in the iron ore trading business helps it to effectively identify and manage operating risks while its management of counterparty risk is enhanced by its credit procedures. The iron ore trading business' risk management system is designed to address various forms of risks arising from activities across the entire iron ore supply chain, such as counterparty, credit, quality and output risks. The ability of Prosperity's iron ore trading business to secure letters of credit or other security against non-payment on a back-to-back basis also allows it to reduce payment risk.

Established customer relationships

Prosperity's iron ore trading business has specifically focused on developing strong relationships with key customers within the PRC and they account for a significant volume of its orders annually. Three of Prosperity's five largest customers are steel mills which are amongst some of the largest in the PRC, while the second largest customer is CBMIE, one of the largest trade suppliers of building materials in the PRC. By focusing on these large accounts, Prosperity is able to devote more time to its customers and deliver larger, more profitable shipments.

The Group is a committee member of, and is currently the only iron ore trading business invited to attend, the Southern 20 Steel Enterprises Committee in the PRC, an annual trade conference that is attended by representatives of twenty steel mills from central and southern areas of the PRC. Representatives of the Group's iron ore trading business have attended these meetings since 1999. Prosperity's access to the annual Southern 20 Steel Enterprises Committee meetings allows it to establish and strengthen customer relationships with key steel mills in the PRC. The Company's senior management also frequently attend international iron ore conferences and other industry meetings to establish new, and strengthen existing, customer relationships.

4. FINANCIAL INFORMATION

The financial information below has been extracted without material adjustment from the Accountants' Reports set out in Part III of this document. In order to make a proper assessment of the financial performance of the Group's business, investors should not rely solely on the summary information set out below but should read the whole of this document including the Accountants' Reports.

The Pro-Rise Group

The table below summarises the trading results of the Pro-Rise Group for the three years ended 31 March 2006. Historically, Prosperity's iron ore trading business has been run through two of its subsidiaries, Prosperity Macao and Prosperity Minerals Limited, and a company outside of the Group, Prosperity Materials. The financial information relating to the Pro-Rise Group is an aggregation of financial information relating to the operation of the iron ore trading business by those companies.

	<i>Year ended 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	67,812	205,285	226,444
Cost of sales	(59,758)	(154,191)	(188,414)
Gross profit	8,054	51,094	38,030
Other operating income	2,091	1,584	2,673
Distribution expenses	(2,509)	(5,012)	(2,941)
Administrative expenses	(1,242)	(3,547)	(2,477)
Profit from operations	6,394	44,119	35,285
Finance costs	(1,377)	(2,607)	(1,834)
Finance income	27	66	116
Profit before taxation	5,044	41,578	33,567
Income tax (expense)/credit	(1,046)	(6,533)	1
Profit for the year/period	3,998	35,045	33,568

Yingde Dragon Mountain

The table below summarises the trading results of Yingde Dragon Mountain for the twelve months ended 31 December 2005.

	<i>Year ended</i>
	<i>31 December</i>
	<i>2005</i>
	<i>US\$'000</i>
Revenue	101,999
Cost of sales	(73,172)
Gross profit	28,827
Other operating income	2,374
Selling and distribution expenses	(1,301)
Administrative expenses	(3,547)
Profit from operations	26,353
Finance costs	(1,462)
Profit before taxation	24,891
Income tax (expense)/credit	—
Profit for the year	24,891

5. CURRENT TRADING AND PROSPECTS, KEY BALANCE SHEET ITEMS AND KEY CASH FLOW MOVEMENTS

Iron Ore Trading

Current Trading and Prospects

In recent years, the iron ore price has been set by the end of March to coincide with the start of the Japanese financial year in April. However, this year the iron ore price is still being negotiated between iron ore suppliers and customers. This delay follows significant iron ore price rises in 2004/05 and 2005/06 and an increase in demand for iron ore from the PRC. Further details regarding iron ore pricing set out in the section titled "Iron ore pricing structures" in section 6 of this Part I.

Despite the fact that the iron ore price has not been set for 2006/07, the Directors remain confident, following discussions with the Group's iron ore customers, that this will not have a material adverse impact on the Group's iron ore trading business or the Company's margins.

Key Cash Flow Movements

In terms of cash flow movements post 31 March 2006, a further distribution of approximately US\$4.9 million (being the retained earnings of the Group's iron ore trading business at 31 March 2006) will be made to the Controlling Shareholder following Admission. This dividend was declared prior to the date of this document. Detailed financial information on the Group's iron ore business for the three years ended 31 March 2006 is set out in Part III of this document.

Cement Production

Current Trading and Prospects

Since 31 December 2005, trading has been broadly in line with the same period in the prior year. The gross profit margin of approximately 25 per cent. achieved in the three months ended 31 March 2006 compares to the gross profit margin of approximately 28 per cent. achieved in the full year ended 31 December 2005. This decrease was anticipated and is attributable in part to the impact of lower trading activity during the Chinese New Year.

Key Balance Sheet Items

At 31 December 2005, Yingde Dragon Mountain had property, plant and equipment of approximately US\$127 million and net debt of approximately US\$50 million. By 31 March 2006, net debt had increased to approximately US\$58 million, principally to fund capital expenditure. The Directors expect further capital expenditure of approximately US\$14 million in the period to 30 June 2006. Net debt includes approximately US\$32 million in the form of three-year term loans on commercially favourable terms with a related party and the former shareholders (namely Anhui Conch, Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited), which replace previous loans from these entities which were repayable on demand.

Key Cash Flow Movements

Since 31 December 2005, Yingde Dragon Mountain declared a dividend of US\$23.2 million of which US\$17.4 million was paid to Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited in March 2006. The balance is payable to Prosperity Materials. Some of this has already been paid and some will be paid after Admission. In accordance with the Yingde Dragon Mountain share transfer agreements, a further consideration payment, equal to the distributable profits of Yingde Dragon Mountain up to the date of payment of the consideration for the acquisition of Yingde Dragon Mountain, will be paid to the former shareholders of Yingde Dragon Mountain following Admission. Distributable profits will be as determined by the preparation of completion accounts and agreed with the former shareholders, subject to arbitration to resolve any disagreement.

6. THE MARKET OPPORTUNITY

Guangdong cement market

Guangdong Province has the highest GDP of the PRC's provinces. Currently, Guangdong Province is the largest consumer of cement, accounting for 10 per cent. of China's annual consumption, with demand driven by economic growth in the Pearl River Delta, but it is only the fifth largest producer of cement in the PRC. If demand in Guangdong Province weakens from its current levels, or additional supply affects demand, the Cement Companies have the opportunity to access export markets including Hong Kong and Macao using the Beijiang River, which runs close to their plants.

Approximately 80 per cent. of Guangdong Province's cement production is attributable to small producers using vertical kiln manufacturing methods. Vertical kiln manufacturing is less energy efficient and creates more pollution than SP processes. In addition, the cement produced using vertical kiln technology in the PRC is not always of a consistent quality.

The current model of small independent cement producers is inappropriate for the developmental requirements of Guangdong Province, lacking the production capacity and sustainable quality required for highly engineered projects such as bridges and building developments. The provincial government in Guangdong Province has recognised the structural limitations within its cement manufacturing base and approved the construction of three major SP plants in the Yingde area. This development has been complemented by the closure of a number of small plants. The Cement Plants comprise two of these three approved plants and the Directors believe that their quality control and modern manufacturing methods offer a more consistent product than existing local producers using vertical kiln methods can manufacture.

Key trends of iron ore supply and demand

Iron ore is mined in approximately 50 countries, with the eight largest producing countries accounting for approximately 88 per cent. of total supply. China's inability to produce sufficient quantities of iron ore to meet its domestic requirements means that it has become a significant net importer of iron ore, accounting for more than a third of global demand. Iron ore is usually treated in a blast furnace to produce pig iron, which can be further treated to produce steel.

Stimulated by rapid industrialisation in the PRC and a buoyant global economy, global steel production has increased from 789 million mt in 1999 to 1.057 billion mt in 2004. Iron ore consumption has risen as a consequence of this growth to 1.3 billion mt in 2004 and is forecast to increase a further 23 per cent. to 1.6 billion mt by 2009. The PRC's iron ore imports rose from 70 million mt in 2000 to more than 200 million mt in 2004, surpassing Japan as the largest customer nation of seaborne iron ore, and it is forecast to import 510 million mt per annum by 2014.

Although steel production in the PRC has seen explosive growth in recent years it still has considerable growth potential as per capita steel consumption remains significantly below that in more economically developed countries. Further demand growth is also anticipated from Brazil, Russia and India which, together with the PRC, are expected to dominate global steel consumption and account for almost two-thirds of consumption growth until 2015, boosting global iron ore demand.

There have been concerns that Chinese steel production has been outstripping demand and the market may be over-supplied. However, the PRC enjoyed year-on-year growth in crude steel production of 16.5 per cent. in 2005, and continued strong steel production growth of 12 per cent. is forecast for 2006.

The strong demand and high spot prices for iron ore in the PRC have stimulated a significant increase in domestic production of iron ore, with annual output estimated to have increased by approximately 90 million mt between 2001 and 2004. However, this domestic ore is generally of an inferior grade with a low Fe content and high levels of impurities, so this rise in production represents only a fraction of the growth in Chinese demand. The shortage of high-grade domestically-sourced iron ore leaves the PRC reliant on seaborne traded iron ore to meet the needs of its steel industry and it imports more than 50 per cent. of its iron ore needs.

Iron ore pricing structures

Iron ore prices are set annually at the start of the Japanese financial year in April following negotiations between the leading iron ore producers, Rio Tinto plc, BHP Billiton plc and CVRD, and major consumers such as Shanghai Baosteel Group Corporation and Nippon Steel Corporation.

Iron ore producers have exploited the demand for iron ore from the booming international steel industry, and secured an 18.62 per cent. increase in iron ore prices for the 2004 Japanese financial year and a further 71.5 per cent. increase in 2005.

The iron ore price has yet to be fixed for 2006 but analysts anticipate a further price increase of 10 to 15 per cent. and prices are forecast to remain near their current highs until at least 2008 creating higher profits for producers and traders.

7. STRATEGY

Cement

The Directors will continually review the following areas to improve the competitive position of Yingde Dragon Mountain.

Energy

Energy costs comprise more than half of Yingde Dragon Mountain's production costs, with approximately 45 per cent. relating to coal and a further 7 per cent. for electricity. Yingde Dragon Mountain intends to seek to reduce these costs and lower its exposure to price movements by signing long-term supply agreements with coal suppliers in co-operation with Prosperity Conch Cement to secure a stable long-term coal supply.

Expansion of capacity

The Directors believe that the construction market in Guangdong Province will continue to grow in the short term and that Yingde Dragon Mountain will continue to enjoy strong performance. If there is sufficient demand for high quality cement within Guangdong Province, Yingde Dragon Mountain can (subject to receiving the necessary governmental licences and approvals and sufficient funding) build an additional production line at its plant and exploit this.

Additional resources

Yingde Dragon Mountain holds a mining licence for an estimated limestone resource of 136 million mt while Prosperity Conch Cement is applying for a licence in respect of an estimated limestone resource of 300 million mt. However, the Directors are aware that future expansions to the production capacity of Yingde Dragon Mountain would require additional limestone. Accordingly, Yingde Dragon Mountain intends to seek to obtain rights to additional resources of limestone to ensure that it will be able to expand its capacity.

Increased production efficiency

The Yingde Dragon Mountain plant has only been in operation since late 2004 and was designed to enable the efficient production of high quality cement. The plant is relatively new, and the Company's Chief Technical Officer will work with the President and the senior management of the plant to analyse the plant's operational data and work toward optimising the performance of the plant. Yingde Dragon Mountain has already identified areas where it can make significant energy savings, including through the collection of dissipated heat and utilisation of this to generate electricity, and is exploring technology that will enable it to do so.

Iron Ore

The Group intends to develop an integrated supply chain of iron ore supplies to the PRC with a particular focus on the upstream iron ore supply chain. This strategy can be broken down into the following key components:

Supply chain integration

Historically the Group has made relatively limited capital investments in fixed assets and other investments in order to make the most effective use of its working capital. The Directors believe that the Company can best exploit the increasing demand for steel products in the PRC by creating a vertically integrated supply chain that will add value to the Group's business. The Group is investigating opportunities to acquire and operate iron ore reserves.

The Directors believe that the Group could enhance its profits if it could achieve cost savings by owning and managing some of its iron ore sources and infrastructure such as the logistics and transportation facilities and equipment.

Develop supplier relationships

The Group aims to maintain and develop its already strong relationships with its key iron ore suppliers which, the Directors believe, have been essential in securing a stable source of iron ore for its customers. The Directors believe that the Group will remain an important customer of its major suppliers and will continue to receive a stable supply of iron ore on a long-term basis. The Group also aims to establish long-term relationships and secure a supply of high quality iron ore from other leading suppliers.

Strengthen customer relationships

The Group aims to further develop existing industry relationships and use its position as a committee member on the Southern 20 Steel Enterprises Committee to foster deeper relationships with steel mills in the PRC to better understand the requirements of its targeted market and industry trends. Continuing to develop these relationships to understand customer requirements better should enable the Group to continue to provide value-added services and strengthen customer loyalty, enabling it to focus on maintaining, or even improving, its margins.

8. COMPETITION

Cement

The economic growth in the Pearl River Delta has created strong demand for cement. Initially this demand was met by small independent producers but continuing economic development has led to a rationalisation of the manufacturing base in favour of larger, more economic, producers.

The high capital costs involved in building SP plants act as a barrier to entry to the market in Guangdong Province. When completed, the Cement Plants will be among the largest such plants by production capacity in Guangdong Province and, as such, will be positioned to leverage their economies of scale against smaller producers using vertical kiln technology. The higher quality cement that the Cement Plants produce gives them a significant advantage over smaller vertical kiln producers, and means that their key competitors will be other plants using SP technology in the region.

The Group's largest rival in Guangdong is China Century Cement Limited, which is 50 per cent. owned by the German company Heidelberg. In 2005, China Century Cement had three plants in Guangdong Province, and 2005 sales amounted to 3.7 million mt. In 2005, China Century Cement replaced one of its plants in Guangzhou with a new plant with 2.3 million mt of capacity.

Taiwan Cement Company Limited operates a cement plant with two SP lines in Yingde, with an annual capacity of more than 3 million mt of clinker per annum. Taiwan Cement Company has announced plans to build two further lines at their plant, which would significantly increase its production capacity.

Prosperity Conch Cement is expected to commence full commercial production by the end of 2006 and will significantly increase the quantities of high quality clinker and cement available to customers in Guangdong Province. In order to manage their relationship and relationships with common clinker and cement customers, the Cement Companies have entered into a management agreement dated 16 May 2006 envisaging the creation of joint raw materials buying and sales teams. Yingde Dragon Mountain's largest customer in 2005 was a related party of Prosperity Conch Cement and these arrangements seek to minimise

the impact of the commencement of full operation by Prosperity Conch Cement on the trading activities of Yingde Dragon Mountain. Although the Directors cannot confirm at this stage if this customer will be retained, in whole or in part, the Directors believe that, if demand for cement continues at its current levels, Yingde Dragon Mountain will be able to sell an equivalent amount to other customers. Further information on the management agreement can be found at paragraph 11.11 of Part V.

Iron Ore

The Directors believe that Prosperity is in a strong competitive position based on its strengths in having secured long-term iron ore supply contracts and its ability to provide logistical support to its customers, as well as its long-standing supplier and customer relationships.

9. REASONS FOR ADMISSION AND USE OF PROCEEDS

The primary reason for Admission is to raise funds to finance the acquisition of the Company's interests in the Cement Companies to enable the Company to further exploit the strong construction market in the PRC. The Directors also believe that the Group will benefit from the Company's shares being admitted to trading on a stock exchange and that this will raise the Group's profile with its suppliers and customers, enhance its standing with potential future partners and support the development of an integrated supply chain. The proceeds from the Placing, net of expenses, are estimated to be approximately £105 million.

The Directors intend to use these net proceeds as follows:

- approximately £68 million to be used to pay for the acquisition of Yingde Dragon Mountain;
- approximately £10 million to be used to pay for the acquisition of the 25 per cent. interest in Prosperity Conch;
- approximately £10 million to be used for potential acquisitions and future investments to enable the Group to develop an integrated supply chain for iron ore; and
- approximately £17 million for working capital and general corporate purposes, to include:
 - (a) financing of freight import loans in place of commercial banks to reduce interest expenses;
 - (b) providing a cash margin for issuing letters of credit to iron ore suppliers;
 - (c) providing pre-payments to iron ore suppliers to increase the Group's secured tonnage of iron ore in the future; and
 - (d) the construction of energy saving technology.

10. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Brief biographies of the Directors and senior management are set out below. Paragraph 6 of Part V of this document contains further details of the current and past directorships and certain other important information regarding the Directors.

Executive Directors

Mr David Wong

David Wong, aged 53, is the co-founder of the Group and Chairman and Chief Executive Officer of the Company. David Wong is responsible for the strategic planning, business development and overall management of the Group. David Wong has more than 30 years' experience trading building materials and arranging logistics, with more than 14 years of this experience focused on cement and iron ore trading. Prior to 1980, David Wong was a sales manager with Reliance Transportation Company, a sole proprietorship, engaged in the trading and transportation of building materials in Hong Kong. David Wong is also the Chairman of Prosperity International Holdings.

Mr Patrick Siu Ming Li

Mr Li, aged 43, is an Executive Director and the Chief Financial Officer of the Company. Mr Li is responsible for the Group's banking, treasury and accounting matters and supervises the finance and accounting staff. Mr Li has more than 20 years' experience in the banking and financial services industry and acted as Head of Risk Management in the Global Commodities Group at Fortis Bank (Hong Kong and Shanghai) and as the Vice President for Finance of the Titan Petrochemicals Group Limited before joining the Group. Mr Li obtained a Bachelor's degree in Social Sciences from the University of Hong Kong in 1985 and a Bachelor's degree in Law from Manchester Metropolitan University in 1996. Mr Li has also obtained a post-graduate diploma in Corporate Administration in 2000 and a Master's degree in Professional Accounting from the Hong Kong Polytechnic University in 2001. Mr Li is an associate of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.

Mr Michael James Allen

Mr Allen, aged 53, is an Executive Director and the Chief Technical Officer of the Company, responsible for overseeing the Group's cement interests and the acquisition and development of mining projects by the Group. Mr Allen has 30 years' experience in the cement and mining industries, and has extensive knowledge of the design and operation of cement kilns, mineral extraction, quarry and project management.

Mr Allen worked with GR-Stein Refractories, now Corus, as a laboratory manager, designing and producing the refractory linings for cement kilns, and worked in association with F L Smidth, Denmark, one of the foremost producers of cement kilns and related technologies. Mr Allen also worked for The RMC Group as Project Manager for Scotland covering a number of sites, from aggregate quarries, Ready Mix Concrete plants to concrete block, tile factories and concrete monolithics. Mr Allen was responsible for all of the engineering aspects of the plants plus construction, design and management and capital expenditure. Mr Allen has also designed uses for mining software to improve the control of the extraction of the raw material feed for primary users such as cement plants where the chemistry of the feed is critical to the composition of the end product and the efficient working of the plant.

Working at consultant and board level as Technical Director, Mr Allen has worked in the PRC, the United States and Europe. Mr Allen holds a Bachelor's degree in Geology from the University of Edinburgh and a Master's degree in Information Systems Management from the University of Stirling. Mr Allen is also a Member of the Society of Mining, Metallurgy and Exploration (SME) in the United States. As well as his work for the Group, Mr Allen also acts as a business consultant for various companies and Stirling University Research Enterprise.

Mr Jian Ping Wu

Mr Wu, aged 40, is an Executive Director and the President of the cement plant owned and operated by the Group's subsidiary, Yingde Dragon Mountain. Mr Wu graduated from Tongji University in Shanghai in 1988 with a Bachelor's degree in Management. Prior to joining the Group, Mr Wu worked for Anhui Conch and then joined Yingde Dragon Mountain. Mr Wu was responsible for planning and project-managing the construction of the Yingde Dragon Mountain plant and has been in charge of its day-to-day operations of the plant since construction was completed.

Non-Executive Directors

Dr John Robertson

John Robertson, aged 60, graduated with a BSc in Engineering from the University of St Andrews and then completed his doctorate from the University of Dundee. Dr Robertson began his career in 1970 with J. Henry Schroder Wagg, the London merchant bank and, in 1972, he joined the corporate finance department of Cannon Street Investments. In 1975, he joined the Ultramar group of companies where he held a number of senior positions in London, Montreal, Toronto and New York and gained experience in corporate development, investor relations and supply operations. Much of his career at Ultramar was with the principal Canadian subsidiary, Ultramar Canada, where he was senior vice president corporate development and subsequently senior vice president supply operations.

In 1992, Dr Robertson returned to London and joined Durlacher, a UK stockbroker, where he advised corporate finance clients. From 1995 to 2005 he was a director of Nabarro Wells & Co., the London based independent corporate finance advisory firm where he brought a number of significant oil and gas and mining companies to AIM. He continues as a part time consultant with Nabarro Wells following his retirement in June 2005.

Dr Robertson is non-executive chairman of Elixir Petroleum, the ASX and AIM listed oil company with exploration activities in the North Sea.

Mr Anthony Williams

Anthony Williams, aged 52, graduated from the University of Otago with a Bachelor's degree in Economics in 1975 and from the University of Manchester with a Master's degree in Economics in 1977. After working as a tutor in Economics at the University of Leeds, Mr Williams began his career in 1979 as the Business Correspondent for Building magazine where he worked for four years, becoming both News and Business Editor.

Mr Williams joined Phillips & Drew, now part of UBS, as a building and construction analyst in 1983 rising to Director in January 1988 as the building research team rose to become one of the top five rated teams within the sector. In 1989, Mr Williams joined Morgan Stanley as Head of Building & Construction Research, initiating coverage of building materials and construction equities on a global basis.

Mr Williams joined Tarmac plc as Director of Corporate Planning in 1992. During his time with Tarmac it underwent extensive rationalisation, financial reconstruction and international expansion. From 1996 Mr Williams worked for ING Barings as a director in Global Corporate Finance before moving back into industry as Director of Corporate Affairs for AMEC plc.

Mr Williams worked as a Director in the European Equities division at ABN AMRO from 2001 before leaving in 2002 to found Building Value, an independent strategic advisor, with a focus on building, construction and support services. Mr Williams is a non-executive director of SAS Holdings Ltd and Connaught plc, the facilities management group.

Mr Sandy Chun-Kwan Chim

Mr Chim, aged 50, graduated from the University of New South Wales in Australia with a Bachelor's degree in Commerce in 1980 and from the Schulich School of Business at York University in Canada with a Master's degree in Business Administration in 1984. Mr Chim was first qualified as a Chartered Accountant in Australia and is now a Fellow Member of the Hong Kong Institute of Certified Public Accountants, a Member of the Institute of Chartered Accountants of Ontario and a Member of the Institute of Chartered Secretaries and Administrators in Canada.

Mr Chim has held board positions in several public companies listed in Hong Kong and Australia and is currently an executive director of Pearl River Tyre (Holdings) Limited, a company listed on the main board of the Hong Kong Stock Exchange. Mr Chim is also a Partner in Chim & Seto LLP, a chartered accountancy firm in Canada. In 2004, Mr Chim founded The Capital Market Limited and The Capital Market Allied Limited, independent strategic advisors, with a focus on global resources for the China market.

Professor Ben Ren Liu

Mr Liu, aged 63, graduated from Wuhan Scientific and Technologic University, with a major in Metal Pressing in 1965 and worked as a technician with WISCO. Mr Liu undertook further studies at Beijing Scientific and Technologic University, Nippon Steel of Japan (NEC) from 1973 to 1976, and studied and researched in the Plasticity Processing Research Department of Tokyo University of Japan from 1982 to 1983. Mr Liu stayed with WISCO, the world's 21st largest steel manufacturer, throughout this period becoming the President in August 1993 and held these positions until his retirement in December 2004.

Mr Liu is currently the Vice Chairman of China Enterprise Management Association, the Vice Chairman of China Quality Control Academy and Chairman of Metallurgical Branch, Senior Consultant of Wuhan Municipality People's Government and Professor and Ph.D. adviser of Wuhan Scientific and Technologic University, Wuhan University of Technology.

Mr Michael Kim Hung Yuen

Mr Yuen, aged 44, graduated from Hong Kong Polytechnic with a Professional Diploma in Accountancy in 1983. Mr. Yuen is a Fellow of the Association of Chartered Certified Accounts (ACCA), the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Member of the Certified General Accountants Association of Ontario. Mr Yuen previously worked in Poon, Mak & Wan, Certified Public Accountants as an Audit Manager from 1995 to 1998. Mr Yuen is currently a partner of Michael Yuen and Company, a Hong Kong Certified Public Accountants firm, and has acted as an independent non-executive director of Prosperity International Holdings and New Universe International Group Limited since 2002.

Mr Yu Lin Zhao

Mr Zhao, aged 60, graduated from the Chemistry Department of Fudan University, Shanghai in 1968, and has more than 30 years' experience in the cement manufacturing industry. Mr Zhao began his career in 1970 with Guizhou Shuichen Cement factory, working as a member of the engineering technical staff. In 1976, Mr Zhao joined the Guangxi Liuzhou Cement factory, as a Production Control engineer. Mr Zhao was promoted to Technical Section engineer and External Affairs Section chief at the factory. Mr Zhao acted as a director of the Guangxi Liuzhou Cement Factory and secretary of the Party Committee from 1992 to 1994.

Mr Zhao was appointed as Vice Party Secretary of Liuzhou Municipal Committee of the CPC in 1994 and was the Mayor of Liuzhou Municipality from 1995 to 1997. Mr Zhao subsequently worked as the Party Committee Secretary and General Manager of China Light Industry Raw & Processed Material Head Company from 1997 to 2006 when he retired.

Senior Management

The Directors are supported by the following senior managers:

Ms Selina Yuen Yee So

Ms So, aged 44, is the General Manager of the Group's iron ore business. Ms So is responsible for the implementation and development of corporate strategy and Company administration, including the operation of trading activities. Ms So began her career in 1981 with Robin Information Systems and subsequently took on various administrative positions with companies including Radofin Electronics (FE) Ltd, High Fashion Garments Ltd and Leshons Enterprises Ltd. Ms So joined Prosperity Merchandise Agency Ltd, a company controlled by David Wong, in 1988 as a director's assistant. In 2003, Ms So was the director and General Manager of Prosperity Minerals (Asia) Limited and subsequently took up the position of General Manager of Prosperity Minerals Limited in February 2004. Ms So graduated from HKU Space with a Diploma in Marketing Management in 1998.

Mr Hung Yuen Yeung

Mr Yeung, aged 36, is the Group's Financial Controller. Mr Yeung is responsible for overseeing all accounting and treasury functions of the Group and assists the Chief Financial Officer in handling banking relationships and matters. Mr Yeung began his career with the Nanyang Commercial Bank as an Account Executive in 1993. From 1996 to 2003, Mr Yeung served as the Assistant Manager at Dai-Ichi Kangyo Bank Ltd (Hong Kong Branch) and subsequently became the Assistant Manager – Finance at Pacific Ports Company Limited, responsible for managing the daily accounting operation of a joint venture in Xiamen. Mr Yeung was also employed as an accountant from 1999 to 2002 during his employment with APP (HK) Ltd. Prior to joining the Group, Mr Yeung was the Chief Financial Officer and Company Secretary of Ningbo Yidong Electronic Company Limited from 2003 to 2005, assisting in the company's initial public offering in Hong Kong in November 2003. Mr Yeung graduated from Hong Kong Polytechnic with a BA in Business Studies in 1993. He is also a Member of the Association of Chartered Certified Accounts (ACCA) and Hong Kong Institute of Certified Public Accountants (HKICPA).

Mr Siu Wai Tam

Mr Tam, aged 58, graduated from university in Guangzhou in 1978 and has more than 20 years' experience in the steel manufacturing industry. Mr Tam began his career with Guangzhou Iron and Steel Corporation as a technician. Mr Tam joined the Group in 1998. He is the deputy general manager of the iron ore business and is responsible for maintaining customer relations and implementing the iron ore trading business' marketing strategy.

Mr Gen Mu Wang

Mr Wang, aged 52, is a Vice President of the Yingde Dragon Mountain plant. Mr Wang started his career in the Clinker Calcinations Technology Department at Shanghai Sheng Li Cement Plant in 1976 before moving to the Ning-guo Cement Plant in 1979. Mr Wang was promoted to be the Chief Secretary and Deputy Director of Mines Department in Ning-guo Cement Plant in 1989. Mr Wang was subsequently appointed as the Deputy Secretary of the Communist Party and Vice President of the Yingde Dragon Mountain cement plant in 2003 and continues to hold these positions.

Mr Zong Biao Zhang

Mr Zhang, aged 46, is a Vice President of the Yingde Dragon Mountain plant. Mr Zhang started his career as a technician at Ning-guo Cement Plant in 1984 and has more than 20 years' experience in the cement industry, primarily working in managerial positions. Mr Zhang joined Yingde Dragon Mountain as a Vice President in 2004.

Employees

As at 31 March 2006, the Pro-Rise Group employed 35 full time employees, 2 located in the PRC, 29 located in Hong Kong and 4 in Macao, whose roles can be broken down as follows:

Management	2
Finance & Accounting	9
Administration	6
Iron Ore Business	18
	<hr/>
	35

On 13 April 2006, the Group acquired Yingde Dragon Mountain which, as at 31 March 2006, employed approximately 700 staff at its plant.

11. SHARE OPTION SCHEME

The Directors recognise the need to attract, incentivise and retain key employees and the importance of ensuring that all such employees are well motivated and able to identify closely with the profitability of the Group. To this end, the Company has established the Share Option Scheme. Due to restrictions under PRC law, PRC nationals domiciled in the PRC are not eligible to participate in the Share Option Scheme.

At any time, the total number of Ordinary Shares which have been issued or are issuable under options granted under the Share Option Scheme or under any other employee share scheme which the Company may establish in the future may not exceed that number of Ordinary Shares which is equal to 10 per cent. of the Company's issued share capital from time to time. Options granted more than 10 years previously are not taken into account for the purposes of this limit.

The Directors intend to consider the Association of British Insurers guidelines on share option schemes in administering the Share Option Scheme.

12. CORPORATE GOVERNANCE

Although there are no specific corporate governance rules in Jersey, the Directors recognise the value of the principles of good governance and the Combined Code and intend, following Admission, to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature quoted on AIM.

The Board has established an audit committee, a nomination committee and a remuneration committee, each with formally delegated duties and responsibilities. The audit committee comprises Michael Yuen as the Chairman, Anthony Williams and John Robertson, the nomination committee comprises John Robertson as the Chairman, Michael Yuen and Sandy Chim and the remuneration committee comprises Anthony Williams as the Chairman, Michael Yuen and Sandy Chim.

The Company currently does not comply with the requirement of the Combined Code in relation to the separation of the roles of chairman and chief executive officer. Given the importance of David Wong to the Group, particularly in relation to the iron ore trading business, the Directors consider that it is appropriate that David Wong hold the office of Chairman.

Although other candidates in the Company were considered for the role of Chief Executive Officer it was felt that the Group would derive the most benefit from their skills and experience in their current roles. It was also felt that David Wong's skill set and experience makes him a natural choice for the role of CEO. The Board intend to keep the dual role under review.

The terms of reference for the audit committee provide that it will receive and review reports from the Company's management and the auditors relating to the annual and interim accounts and the Company's accounting and internal control systems. The terms of reference for the audit committee provide for it to have unrestricted access to the Company's auditors.

The terms of reference for the nomination committee provide that it will regularly review the structure, size and composition required of the Board, give full consideration to succession planning for directors and other senior executives and be responsible for identifying and nominating candidates to fill board vacancies.

The terms of reference for the remuneration committee provide that it will review the scale and structure of the Company's executive directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the Company's non-executive directors will be set by the Board. No Director may participate in any meeting at which discussion or any decision regarding his own remuneration takes place. The remuneration committee will also administer the Share Option Scheme.

The Company will take all reasonable steps to ensure compliance by the Directors and the Company's employees with the provisions of the AIM Rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose.

13. CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument in accordance with the CREST Regulations. The Articles permit the holding of Ordinary Shares to be evidenced in uncertificated form in accordance with the CREST Regulations.

The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission and CRESTCo has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, should Shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued.

14. DIVIDEND POLICY

The Directors are confident that the Group will continue to generate significant cash and accordingly they intend to adopt a progressive dividend policy. It is the Directors' current intention to distribute up to 50 per cent. of underlying earnings.

15. CONTROLLING SHAREHOLDER

Following the Placing, the Controlling Shareholder will hold 46,191,136 Ordinary Shares representing 35.8 per cent. of the issued share capital of the Company on Admission and carrying 35.8 per cent. of the voting rights of the Company. In addition, Max Start and Max Will (both of which are wholly-owned by the Legacy Shareholders) will hold, in aggregate 5,162,256 Ordinary Shares, representing 4 per cent. of the issued share capital of the Company on Admission. The Controlling Shareholder, Max Start, Max Will, the Legacy Shareholders and Prosperity Materials have, conditionally on Admission taking place, entered into the Relationship Deed with the Company in which they have undertaken that they will ensure that the Company and its subsidiaries can carry on their business independently of any control which it would otherwise be able

to exercise by virtue of their shareholdings in the Company and that all transactions between it and any member of the Group will be carried out on an arm's length and normal commercial basis.

Further details of the Relationship Deed are set out in paragraph 11.5 of Part V of this document.

16. LOCK-IN ARRANGEMENTS

The Directors who, following Admission, will have, in aggregate, an interest in approximately 26.2 per cent. (in the case of David Wong, through the Controlling Shareholder, Max Start and Max Will and in the case of Sandy Chim through The Capital Market Allied Limited) of the Enlarged Issued Share Capital, have given undertakings that they will not sell, charge or grant any interests over any Ordinary Shares held by them (subject to certain exceptions) during the period commencing on Admission and ending on the later of the first anniversary of Admission and the date of release of the Company's audited financial statements for the year ended 31 March 2007. For a further period expiring on the date of release of the Company's audited financial statements for the year ended 31 March 2008, the undertakings will continue to apply in respect of 50 per cent. of the Directors' interests in Ordinary Shares and disposal of the remainder will be subject to certain orderly market arrangements. The Directors' holdings are set out in paragraph 7 of Part V of this document.

The Controlling Shareholder, Max Will and Max Start, who following Admission will have, in aggregate, an interest in approximately 39.8 per cent. of the Enlarged Issued Share Capital, have given undertakings that they will not sell, charge or grant any interests over any Ordinary Shares held by them (subject to certain exemptions) during the period commencing on Admission and ending on the later of the first anniversary of Admission and the date of release of the Company's audited financial statements for the year ended 31 March 2007. For a further period expiring on the date of release of the Company's audited financial statements for the year ended 31 March 2008, the undertakings will continue to apply in respect of 50 per cent. of the interests in Ordinary Shares and disposal of the remainder will be subject to certain orderly market arrangements. Further, the Legacy Shareholders have undertaken to procure the compliance of the Controlling Shareholder, Max Will and Max Start with the provisions of the undertaking and have themselves undertaken not to dispose of their shares in the Controlling Shareholder, Max Will and Max Start (subject to certain exceptions). Further information on this lock-in deed is set out in paragraph 11.3 of Part V of this document.

17. THE PLACING

Evolution Securities has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the Placing Shares to be issued under the Placing. To the extent that it fails to procure subscribers for the Placing Shares, Evolution Securities has agreed to subscribe itself, as principal, at the Placing Price for such shares, on the terms and subject to the conditions in the Placing Agreement.

The Placing Shares are or will be in registered form and, on Admission, will rank *pari passu* in all respects with the other issued Ordinary Shares and will rank in full for dividends and other distributions declared, paid or made following Admission in respect of the ordinary share capital of the Company.

On Admission, the Company will have 129,056,392 Ordinary Shares in issue and a market capitalisation of £191.0 million at the Placing Price. The 77,703,000 Placing Shares will represent 60.2 per cent. of the Enlarged Issued Share Capital. The Placing is conditional on, *inter alia*, Admission.

Further details of the terms of the Placing Agreement are set out in paragraph 11.2 of Part V of this document.

18. TAXATION

Information regarding taxation is set out in Part V of this document. If you are in any doubt as to your tax position you should consult your professional adviser immediately.

19. FURTHER INFORMATION

Your attention is drawn to Part II of this document, which contains risk factors relating to any investment in the Company and to Parts III to V, which contain further additional information on the Group.

PART II

RISK FACTORS

An investment in the Company is highly speculative and involves a high degree of risk as the Group has a relatively short operational history in cement manufacture, which is one of its key business areas.

Potential investors should carefully consider the risks described below before making a decision to invest in the Company. If any of the following risks actually occur, together with the possible additional risks and uncertainties of which the Directors are currently unaware or which they consider not to be material in relation to the Group's business actually occur, the Group's business, financial condition, results or future operations could be materially and adversely affected. In such circumstances, the price of the Company's shares could decline and you could lose all or part of your investment. This document contains forward-looking statements that involve risks and uncertainties. The Company's results could actually differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Company, which are described below and elsewhere in the document.

1. Risks relating to the business and operations of the Group

Management of future growth

The Group's plans to continue its growth will place additional demand on the Group's management and administrative and technological resources. If the Group is unable to manage its growth effectively, its business operations or financial condition may deteriorate.

Competition

The cement manufacturing and iron ore trading industries in the PRC are highly fragmented and competitive, consisting of a large number of small companies and a handful of relatively large companies. Some of the Group's competitors are larger and may have greater financial, technical, marketing and other resources than the Group and may use these advantages to further increase their market share. In the event that its competitors engage in aggressive pricing to increase their market share, the Group may have to reduce its prices in order to compete with them, and it may also suffer reduced gross margins and loss of market share, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Company may face significant competition, both actual and potential, including competition from competitors which have greater capital resources than those of the Company in all aspects of its businesses, including the acquisition of mineral concessions, as well as for the recruitment and retention of qualified employees. There is no assurance that the Company will be able to compete successfully with such persons.

Dependence on key personnel

The Group depends on the services of its key technical, sales and management personnel, and in particular David Wong. The loss of the services of any of these persons could have a material adverse effect on the Group's business, results of operations and financial condition. The Company has entered into and is the beneficiary of a key man insurance policy, in respect of David Wong, in the amount of US\$3.8 million for the current year. No assurances can be given, however, that the loss of any key personnel would not have a material adverse effect on the business, financial condition or results of operations of the Company.

The Company's success is also highly dependent on its continuing ability to identify, hire, train, motivate and retain highly qualified technical, sales and management personnel. Competition for such personnel can be intense, and the Company cannot give assurances that it will be able to attract or retain highly qualified technical, sales and management personnel in the future. If the Company is unable to attract and retain the necessary technical, sales and management personnel its future growth and profitability may be adversely affected. It may be necessary for the Company to increase the level of remuneration paid to existing or new employees to a degree that its operating expenses could be materially increased.

Joint ventures

The Group holds, and expects to hold in the future, an interest in a joint venture. Joint ventures may involve special risks associated with the possibility that the joint venture partners may: (i) have economic or business interests or targets that are inconsistent with those of the Group; (ii) take action contrary to the Group's policies or objectives with respect to their investments, for instance by veto of proposals in respect of joint venture operations; (iii) be unable or unwilling to fulfil their obligations under the joint venture or other agreements; or (iv) experience financial or other difficulties. Any of the foregoing may have a material adverse effect on the results of operations or the financial condition of the Group. In addition, the termination of certain of these joint venture agreements, if not replaced on similar terms, could have a material adverse effect on the results of operations or the financial condition of the Group.

Currency exchange risk

The Group reports its financial results and expects to receive dividends from Yingde Dragon Mountain and Prosperity Conch Cement in US Dollars. However, a significant proportion of the Group's income is received and costs are incurred in local currencies, in particular in Hong Kong Dollars and RMB. Accordingly, if any of these currencies were to strengthen against the US Dollar, this could have a detrimental effect on the Group's results or financial condition. The Group's assets and liabilities will be subject to the same exchange rate fluctuations, which could also have a significant effect on the Group.

Fluctuations in exchange rates between currencies in which the Group operates relative to US Dollars may cause fluctuations in its financial results. The Group cannot predict the effect of exchange rate fluctuations upon future operating results and there can be no assurance that exchange rate fluctuations will not have a material adverse effect on its business, operating results or financial condition.

In addition RMB is not a freely convertible currency. A portion of the Group's RMB revenue or profit will have to be converted into other currencies to meet foreign currency obligations of the Group such as the payment of dividends, if declared. The PRC government has stated that it intends to make RMB freely convertible in the future. However, uncertainty exists as to whether the government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC.

Insurance coverage for operating risks

Additionally, the trading business requires the operation of ocean-going vessels which have an inherent risk of sinking, collision, other catastrophic maritime disaster, environmental pollution, leaks or spills, personal injury, loss of life, losses to, stranding of or damage to cargo, and business interruption caused by war, terrorist activities, mechanical failure, human error, political action, labour strikes, adverse weather conditions, fire and other circumstances or events. Any of these events could result in the Group experiencing direct losses and liabilities, loss of income, increased costs and reputational damage.

The Group has arranged for insurance against certain of these risks. However, there can be no assurance that all risks are adequately insured against; that any particular claim will be paid; or that the Group will be able to procure adequate insurance coverage at commercially reasonable rates in the future. Should such liabilities arise, they could have a material adverse effect on the Group's results.

The Group may need additional access to capital in the future

The Group's capital requirements depend on numerous factors. If its capital requirements vary materially from its current plans, the Group may require further financing. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. In addition, there can be no assurance that the Group will be able to raise additional funds when needed or that such funds will be available on terms favourable to the Group. If the Group is unable to obtain additional financing as needed, the Group may be required to reduce the scope of its operations or anticipated expansion or to cease trading.

Financing risks

The Directors are of the opinion, having made due and careful enquiry, that having taken into account the estimated net proceeds of the Placing, the working capital available to the Company and the Group will be sufficient for its present requirements, which is for at least 12 months from the date of Admission. Thereafter,

further expansion of the Group's businesses may be dependent upon the Group's ability to obtain financing through joint ventures, equity or debt financing or other means, and although the Group has been successful in the past in obtaining equity financing there can be no assurance that the Group will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further development of its projects.

Any additional financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on other financing and operating activities.

Contractual obligations

The contractual rights and obligations of the Group in acquiring, and subscribing for, shares in Prosperity Conch Cement and Yingde Dragon Mountain are less comprehensive than may be expected in similar transactions in the United Kingdom. In particular, no business warranties were provided in relation to the acquisition of Yingde Dragon Mountain. Although the Group has conducted legal and financial due diligence in respect of Yingde Dragon Mountain and Prosperity Conch Cement, there can be no guarantee that there are no material liabilities or risks that have not been revealed by such due diligence and in the event that such matters were to be revealed in the future this may have a material adverse effect on the value of those assets.

Taxation

The Group has structured its operations with a view to reducing the effective tax rate, particularly in relation to the Group's iron ore trading business, corporate income tax in the PRC, Macao and Hong Kong and Macao professional tax and, in relation to the Group's cement business, business tax, individual income tax, deed tax and transfer pricing. Should the planning be challenged by the tax authorities in the jurisdictions where the Group operates, the effective tax rate could increase.

2. Risks relating to the PRC

Political and social considerations

The PRC has been undergoing a series of political reforms since 1978 and the Directors believe that such reforms will continue. Such reforms have in the past resulted in significant economic growth and social progress. However, there can be no assurance that any future reform policy of the PRC Government will be effective or that it will not adversely affect the Group's business.

Economic considerations

The PRC has a long history of planned economy and is subject to annual, five and ten year plans formulated by the PRC Government. In recent years, the PRC Government has introduced economic reforms aimed at transforming the PRC economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the PRC Government are still at an early stage of development, and further refinements and amendments may be necessary to enable the economic system to develop into a more sophisticated form. It is unclear how future economic reforms and macroeconomic measures to be adopted by the PRC Government will affect the economic development of the PRC. Further, there can be no assurance that such measures will be applied consistently and effectively or that the Group will benefit from or will be able to capitalise on such reforms.

Legal considerations

Since 1979, many laws and regulations dealing with economic matters with respect to general and foreign investments have been promulgated in the PRC. However, the PRC legal system is still considered to be under-developed in comparison with legal systems in Western European countries. In 1988, the PRC National People's Congress amended the constitution adopted in 1982 to attract foreign investments and to safeguard the "lawful rights and interests" of foreign investors in PRC. Since then, the trend of legislation has been to enhance the protection afforded to foreign investors and to allow more active control by foreign investors of FIEs in the PRC. However, despite significant improvements in its legal system, there still exist difficulties in obtaining swift and equitable enforcement of both rights under the PRC domestic law and

judgments by a court of another jurisdiction. Further, as a result of political changes, the interpretation of statutes and regulations may be subject to government policies. Such uncertainties may affect the Group's operations and accordingly, its profitability.

Receipt of dividends from, and transfer of funds to, the Cement Companies

The Company is a Jersey incorporated company, and indirectly holds a 25 per cent. interest in Prosperity Conch Cement which is an FIE, and a 100 per cent. interest in Yingde Dragon Mountain. The ability of the Cement Companies to declare dividends and other payments to the Company may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations in the PRC, BVI, Hong Kong and in Jersey. In particular, under PRC law, profit available for distribution from the PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in the PRC. The result of such a calculation may differ from the result of the calculation performed in accordance with International Financial Reporting Standards. As a result of the potential difference in profit calculation, there is a risk that the Cement Companies may not have sufficient profits to make any distributions to the Company. Additionally, distributions by the Cement Companies to the Company other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from the Company to the Cement Companies, either as a shareholder loan or as an increase in registered capital, is subject to registration or the approval of certain PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. Therefore, it may be difficult to change the Group's capital expenditure plans once funds have been remitted from the Company to the Cement Companies. These limitations on the free flow of funds between the Company and the Cement Companies could restrict the Group's ability to act in response to changing market conditions in a timely manner.

PRC policy in respect of the cement industry

In 2004, the PRC State Council introduced several measures to control the growth of the domestic cement industry, including environmental protection and energy consumption standards, increasing the minimum equity contribution for new cement production lines from 20 to 35 per cent.

The PRC may introduce or implement further policies to control the cement manufacturing industry that adversely affect the operations of the Cement Companies, for example by weakening demand or raising their operating costs. Any such policy could affect the dividends that the Company receives from its investments in these companies.

On 13 April 2006, the SDRC the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Construction, MOFCOM, the People's Bank of China, the General Administration of Quantity Supervision, Inspection and Quarantine and the State Environmental Protection Administration jointly issued "Certain Opinions on Speeding Structural Adjustments to the Cement Industry" (the "Opinions"). The intention of the Opinions is to control the total number of cement companies and production output in the PRC; encourage energy-efficient plants; and centralise production. The SDRC is targeting cement production of 1,250 million mt in 2010, by the following:

- (i) the volume of cement using new dry process technology reaching 70 per cent.;
- (ii) bulk cement reaching 60 per cent.;
- (iii) a reduction in the number of cement companies to 3,500; and
- (iv) the top 10 cement companies producing 30 per cent. of the PRC's total capacity. The SDRC's aim is for energy to be used in a more efficient way.

While modern plants, such as the Cement Companies', are being encouraged to use new dry process technology, advanced mining technology, and produce bulk cement, the Opinions also emphasise the following:

- (i) the SDRC is looking to promote the development of cement plants at different locations;
- (ii) new projects or expansion of projects using old techniques are to be prohibited;
- (iii) the level of administration relating to production licenses is to be increased;
- (iv) national standards for cement products will be promulgated; and

- (v) new standards on discharge of pollutants by cement companies will come into effect from 1 July 2006.

Furthermore, the SDRC intends to identify 10 national star companies and 30 local star companies to provide more support to their development (which is expected to include special treatments for the grant of land use right and financing).

If the Cement Companies fail to comply with any of the promoted standards or if the Cement Companies are not picked up as star companies, then the Cement Companies' business may be adversely affected.

PRC policy in respect of iron ore imports

The PRC Government currently allows 118 companies to import iron ore into the PRC. There has been recent speculation that the PRC Government intends to reduce this number of authorised importers as part of the macroeconomic measures that it uses to control its steel industry. Although the Group's iron ore trading business does not have an import licence, the majority of its customers within the PRC do hold import licences. If the PRC Government does reduce the number of import licences in the future this could restrict the ability of the Group to contract directly with its existing iron ore customers in the PRC and have a material adverse effect on its operations.

PRC policy in respect of the steel industry

The PRC Government is closely monitoring the development of its domestic steel industry and may exercise control over it from time to time by issuing and implementing new policies. In 2004, the PRC State Council introduced several measures to control the growth of the domestic steel industry, including raising the minimum capital requirements for new steel projects from 25 to 40 per cent. and introducing tighter controls on lending by state commercial banks. Such measures may curb the growth of the steel industry, which may in turn weaken demand for iron ore in the PRC.

The PRC may introduce or implement further policies or changes to the regulatory approval process in the future that may cause delay in or adversely affect the distribution of the Company's iron ore to its customers in the PRC or may have an adverse effect on the Company's business by weakening demand.

3. Cement Business related risks

Conch Cement JV Agreement

The Group is required to make its equity contributions under the Conch Cement JV Agreement in two tranches. The Group will pay 35 per cent. of its equity contributions following Admission and is required to make the remaining 65 per cent. contribution by 13 June 2007. However, if the Group fails to make the remaining 65 per cent. contribution in the first half of 2007, the parties must proceed to arbitration, which might result in the Group being forced to transfer its shares to the other joint venture parties. Under such a situation, the Group may be entitled to a refund of its initial contribution subject to the deduction of default penalties (if any). Alternatively, subject to the consent of the other shareholders and the approval of the SAIC, the Group may be registered as a shareholder with a smaller percentage of the shares.

The Group intends to manage this risk by paying these amounts from the proceeds of the Placing. However, so far as the Directors are aware, the Group's partners under the Conch Cement JV Agreement do not intend to accelerate their payments in this way and consequently, if Prosperity Conch Cement encounters financial difficulties, or if the partners default under the terms of the Conch Cement JV Agreement, the Group may be exposed to losses that might not have arisen if it had not paid in full in advance.

Environmental and other regulatory requirements

The cement industry ranks among the biggest polluters in the PRC, prompting increased concerns from the central government of the PRC to adopt a series of environmental protection policies. The cement operations in the PRC are therefore subject to state and provincial environmental laws, regulations and administrative rules. These include provisions for the prevention and the treatment of water and air pollution and other industrial pollution generally. The local governments are also empowered to impose penalties on companies that fail to comply with the relevant requirements. In the event that any new requirements are promulgated

in the PRC, the cement operations may have to incur additional expenses in relation to environmental protection, which may adversely affect the profitability of the Cement Companies.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or to be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. There can be no assurance that compliance with these laws and regulations or changes thereto or the failure to obtain necessary permits, approvals or leases or successful challenges to the grant of such permits, approvals and leases will not adversely affect the results of operations or the financial condition of the Group.

Production permits and licences

At present Prosperity Conch Cement does not have a licence for producing cement and clinker for cement. Applications for such licences for all four lines will be made once all four lines have passed the inspection by environmental authorities. Prosperity Conch Cement is not authorised to start commercial production without this licence.

At present Prosperity Conch Cement has not obtained its mining licence to mine limestone from the Ministry of Land Resource, for which an application has been submitted and is currently being considered by the Guangdong Provincial State Land Resource Bureau. Prosperity Conch Cement has also not obtained its Safety Production Licence (for mining limestone) from the Yingde Municipal Safety Production Supervision and Administration Bureau. Prosperity Conch Cement will not be able to mine its own limestone until these licences are obtained.

Cement producers are required to obtain a trial production licence in order to obtain the necessary environmental approvals to apply for a production licence in respect of new clinker production lines. It is normal industry practice to sell clinker produced by production lines in relation to which a trial production licence is in place. Prosperity Conch Cement currently has one trial production licence in place but is producing clinker on a trial basis for three additional production lines. The first three lines are being inspected by the appropriate authority. There is no guarantee that such production lines will pass the testing and that the production licence for each line will be granted after the trial period.

Yingde Dragon Mountain has not yet received approval from the PRC environmental authorities for the third clinker production line, without which it is not authorised to commence commercial production from that line.

All of the licences mentioned in this paragraph are granted by various PRC governmental bodies. There can be no guarantee that such licences will be granted within the timescales envisaged by the Directors or at all. It is also possible that the authorities may require remedial or additional work to be undertaken prior to the grant of any licences, which may involve further delay and expense and possible monetary penalties. Although the Directors believe that the production lines awaiting approval have been or are being constructed in compliance with all applicable requirements, there can be no guarantee that the authorities will not require further work to be done.

Furthermore, failure to comply with the terms of any licence may result in its being withdrawn, or not renewed on expiry and the relevant company being unable to continue its operations.

The Company has not entered into discussions with third parties regarding alternative sources of limestone in the situation that its limestone mining licences are not granted or are revoked. The Directors believe that the Company is not wholly dependant on the limestone reserves covered by its existing licence granted to Yingde Dragon Mountain. In the event these limestone reserves were not extractable (for technical or legal reasons), the Company believes it would be able to source limestone from elsewhere to continue its cement production, subject to obtaining a new licence from the PRC Government (which process may involve expense and/or delay on the part of the Group).

Competition

The cement market in the PRC is over-supplied with low-quality low-priced products produced by a large number of small township enterprises. As a result, the market for low-grade cement in the PRC has attracted

many domestic companies as well as multinational cement companies to invest in the production of cement in the PRC. Although the Group has the benefit of economies of scale and infrastructure support, such intense competition may adversely affect the Group's net profit if the Group cannot effectively compete in the domestic market.

Reliance on the PRC market

It is intended to sell all of the product from the Cement Companies within the PRC. If there is any significant decline in the condition of the economy of the PRC or if the demand for cement in the PRC is not as anticipated by the Directors, the Cement Companies' operations and profitability may be adversely affected.

Cement industry regulations

The cement industry is subject to state control in the PRC and cement manufacturers are required to comply with certain quality compliance standards. Yingde Dragon Mountain has had cement tested by Guangdong Provincial Cement Quality Supervision & Test Shaoguan Office which has reported that this cement complied with quality standards GB 175-1999 and GB 6566-2001. If these standards are not met by the Cement Companies, they may need to incur expenditure to ensure that their products reach these standards and are in compliance with them and this may adversely impact the profitability of the Cement Companies.

Increases in energy and fuel costs

Fuel and power costs accounted for approximately 50 per cent. of the total cost of sales for the cement produced at Yingde Dragon Mountain in 2005. Any increase in energy and fuel costs could adversely affect the Cement Companies' operations and profitability.

Cement substitutes

Virtually all cement is used either in making concrete or mortars and, as such, competes in the construction sector with concrete substitutes including aluminium, clay brick, rammed earth, fibreglass, steel, stone and wood. A number of materials, especially fly ash and ground granulated blast furnace slag, develop good hydraulic cementitious properties (the ability to set and harden under water) by reacting with the calcium silicates released by the hydration of cement. These materials are increasingly being used as partial substitutes for cement in some concrete applications.

If demand for cement from the construction industry falls the spot price may also fall, and the Group's margins and operating results may be adversely affected.

Operational failure

In the event that any of the production equipment at the Cement Plants were to fail or needed to be shutdown for unscheduled maintenance over a sustained period, this may affect the relevant cement company's production capacity and hence its ability to produce its anticipated quantities of clinker and/or cement.

4. Risks relating to Group's iron ore trading business

Reliance on iron ore suppliers

The Group currently purchases approximately half of its iron ore supplies on a long-term contract basis from two mining companies and purchases the remainder on spot contracts. Significant quantities of the iron ore that the Group purchases on spot contracts is bought from mining companies with which the Group has, or has previously had, contracts, in addition to the quantities secured under those contracts.

The iron ore trading business relies on the personal relationships between David Wong and the iron ore trading team and the mining companies that supply the Group on long-term and spot contracts. As the Group only has a small number of iron ore suppliers, it could be significantly and adversely affected if any of these relationships deteriorated and long term contracts were terminated or the suppliers elected not to supply the Group with iron ore on spot contracts. Any interruption or reduction in the supply of iron ore from the Group's suppliers may make it difficult or impossible for the Group to satisfy its customers' delivery requirements and, in some cases, fulfil its supply commitments.

Additionally, under its long-term supply contracts, the Group is required to sell the iron ore to specified end-users in the PRC (unless otherwise agreed with the mining company). In the event that these specified end-users cease to trade with the Group at the required levels, or at all, there is a risk that the Group may not be able to secure the consent of the mining company to sell the iron ore elsewhere or that the mining company could withdraw its supply. Although the Directors do not believe that this is a material risk given its relationships with both customers and suppliers, if such an event did occur it could have a material adverse effect on the Group's iron ore trading business.

Major customers

The Group is substantially dependent on a small number of customer relationships for its revenues. If the Group loses any of its major customers, and is unable to replace them, its iron ore trading business may be adversely affected.

Cyclical fluctuations in the steel industry

Iron ore is the main raw material for steel manufacture, so demand for steel can affect the demand and the prices for iron ore. The PRC's steel industry has experienced significant recent growth creating additional demand for iron ore and causing spot iron ore prices to rise. The Group buys approximately half of its iron ore at fixed prices through long-term supply contracts so, when spot prices have been driven up by high demand, it has been able to significantly increase its margin.

The growth of the steel industry in the PRC may not be sustainable in the long term or may result in significant excess supply. Substitutes for steel products could also reduce market demand for steel products and consequently iron ore as the raw material for these. If demand for iron ore from the steel industry falls the spot price may also fall, and the Group's margins and operating results may be adversely affected.

Iron ore production and pricing

Rio Tinto plc, BHP Billiton plc and CVRD supply in excess of 70 per cent. of seaborne traded iron ore globally. These companies have each indicated that they intend to make significant investment in increasing their iron ore production. The iron ore market has historically been cyclical and the period of increased demand, which has caused iron ore prices to increase may be followed by a period of excess supply. A significant increase in iron ore production could adversely affect iron ore prices and require the Group to change its pricing models. If the Group is required to change its pricing models as a result of oversupply, its margins and operating results may be adversely affected.

Shipping and logistics providers

The Group's major providers of shipping and logistic services accounted in aggregate for approximately 26 per cent. of its total cost of sales for the year ended 31 March 2006, with the largest service provider accounting for approximately 17 per cent. of the Group's total cost of sales. If these shipping and logistics services are disrupted or increase their prices and the Group is unable to find an alternative supplier at a comparable price within a reasonable period of time, its business may be adversely affected.

Demurrage costs

The Group may incur demurrage costs if it is unable to coordinate the delivery time of iron ore supplies to the port of destination. The extra days beyond the lay days (being the number of days allowed for the unloading of the cargo) for which the vessel lays at the port pending the unloading of cargo can result in significant demurrage costs which may adversely affect its operating margins.

Project development risks

The Group plans to continue to develop its operations and new projects. There can be no assurance that the Group's projects will be fully developed in accordance with the Group's current plans or completed on time or to budget.

The Group's strategy depends to a certain extent on its ability to make acquisitions of iron ore resources. The Group cannot guarantee that it will be able to identify appropriate properties or negotiate acquisitions on favourable terms or that it will be able to obtain the financing necessary to complete such future acquisitions.

If the Group is unable to acquire mineral rights or properties, it cannot develop its own iron ore resources to sell through its iron ore trading business.

5. Risks relating to the Ordinary Shares

Investment in AIM securities

An investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List and traded on the London Stock Exchange's market for listed securities. An investment in Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Group. Investors may, therefore, realise less than, or lose all of, their investment.

Dilution of Shareholders' interest as a result of additional equity fund raising

The Group may need to raise additional funds in the future to finance the expansion of operations or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders may be reduced, Shareholders may experience subsequent dilution and/or such securities may have preferred rights, options and pre-emption rights senior to the Ordinary Shares.

Potentially volatile share price and liquidity

The share price of quoted emerging companies can be highly volatile and shareholdings illiquid. The price at which the Ordinary Shares are quoted and the price at which investors may realise for their Ordinary Shares may be influenced by a significant number of factors, some specific to the Company and its operations and some which affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of Ordinary Shares, legislative changes and general, economic, political or regulatory conditions.

Admission of the Ordinary Shares to trading on AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. Prior to Admission there has been no public market for the Ordinary Shares and there is no guarantee that an active market will develop or be sustained after Admission. It may be more difficult for an investor to realise his investment in the Company than in a company whose shares are quoted on the Official List.

Dividends

There can be no assurance as to the level of future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors, and will depend upon, among other things, the Company's earnings, financial position, cash requirements and availability of profits.

Shares available for future sale

The Company is unable to predict whether substantial amounts of Ordinary Shares will be sold in the open market following termination of the restrictions as set out in paragraph 11.3 of Part V. Any sales of substantial amounts of Ordinary Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Ordinary Shares.

The above risk factors do not necessarily comprise all those associated with an investment in the Company.

Reference should also be made to Parts III and IV of this document which contain financial information on the Group.

PART III

ACCOUNTANTS' REPORTS

A: Prosperity Minerals Holdings Limited



KPMG LLP
8 Salisbury Square
London EC4Y 8BB
United Kingdom

The Board of Directors
Prosperity Minerals Holdings Limited
Whiteley Chambers
Don Street
St. Helier
Jersey JE4 9WG
Channel Islands

19 May 2006

Dear Sirs

Prosperity Minerals Holdings Limited (the “Company”)

We report on the financial information set out below. This financial information has been prepared for inclusion in the AIM Admission Document dated 19 May 2006 of Prosperity Minerals Holdings Limited on the basis of the accounting policies set out in note 1. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 19 May 2006, a true and fair view of the state of affairs of the Company as at the date stated in accordance with the basis of preparation set out in note 2(a).

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

KPMG LLP

Balance sheet

	<i>Notes</i>	<i>31 March 2006 US\$'000</i>
Assets		
Other debtors		—
Capital		—
Called up share capital	2	—

Background Notes

The company was incorporated on 26 January 2006. The Company has not yet commenced business, no audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation.

1. Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”) and its interpretations promulgated by the International Accounting Standards Board (“IASB”).

The financial information of the Company has been prepared from the date of incorporation to 31 March 2006.

The financial information is presented in United States dollars, rounded to the nearest thousand and has been prepared under the historical cost convention.

All adopted IFRS in issue have been applied for the period presented, except for the following which are effective for the periods beginning January 2006 and 2007:

- Amendments to IAS 19 (December 2004) “Actuarial gains and losses, group plans and disclosures”
- Amendments to IAS 39 (April 2005) “Cash flow hedge accounting of forecast intragroup transactions”
- Amendments to IAS 39 (June 2005) “The fair value option”
- Amendments to IAS 39 and IFRS 4 (August 2005) “Financial guarantee contracts”
- Amendments to IAS 1 (August 2005) “Capital disclosures”
- IFRS 6 “Exploration for and evaluation of mineral resources”
- IFRS 7 “Financial instruments: Disclosure”
- Amendments to IFRS 1 and IFRS 6 (June 2005)
- IFRIC 4 Determining whether an arrangement contains a lease
- IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
- IFRIC 6 Liabilities arising from participating in a specific market-waste electrical and electronic equipment

Although the Directors have not yet fully assessed the impact of these standards on the Company they believe that the above IFRS are unlikely to have a material impact on the reported financial position, financial performance and cashflows of the Company.

2. Share capital

	<i>Number</i>	<i>cents</i>
Authorised ordinary shares of £0.01 each	3,000,000	5,357,700
Issued ordinary shares of £0.01 each	2	4

3. Subsequent events

The following significant events took place subsequent to 31 March 2006:

- (a) On 18 May 2006 the Company issued 46,191,134 Ordinary Shares to the Controlling Shareholder, the sole shareholder of Pro-Rise, and 2,581,128 Ordinary Shares to Max Will and 2,581,128 Ordinary Shares to Max Start as directed by the Controlling Shareholder, as consideration for the purchase of the entire issued share capital of Pro-Rise. All such Ordinary Shares were issued credited as fully paid.
- (b) On 13 April 2006 Prosperity Minerals (International) Limited acquired 25 per cent. of the share capital of Prosperity Conch Cement Co. Limited, which is constructing a cement and clinker plant due to be completed by the end of June 2006. The net assets of Prosperity Conch Cement Co. Limited at 31 December 2005 were RMB 362 million (US\$45 million).

On 13 April 2006 Prosperity Cement Investment Limited acquired 100 per cent. of the share capital of Yingde Dragon Mountain Cement Co. Ltd., a producer of clinker and cement incorporated in the People's Republic of China. Yingde Dragon Mountain Cement Co. Ltd. generated a profit after taxation of RMB 20.1 million (US\$25 million) for the year ended 31 December 2005 and had net assets of RMB 700 million (US\$87 million).

- (c) The Company has established a discretionary share option scheme, the Share Option Scheme, under which options are to be granted over Ordinary Shares. As at 18 May 2006, no share options have been awarded under the scheme.

B: The Pro-Rise Group



KPMG LLP
8 Salisbury Square
London EC4Y 8BB
United Kingdom

The Board of Directors
Prosperity Minerals Holdings Limited
Whiteley Chambers
Don Street
St. Helier
Jersey JE4 9WG
Channel Islands

19 May 2006

Dear Sirs

Pro-Rise Business Limited, its subsidiaries, Prosperity Materials (International) Limited and Fion Shipping Inc (the “Pro-Rise Group”)

We report on the combined financial information set out on pages 49 to 73. This combined financial information has been prepared for inclusion in the AIM Admission Document dated 19 May 2006 of Prosperity Minerals Holdings Limited on the basis of the accounting policies set out in note 2. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Prosperity Minerals Holdings Limited are responsible for preparing the combined financial information on the basis of preparation set out in notes 1 and 2 to the combined financial information.

It is our responsibility to form an opinion on the combined financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the combined financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the combined financial information gives, for the purposes of the AIM Admission Document dated 19 May 2006, a true and fair view of the state of affairs of the Pro-Rise Group as at the dates stated

and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in notes 1 and 2.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

KPMG LLP

Combined income statements

	Note	31 March		
		2004 US\$'000	2005 US\$'000	2006 US\$'000
Revenue	23	67,812	205,285	226,444
Cost of sales		(59,758)	(154,191)	(188,414)
Gross profit		8,054	51,094	38,030
Other operating income	3	2,091	1,584	2,673
Selling and distribution expenses		(2,509)	(5,012)	(2,941)
Administrative expenses		(1,242)	(3,547)	(2,477)
Profit from operations	23	6,394	44,119	35,285
Finance costs	5(a)	(1,377)	(2,607)	(1,834)
Finance income	5(a)	27	66	116
Profit before taxation	6(b)	5,044	41,578	33,567
Income tax (expense)/credit	6	(1,046)	(6,533)	1
Profit for the year		3,998	35,045	33,568
Attributable to:				
Equity holders of the parent		3,998	35,045	33,568

Combined balance sheets

		<i>31 March</i>		
	<i>Note</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Non-current assets				
Property, plant and equipment	8	127	39	41
Current assets				
Trade and other receivables	10	33,156	24,466	21,223
Other financial assets	12	–	1,000	1,000
Amounts due from related Companies	22(b)	18,874	–	–
Amounts due from shareholders		11,712	–	–
Pledged bank deposits	11	3,991	33	–
Cash and cash equivalents	13	1,926	4,582	4,633
		<u>69,659</u>	<u>30,081</u>	<u>26,856</u>
Current liabilities				
Bank overdrafts	13	1,271	–	–
Interest bearing loans and borrowings	15	39,970	–	16,055
Trade and other payables	14	18,358	17,545	5,885
Amounts due to related companies	22(c)	1,356	–	–
Amounts due to shareholders		–	5,418	–
Income tax payable		1,091	46	18
		<u>62,046</u>	<u>23,009</u>	<u>21,958</u>
Net current assets		<u>7,613</u>	<u>7,072</u>	<u>4,898</u>
Non-current liabilities				
Deferred tax liabilities	9	(16)	(6)	(5)
Net assets		<u>7,724</u>	<u>7,105</u>	<u>4,934</u>
Equity				
Share capital	16	1	13	13
Retained earnings		7,723	7,092	4,921
		<u>7,724</u>	<u>7,105</u>	<u>4,934</u>

Combined statements of changes in equity

	<i>Note</i>	<i>Share capital</i> <i>US\$'000</i>	<i>Retained</i> <i>earnings</i> <i>US\$'000</i>	<i>Total</i> <i>US\$'000</i>
At 1 April 2003		1	3,725	3,726
Profit for the year		–	3,998	3,998
At 31 March 2004/1 April 2004		1	7,723	7,724
Issue of new shares		12	–	12
Profit for the year		–	35,045	35,045
Dividend declared and approved during the year	7	–	(2,191)	(2,191)
Removal of PMIL and Fion from aggregation	17	–	(33,485)	(33,485)
At 31 March 2005/1 April 2005		13	7,092	7,105
Profit for the year		–	33,568	33,568
Dividend declared and approved during the period	7	–	(35,739)	(35,739)
At 31 March 2006		13	4,921	4,934

Combined cash flow statements

	Note	Year ended 31 March		
		2004 US\$'000	2005 US\$'000	2006 US\$'000
Operating activities				
Profit after taxation		3,998	35,045	33,568
Adjustments for:				
– Taxation		1,046	6,533	(1)
– Depreciation		10	22	21
– Finance costs		1,243	2,381	1,812
– Exchange losses		134	226	22
– Finance income		(27)	(66)	(116)
Operating profit before changes in working capital		6,404	44,141	35,306
(Increase)/decrease in trade and other receivables		(25,334)	2,078	3,243
Increase in other financial assets		–	(1,000)	–
Increase in amounts due from related companies		(11,546)	(36,688)	–
Increase in amounts due from shareholders		–	(1,493)	(35,739)
Increase/(decrease) in trade and other payables		5,299	12,045	(11,660)
Increase in amounts due to related companies		750	357	–
(Decrease)/increase in amounts due to shareholders		(6,661)	28,534	(5,418)
Cash (used in)/generated from operations		(31,088)	47,974	(14,268)
Hong Kong Profits Tax paid		(68)	(67)	(28)
Net cash (used in)/from operating activities		(31,156)	47,907	(14,296)
Investing activities				
Interest received		27	66	116
Payment for purchase of property, plant and equipment		(21)	(73)	(23)
Net cash from/(used in) investing activities		6	(7)	93
Financing activities				
(Increase)/decrease in pledged bank deposits		(988)	(76)	33
Proceeds from bank loans		20,470	–	16,055
Repayment of bank loans		(5,717)	(19,611)	–
Proceeds from other loans		19,500	–	–
Repayment of other loan		–	(19,500)	–
Interest paid		(1,243)	(2,381)	(1,812)
Exchange losses		(134)	(226)	(22)
Proceeds from issue of new shares		–	12	–
Dividends paid		–	(2,191)	–
Net cash from/(used in) financing activities		31,888	(43,973)	14,254
Net increase in cash and cash equivalents		738	3,927	51
Cash and cash equivalents at 1 April		(83)	655	4,582
Cash and cash equivalents at 31 March	13	655	4,582	4,633

Notes to the combined financial information

1 Background

(a) *Introduction*

The combined financial information has been prepared for inclusion in the Admission Document dated 19 May 2006 of Prosperity Minerals Holdings Limited. Prosperity Minerals Holdings Limited acquired the companies comprising the Pro-Rise Group via a share for share exchange with Pro-Rise Business Limited (“Pro-Rise”) on 18 May 2006. Prior to the share for share exchange Pro-Rise was owned by Madam Ching Fong Hon and David Wong.

The principal activity of the Pro-Rise Group is iron ore trading which, prior to 31 March 2005, was undertaken by two companies also controlled by Madam Ching Fong Hon and David Wong, Prosperity Materials (International) Limited (“PMIL”) and Fion Shipping Inc (“Fion”).

PMIL and Fion have not been acquired by Pro-Rise and therefore are not being acquired by Prosperity Minerals Holdings Limited via the share for share exchange with Pro-Rise.

(b) *Basis of preparation*

This combined financial information has been prepared to provide an understanding of the historical trading performance of the iron ore trading activities managed by Madam Ching Fong Hon and David Wong and which will comprise the iron ore trading business of Prosperity Minerals Holdings Limited on admission to AIM.

Until mid-March 2005 the iron ore trading activities managed by Madam Ching Fong Hon and David Wong were principally undertaken by two companies separate to Pro-Rise and its subsidiaries, being PMIL and Fion, with only limited iron ore trading undertaken by Pro-Rise and its subsidiaries prior to 31 March 2005. In mid-March 2005, PMIL and Fion ceased iron ore trading and the activity was instead undertaken by Prosperity Materials Macao Commercial Offshore Limited (“PMMCO”), a subsidiary of Pro-Rise.

PMIL also undertook cement and timber trading in each of the two years ended 31 March 2005. As the trading of iron ore and separately the trading of cement and timber was undertaken by PMIL as one company rather than as two separate distinct divisions, items such as administration expenses and non-trading assets and liabilities are common to both iron ore trading and cement and timber trading. As described below, the combined financial information includes by aggregation all income and expenses, assets and liabilities of PMIL for the three years ended 31 March 2005.

Note 23 provides an analysis of the trading results and trading assets and liabilities between the iron ore trading and cement and timber trading activities.

1 Background (continued)

(b) Basis of preparation (continued)

Companies in the combined financial information

The combined financial information therefore comprises an aggregation of the following companies which are all wholly-owned by Pro-Rise except for PMIL and Fion, which were also controlled by Madam Ching Fong Hon and David Wong (the “Pro-Rise Group”).

<i>Name of company</i>	<i>Principal activities</i>	<i>Date and place of incorporation</i>
Super Data Limited (“SDL”)	Provision of logistics services	5 March 2003 British Virgin Islands
Prosperity Materials Macao Commercial Offshore Limited (“PMMCO”)	Trading of iron ores and iron oxide	6 December 2004 Macao
Prosperity Minerals Limited (“PML”)	Provision of management services	9 March 2004 Hong Kong
Prosperity Mining Investment Limited (“PMI”)	Investment holding	17 June 2005 British Virgin Islands
Prosperity Minerals (International) Limited (“PMIN”)	Investment holding	23 April 2004 Hong Kong
Prosperity Minerals Management Limited (“PMML”)	Provision of human resource and administrative to the group companies	17 August 2005 Hong Kong
Prosperity Cement Investment Limited (“PCIL”)	Investment holding	24 January 2006 Hong Kong
Prosperity Materials (International) Limited (“PMIL”)	Trading of iron ore, cement and timber (ceased trading of iron ore on 31 March 2005)	5 March 1998 Hong Kong
Fion Shipping Inc (“Fion”)	Logistics of iron ore (ceased logistics of iron ore on 31 March 2005)	30 August 1994 British Virgin Islands

As noted above prior to 31 March 2005 the iron ore trading was primarily undertaken by PMIL and Fion. The combined financial information therefore incorporates:

- Pro-Rise and its subsidiaries for the period from 9 March to 31 March 2004 (PML only) and the month ended 31 March 2005 (PMMCO only) and for the year ended 31 March 2006; and
- PMIL (iron ore, cement and timber trading) and Fion (shipping) for each of the two years ended 31 March 2004 and 2005.

During the year ended 31 March 2006, the only activities undertaken by PMIL and Fion were the trading of cement and timber. As these entities are not subsidiaries of Pro-Rise and as these activities are not part of the ongoing activities of Pro-Rise and its subsidiaries, they have been excluded from the combined financial information for the year ended 31 March 2006. As the assets and liabilities of PMIL and Fion are not included in the combined financial information at 31 March 2005 this has resulted in a one-off non-cash movement in the combined cash flow statements and combined statements of changes in equity for the year ended 31 March 2005, see Note 17.

The results presented for the two years ended 31 March 2005 include the results of PMIL and Fion which will not form part of the Pro-Rise Group post admission to AIM. The consolidated financial statements of Prosperity Minerals Holdings Limited for the year ended 31 March 2006 will include comparative information for the year ended 31 March 2005 which will solely relate to Pro-Rise and its subsidiaries and will therefore differ from the combined financial information presented here.

1 Background (continued)

(b) Basis of preparation (continued)

On 19 October 2005 Pro-Rise acquired from Madam Ching Fong Hon and David Wong, their 100 per cent. equity interest in Prosperity Minerals (International) Limited for cash of US\$0.26.

On 24 January 2006, Pro-Rise subscribed 100 per cent. of the share capital of Prosperity Cement Investment Limited.

On 1 March 2006, Prosperity Mining Investment Limited was transferred from Pro-Rise to David Wong for cash of US\$50,000.

Both Prosperity Minerals (International) Limited and Prosperity Cement Investment Limited were acquired to undertake acquisitions of cement and clinker manufacturers in the People's Republic of China. See note 26, subsequent events, for further details.

2 Significant accounting policies

(a) Statement of compliance

The combined financial information of the Pro-Rise Group has been prepared in accordance with the significant accounting policies described in the basis of measurement section below.

The basis of preparation (note above) describes the financial information that has been aggregated in the preparation of the combined financial information.

The basis of measurement (section below) describes how International Financial Reporting Standards ("IFRS"), as adopted by the European Union in response to the IAS regulation (EC 1606/2002), have been applied in the preparation of the financial information of the entities included in the combined financial information and how that information has been aggregated in the preparation of the combined financial information.

The financial statements for each of the three years ended 31 March 2006 of the individual entities that are included in the combined financial information were prepared in accordance with Hong Kong accounting standards. The date of transition to IFRS, as adopted by the European Union, for the purposes of applying IFRS 1 First-time Adoption of IFRS to this combined financial information is 1 April 2004. However, no material adjustments were required to the amounts previously presented in financial statements of the individual entities that are included in the combined financial information.

All IFRS, as adopted by the European Union, in issue which are relevant to the Pro-Rise Group have been applied for the relevant periods presented, except for the following which are effective for the periods beginning January 2006 and 2007:

- Amendment to IAS 19 (December 2004) "Actuarial gains and losses, group plans and disclosures"
- Amendment to IAS 21 (December 2005) "Net investment in a foreign operation"
- Amendment to IAS 39 (April 2005) "Cash flow hedge accounting of forecast intragroup transactions"
- Amendment to IAS 39 (June 2005) "The fair value option"
- Amendments to IAS 39 and IFRS 4 (August 2005) "Financial guarantee contracts"
- Amendment to IAS 1 (August 2005) "Capital disclosures"
- IFRS 6 "Exploration for and evaluation of mineral resources"
- IFRS 7 "Financial instruments: Disclosure"
- IFRIC 4 – Determining whether an arrangement contains a lease
- IFRIC 5 – Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
- IFRIC 6 – Liabilities arising from participation in a specific market-waste electrical and electronic equipment

2 Significant accounting policies (continued)

(a) *Statement of compliance (continued)*

- Amendments to IFRS 1 and IFRS 6 (June 2005)

Although the Directors have not yet fully assessed the impact of these standards, they believe that the above amendments under IFRS are unlikely to have a material impact on the reported financial position, financial performance and cash flows of the Pro-Rise Group.

The combined financial information is presented in United States dollars, rounded to the nearest thousand and has been prepared under the historical cost convention.

The preparation of the combined financial information required management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual estimates may differ from these estimates.

The accounting policies set out below have been applied consistently to all periods presented in this financial information.

(b) *Transactions eliminated on combination*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the financial information.

(c) *Foreign currency*

(i) Foreign currency transactions

Transactions in currencies other than United States dollars are translated into United States dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than United States dollars at the balance sheet date are translated to United States dollars at the exchange rate ruling at that date. Exchange differences arising on translation are recognised in the combined income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a currency other than United States dollars are translated using the exchange rate at the date of the transactions.

(ii) Financial statements of foreign operations

The assets and liabilities of entities not denominated in United States dollars are translated to United States dollars at the foreign exchange rate ruling at the balance sheet date. The revenues and expenses of entities not denominated in United States dollars are translated to United States dollars at rates approximating the foreign exchange rates ruling at the dates of transactions.

(d) *Property, plant and equipment*

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see 2(e)(iii)) and impairment losses (see 2(h)).

(ii) Subsequent expenditure

The Pro-Rise Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Pro-Rise Group. All other expenditure is recognised in the combined income statement as an expense as incurred.

2 Significant accounting policies (continued)

(d) *Property, plant and equipment (continued)*

(iii) Depreciation

Depreciation is charged to the combined income statement on a straight-line basis over the estimated useful lives as follows:

Leasehold land and buildings	Over the lease term
Leasehold improvements	5 years
Office equipment, furniture and fixtures	5 years

(e) *Trade and other receivables*

Trade and other receivables are stated at amortised cost less impairment losses (see 2(h)).

(f) *Cash and cash equivalents*

Cash and cash equivalents in the combined balance sheet comprise cash balances and call deposits maturing within 3 months of their acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Pro-Rise Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement and within current liabilities in the balance sheet.

(g) *Impairment*

The carrying amounts of the Pro-Rise Group's assets, other than deferred tax assets (see 2(o)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the combined income statement.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairments

A reversal of a previous impairment loss may arise when there is a change in the estimates used to determine the recoverable amount of an asset.

Such an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the combined income statement over the period of the borrowings on an effective interest rate.

2 Significant accounting policies (continued)

(i) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the combined income statement as incurred.

(j) Provisions

A provision is recognised in the combined balance sheet when the Pro-Rise Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Trade and other payables

Trade and other payables are stated at amortised cost.

(l) Revenue

(i) Sales of goods

Revenue from the sale of goods is recognised in the combined income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(m) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the combined income statement on a straight-line basis over the terms of the respective lease. Lease incentives received are recognised in the combined income statement as an integral part of the total lease expense.

(ii) Net finance costs

Net finance costs comprising interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses and interest income are recognised in the combined income statement.

Interest income from bank deposits is recognised in the combined income statement as it accrues, using the effective interest method.

(n) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the combined income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences where the initial recognition of assets or liabilities affects neither accounting nor taxable profit are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

2 Significant accounting policies (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Related parties

For the purpose of this combined financial information, parties are considered to be related to the Pro-Rise Group if it has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or *vice versa*, or the Pro-Rise Group and the related party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are under the significant influence of related parties of the Pro-Rise Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Pro-Rise Group or of any entity that is a related party of the Pro-Rise Group.

3 Other operating income

	Year ended 31 March		
	2004 US\$'000	2005 US\$'000	2006 US\$'000
Fixed agency fee	1,350	–	–
Commission income	432	85	–
Demurrage income	21	744	2,345
Despatch income	237	730	327
Other	51	25	1
	<u>2,091</u>	<u>1,584</u>	<u>2,673</u>

The fixed agency fee for the year ended 31 March 2004 represents income earned on sales of iron ore under an agency agreement for the nine months ended 31 December 2003. The agency agreement terminated on 31 December 2003 and since then the Pro-Rise Group has traded on its own behalf.

4 Staff costs

	Year ended 31 March		
	2004 US\$'000	2005 US\$'000	2006 US\$'000
Salaries, wages and other benefits	394	708	668
Contribution to retirement benefit schemes	9	33	22
	<u>403</u>	<u>741</u>	<u>690</u>

	Year ended 31 March		
	2004	2005	2006
Number of employees at year end	<u>16</u>	<u>21</u>	<u>35</u>

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		<i>Year ended 31 March</i>		
		<i>2004</i>	<i>2005</i>	<i>2006</i>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
(a)	Net finance costs:			
	Finance costs	1,243	2,381	1,812
	Exchange losses	134	226	22
		<u>1,377</u>	<u>2,607</u>	<u>1,834</u>
	Finance income	(27)	(66)	(116)
		<u>1,350</u>	<u>2,541</u>	<u>1,718</u>
(b)	Other items:			
	Auditors' remuneration	6	32	4
	Depreciation	10	22	21
	Operating lease charges			
	in respect of:			
	– motor vehicles	59	152	29
	– property	7	40	21
		<u>7</u>	<u>40</u>	<u>21</u>

6 Income tax

(a) *Income tax in the combined income statements represents:*

		<i>Year ended 31 March</i>		
		<i>2004</i>	<i>2005</i>	<i>2006</i>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	Current tax			
	Tax provision for the year	1,043	6,526	–
	Deferred tax			
	Origination and reversal of			
	temporary differences	9	7	(1)
		<u>3</u>	<u>7</u>	<u>(1)</u>
	Total income tax expense/(credit)	<u>1,046</u>	<u>6,533</u>	<u>(1)</u>

- (i) Provision for Hong Kong Profits Tax for the year ended 31 March 2006 is calculated at 17.5 per cent. (2005 and 2004: 17.5 per cent.) of the estimated assessable profits for the year. PMMCO commenced iron ore trading on 1 March 2005 and after 1 April 2005 was the only company undertaking iron ore trading. No provision for Macao taxation has been made as PMMCO is exempted from income tax in Macao under Decree Law No. 58/99/M.
- (ii) Pursuant to the rules and regulations of the British Virgin Islands, Pro-Rise, SDL and PMML are not subject to any income tax in their country of incorporation.

6 Income tax (continued)

(b) Reconciliation between actual tax expense and accounting profit at applicable tax rate:

	<i>Year ended 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit before taxation	<u>5,044</u>	<u>41,578</u>	<u>33,568</u>
Notional tax on profit before tax, calculated at the rate applicable to profit in the tax jurisdiction concerned	883	7,277	5,874
Tax effect of non-deductible expenses	163	455	–
Tax effect of non-taxable revenue	<u>–</u>	<u>(1,199)</u>	<u>(5,875)</u>
Actual tax expense/(credit)	<u>1,046</u>	<u>6,533</u>	<u>(1)</u>

7 Dividend

Dividend attributable to the periods are as follows:

	<i>Year ended 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Dividend declared and approved during the period	<u>–</u>	<u>2,191</u>	<u>35,739</u>

The directors consider that the dividend payments made during the periods are not indicative of the future dividend policy.

8 Property, plant and equipment

	<i>Land and buildings US\$'000</i>	<i>Leasehold improvements US\$'000</i>	<i>Furniture and fixtures US\$'000</i>	<i>Office Equipment US\$'000</i>	<i>Total US\$'000</i>
Cost:					
At 1 April 2003	110	5	4	24	143
Additions	—	—	—	21	21
At 31 March 2004 and 1 April 2004	110	5	4	45	164
Additions	—	—	2	71	73
Removal of PMIL and Fion from aggregation	(110)	(5)	(6)	(73)	(194)
At 31 March 2005 and 1 April 2005	—	—	—	43	43
Additions	—	—	—	23	23
At 31 March 2006	—	—	—	66	66
Accumulated depreciation:					
At 1 April 2003	9	3	3	12	27
Charge for the year	2	1	1	6	10
At 31 March 2004 and 1 April 2004	11	4	4	18	37
Charge for the year	2	1	1	18	22
Removal of PMIL and Fion from aggregation	(13)	(5)	(5)	(32)	(55)
At 31 March 2005 and 1 April 2005	—	—	—	4	4
Charge for the year	—	—	—	21	21
At 31 March 2006	—	—	—	25	25
Net book value:					
At 1 April 2003	101	2	1	12	116
At 31 March 2004	99	1	—	27	127
At 31 March 2005	—	—	—	39	39
At 31 March 2006	—	—	—	41	41

At 31 March 2004, the Pro-Rise Group's leasehold land and buildings were situated in Hong Kong, held on a medium term lease and pledged to a bank to secure bank loans and banking facilities granted to the Pro-Rise Group in 2004.

The Pro-Rise Group's leasehold land and buildings of US\$99,000 at 31 March 2004 are non-separable between land and building elements.

9 Deferred tax liabilities

Deferred tax liabilities are attributable to the item set out below:

	2004	At 31 March	2006
	US\$'000	2005	US\$'000
		US\$'000	US\$'000
Non-current assets			
Property, plant and equipment	(16)	(6)	(5)

Movements in temporary differences for each of the three years ended 31 March 2006 are as follows:

	Depreciation allowances in excess of book depreciation US\$'000
At 1 April 2003	(13)
Charged to combined income statements	(3)
At 31 March 2004 and 1 April 2004	(16)
Charged to combined income statements	(7)
Removal of PMIL and Fion from aggregation	17
At 31 March 2005 and 1 April 2005	(6)
Credited to combined income statements	1
At 31 March 2006	(5)

10 Trade and other receivables

	2004	At 31 March	2006
	US\$'000	2005	US\$'000
		US\$'000	US\$'000
Trade receivables	286	485	4,067
Bills receivable	32,237	23,852	14,602
Other receivables	633	129	2,554
	<u>33,156</u>	<u>24,466</u>	<u>21,223</u>

Certain bills receivable of the Pro-Rise Group of US\$19,628,000, US\$23,852,000, and US\$13,709,000 at 31 March 2004, 31 March 2005 and 31 March 2006 respectively were pledged against certain banking facilities.

11 Pledged bank deposits

Certain bank deposits have been pledged to certain banks as security for certain banking facilities and are therefore classified as pledged deposits in the balance sheet.

12 Other financial assets

Analysis of the other financial assets is set out below:

	2004	At 31 March 2005	2006
	US\$'000	US\$'000	US\$'000
Prepaid deposits	–	1,000	1,000

13 Cash and cash equivalents

Analysis of the balances of cash and cash equivalents is set out below:

	2004	At 31 March 2005	2006
	US\$'000	US\$'000	US\$'000
Cash and cash equivalents in the combined balance sheets	1,926	4,582	4,633
Bank overdrafts	(1,271)	–	–
Cash and cash equivalents in the combined cash flow statements	655	4,582	4,633

The effective interest rates as at 31 March 2004, 31 March 2005 and 31 March 2006 were all 0-5 per cent. per annum respectively. The interest rates were subject to revision as and when notified by the banks.

	2004	As at 31 March 2005	2006
	US\$'000	US\$'000	US\$'000
Bank overdrafts secured by bank deposits	635	–	–
Bank overdrafts secured by properties (note i)	614	–	–
Bank overdrafts, unsecured	22	–	–
	1,271	–	–

Note

(i) The bank overdrafts at 31 March 2004 were secured by properties held by related companies.

All bank overdrafts were guaranteed by related companies, Super Chine Holdings Limited and Cheong Sing Merchandise Agency Limited, and by the equity holders of Pro-Rise, David Wong and Madam Ching Fong Hon.

The bank overdrafts had no fixed terms of repayment. The effective interest rates as at 31 March 2004 were 6-15 per cent. per annum respectively. The interest rates were subject to revision as and when notified by the banks.

14 Trade and other payables

Trade and other payables comprise:

	<i>At 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade payables	2,633	392	5,379
Bills payable (note iii)	14,952	17,035	–
	<u>17,585</u>	<u>17,427</u>	<u>5,379</u>
Other payables	590	2	6
Accruals	183	116	500
	<u>18,358</u>	<u>17,545</u>	<u>5,885</u>

	<i>At 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Bills payable secured by bank deposits (note i)	11,987	–	–
Bills payable secured by properties (note ii)	2,691	–	–
Bills payable secured by bills receivable	–	17,035	–
Bills payable (unsecured)	274	–	–
	<u>14,952</u>	<u>17,035</u>	<u>–</u>

Notes:

- (i) Certain bills payable of US\$3,808,000 as at 31 March 2004 were secured by bank deposits of US\$2,600,000, which were also used to secure interest bearing bank loans (Note 16).
- (ii) Certain bills payable of US\$816,000 secured by properties held by related companies at 31 March 2004 were also secured by bank deposits of US\$470,000.
- (iii) All bills payable of US\$Nil (31 March 2005: US\$17,035,000, 31 March 2004: US\$14,952,000) were guaranteed by related companies and by the equity holders, David Wong and Madam Ching Fong Hon.

15 Interest bearing loans and borrowings

Interest bearing loans and borrowings are repayable as follows:

	<i>At 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Bank loans			
Within 1 year or on demand	20,470	–	16,055
Other loans			
Within 1 year or on demand	19,500	–	–
	<u>39,970</u>	<u>–</u>	<u>16,055</u>

All the bank loans were repayable within one year. At 31 March 2004 and 31 March 2006, the bank loans bore interest at fixed rates ranging from 2 per cent. to 7 per cent. and 3 per cent. to 7 per cent. respectively per annum. Interest rates are subject to revision as and when existing loans are renewed or new loans are borrowed.

Certain bank loans of US\$Nil, US\$Nil and US\$236,000 at 31 March 2006, 31 March 2005 and 31 March 2004 respectively were secured by bank deposits of US\$Nil, US\$Nil and US\$2,600,000 respectively.

15 Interest bearing loans and borrowings (continued)

All the bank loans were guaranteed by related companies, Super Chine Holdings Limited, Keen Phoenix Limited, Fion Shipping Limited, Prosperity Materials (International) Limited and by the equity holders, David Wong and Madam Ching Fong Hon for all periods presented.

Other loans at 31 March 2004 represent an advance from an independent third party of US\$19,500,000, which carried interest at a rate of 6.138 per cent., and was unsecured and repayable on demand.

16 Share capital

For the purpose of this combined financial information, the share capital at 31 March 2004, 31 March 2005 and 31 March 2006 represented the aggregate amount of paid-in capital of the companies comprising the Pro-Rise Group, after elimination of investment in subsidiaries.

17 Notes to the combined cash flow statements and combined statements of changes in equity

Major non-cash transactions

- (a) As set out in note 1(b) PMIL and Fion are no longer included in the combined financial statements from 31 March 2005.

	<i>US\$'000</i>
Property, plant and equipment	138
Trade and other receivables	6,611
Amounts due from related companies	55,562
Amounts due from shareholders	14,306
Pledged deposits	4,034
Cash and cash equivalents	109
Bank overdrafts	(1,209)
Interest-bearing bank loans	(858)
Trade and other payables	(12,858)
Amount due to shareholders	(23,116)
Amounts due to related companies	(1,713)
Income tax payable	(7,504)
Deferred tax liabilities	(17)
	<u>33,485</u>

- (b) During the year ended 31 March 2006, a dividend of US\$35,739,000 was declared and approved. This dividend was satisfied by the settlement of balances due to the shareholders.

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	<i>At 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Less than one year	112	122	22
Between one and five years	2	68	–
	<u>114</u>	<u>190</u>	<u>22</u>

The Pro-Rise Group leases a number of offices and motor vehicles under operating leases. The leases typically run for a period of between 1 and 2 years, with an option to renew the lease after that date. None of the leases include contingent rentals.

19 Banking facilities

At 31 March 2004, 2005 and 2006 the Pro-Rise Group had aggregate banking facilities as follows:

	<i>At 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Loan facilities	3,569	–	–
Letters of credit	75,615	85,000	138,000
	<hr/>	<hr/>	<hr/>
	79,184	85,000	138,000
	<hr/>	<hr/>	<hr/>
Amount utilised at 31 March	17,065	17,035	33,033
	<hr/>	<hr/>	<hr/>

20 Contingent liabilities

The Pro-Rise Group had contingent liabilities in respect of guarantees of US\$103,000,000, US\$85,000,000 at 31 March 2006 and 31 March 2005 respectively given to banks to secure facilities granted to PMIL, a related party of the Pro-Rise Group from 1 April 2005 onwards.

As stated in note 2(a) the Pro-Rise Group has not early adopted Amendments to IAS 39 and IFRS 4 (August 2005) "Financial guarantee contracts". When the Pro-Rise Group prepares its first set of statutory financial statements for the year ending 31 March 2007 it will need to measure the above guarantees at fair value. Although the directors have not fully assessed the impact of the above amendments to IAS 39 and IFRS 4 they believe that implementing these amendments is unlikely to have a material impact on the net assets of the Pro-Rise Group.

21 Financial instruments

The Pro-Rise Group's financial assets comprise mainly cash and cash equivalents, trade receivables, other receivables, deposits and prepayments, bills receivable and amounts due from related companies and equity holders. The Pro-Rise Group's financial liabilities comprise mainly trade and other payables, bills payable, bank overdrafts and interest-bearing bank loans. The Pro-Rise Group does not hold or issue financial instruments for trading purposes. Exposure to credit, business risk and currency risk arises in the normal course of the Pro-Rise Group's business.

(a) Interest rate risk

The interest rates and terms of repayment of the bank overdrafts and interest-bearing bank loans of the Pro-Rise Group are disclosed in Notes 14 and 16 respectively.

(b) Credit risk

The Pro-Rise Group sold iron ores to companies engaged in the manufacturing of steel and trading of building materials and iron ores in the People's Republic of China. As a result, the Pro-Rise Group has significant concentration of receivables with these companies. At 31 March 2004, 2005 and 2006, the three largest receivable balances represent 100 per cent., 88 per cent., and 96 per cent. of the total trade receivable balance. However, the Pro-Rise Group does not consider it has significant credit risks on trade and other receivables as all sales and purchases transactions are settled by means of letter of credit. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheet.

(c) Foreign currency risk

Substantially all the revenue-generating operations of the Pro-Rise Group are transacted in United States dollars. In respect of other monetary assets and liabilities held in currencies other than the United States dollars, the Pro-Rise Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

21 Financial instruments (continued)

(d) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values at 31 March 2004, 2005 and 2006 due to the nature or short-term maturity of these instruments.

(e) Business risk

During the years ended 31 March 2004, 2005 and 2006, the Pro-Rise Group signed purchase agreements with its suppliers for a period from one to five years. Purchases of iron ores from the three largest suppliers amounted to US\$24 million, US\$72 million and US\$112 million respectively, representing 75 per cent., 52 per cent. and 81 per cent. of the total iron ore purchases for each of the three years ended 31 March 2004, 2005 and 2006. Although the Pro-Rise Group believes that it maintains good relationships with its suppliers, there can be no assurance that its suppliers will continue to sell to the Pro-Rise Group on normal commercial terms as and when needed. In the event that these suppliers ceased to sell to the Pro-Rise Group and the Pro-Rise Group could not secure other sources of supply, the Pro-Rise Group's turnover and profitability will be adversely affected.

22 Material related parties transactions

The Pro-Rise Group has a related party relationship with the following related companies and with its directors and executive officers.

<i>Name of party</i>	<i>Relationship</i>
Prosperity Handbags & Footwear Limited	Effectively 50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon (note ii)
Putian Lichang Plastics & Rubber Company Limited	Effectively 25.5 per cent. owned by David Wong and 25.5 per cent. by Hong Ching Fong (note iii)
BNS Maritime Inc.	50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon
Cheong Sing Merchandise Agency Limited	50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon
Holsaland Limited	Effectively 83 per cent. owned by David Wong
Million Champ Trading Limited	51 per cent. owned by Wong Sut Keung (note i)
Bulk Logistics Limited	50 per cent. owned by David Wong
City Partner Group Limited	50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon
VCF Universal Limited	50.5 per cent. owned by David Wong and 49.5 per cent. by Ching Fong Hon
Prosperity Steel (Asia) Company Limited	51 per cent. owned by David Wong (note v)
Super Chine Holdings Limited	Effectively 50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon
Keen Phoenix Limited	Effectively 50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon
Prosperity Steel Holding Limited	Effectively 35 per cent. owned by David Wong and 35 per cent. by Ching Fong Hon
Chang Da Wood Products Co., Limited	Effectively 51 per cent. owned by Wong Sut Keung

22 Material related parties transactions (continued)

<i>Name of party</i>	<i>Relationship</i>
Prosperity Cement (Asia) Company Limited	Effectively 58.7 per cent. owned by David Wong and 6.7 per cent. owned by Ching Fong Hon
Fion Shipping Inc	Effectively 50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon (note iv)
Prosperity Materials (International) Limited	Effectively 50 per cent. owned by David Wong and 50 per cent. by Ching Fong Hon (note iv)
Bliss Hero Investments Limited	Effectively 50.5 per cent. owned by David Wong and 49.5 per cent. by Ching Fong Hon

Notes:

- (i) Wong Sut Keung is a sister of David Wong.
- (ii) Prosperity Handbags & Footwear Limited was no longer a related party to the Pro-Rise Group from 31 March 2004 when Keen Phoenix, the holding company of Prosperity Handbags & Footwear Limited, a company owned by David Wong and Ching Fong Hon, disposed of their 100 per cent. equity interest to third parties in March 2004.
- (iii) Putian Lichang Plastics & Rubber Company Limited was no longer a related party to the Pro-Rise Group interest to third parties in March 2004.
- (iv) Included in combination up to 31 March 2005 (see Note 1(c)). Related party post 31 March 2005.
- (v) David Wong disposed of his interests in Prosperity Steel (Asia) Company Limited in May 2005.

(a) *Non-recurring*

Particulars of significant transactions between the Pro-Rise Group and one of the above related parties during the relevant periods are as follows:

	<i>At 31 March</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Sales of goods to: (note i)			
Prosperity Cement (Asia) Limited	–	973	–
Prosperity Steel (Asia) Company Limited	–	152	–
Chang Da Wood Products Co., Limited	408	137	–
Purchases of goods from: (note i)			
Prosperity Steel (Asia) Company Limited	–	2,434	–
Commission paid to: (Note ii)			
Prosperity Steel (Asia) Company Limited	885	–	–
Handling fees received from: (Note iii)			
Chang Da Wood Products Co., Limited	221	3	–

Notes:

- (i) The directors of the Pro-Rise Group are of the opinion that sales and purchases of goods to/from related parties were conducted on normal commercial terms and in the ordinary course of business;
- (ii) Commission was payable at pre-determined amounts in accordance with terms mutually agreed by the directors and the related parties;
- (iii) Handling fees were receivable at a pre-determined amount in accordance with the terms mutually agreed by the director, David Wong and Chang Da Wood Products Co., Limited.

22 Material related parties transactions (continued)

(b) Amounts due from related companies

	At 31 March		
	2004 US\$'000	2005 US\$'000	2006 US\$'000
Cheong Sing Merchandise Agency Limited	2,357	–	–
BNS Maritime Inc.	5,572	–	–
Prosperity Steel (Asia) Company Limited	397	–	–
Prosperity Steel Holding Limited	10,548	–	–
	<u>18,874</u>	<u>–</u>	<u>–</u>

Amounts due from the above related companies are unsecured, interest free and are expected to be recovered within one year. There were no provisions made against these amounts at 31 March 2004, 31 March 2005 and 31 March 2006.

(c) Amounts due to related companies

	At 31 March		
	2004 US\$'000	2005 US\$'000	2006 US\$'000
Prosperity Handbags and Footwear Limited	475	–	–
Million Champ Trading Limited	65	–	–
Chang Da Wood Products Co., Limited	816	–	–
	<u>1,356</u>	<u>–</u>	<u>–</u>

The above amounts are unsecured, interest free and are expected to be repaid within one year.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the director is as follows:

	At 31 March		
	2004 US\$'000	2005 US\$'000	2006 US\$'000
Short-term employment benefit	–	–	110
	<u>–</u>	<u>–</u>	<u>110</u>

23 Activities

	<i>Principal ongoing activity – iron ore and iron oxide US\$'000</i>	<i>Other activities of PMIL not ongoing – Cement and timber trading US\$'000</i>	<i>Total US\$'000</i>
Year ended 31 March 2004			
<i>Revenue and expenses</i>			
Revenue	48,427	19,385	67,812
Other operating income	2,040	51	2,091
Total	<u>50,467</u>	<u>19,436</u>	<u>69,903</u>
Activity results	<u>7,530</u>	<u>106</u>	7,636
Administrative expenses			<u>(1,242)</u>
Profit from operations			6,394
Net finance costs	(918)	(432)	(1,350)
Income tax expense	(1,046)	–	(1,046)
Profit for the year			<u>3,998</u>
<i>Assets and liabilities</i>			
Activity specific assets	31,948	1,207	33,155
Common assets			36,631
Total assets			<u>69,786</u>
Activity specific liabilities	33,492	3,785	37,277
Income tax payable			1,091
Common liabilities			23,678
Deferred tax liabilities			16
Total liabilities			<u>62,062</u>
Year ended 31 March 2004			
<i>Other information</i>			
Capital expenditure			21
Depreciation			10

23 Activities (continued)

	<i>Principal ongoing activity – iron ore and iron oxide US\$'000</i>	<i>Other activities of PMIL not ongoing – Cement and timber trading US\$'000</i>	<i>Total US\$'000</i>
Year ended 31 March 2005			
<i>Revenue and expenses</i>			
Revenue	181,439	23,846	205,285
Other operating income	1,515	69	1,584
Total	<u>182,954</u>	<u>23,915</u>	<u>206,869</u>
Activity results	<u>46,865</u>	<u>801</u>	47,666
Administrative expenses			<u>(3,547)</u>
Profit from operations			44,119
Net finance costs	(2,165)	(376)	(2,541)
Income tax expense	(6,393)	(140)	(6,533)
Profit for the year			<u>35,045</u>
<i>Assets and liabilities</i>			
Activity specific assets	25,455	5	25,460
Common assets			4,660
Total assets			<u>30,120</u>
Activity specific liabilities	17,538	–	17,538
Income tax payable			46
Common liabilities			5,425
Deferred tax liabilities			6
Total liabilities			<u>23,015</u>
Year ended 31 March 2005			
<i>Other information</i>			
Capital expenditure			73
Depreciation			22

- (a) For the year ended 31 March 2006, all of the Pro-Rise Group's turnover and profits were derived from the trading of iron-ore, accordingly no separate analysis of activities is presented for the Pro-Rise Group for this year.

Capital expenditure and depreciation for the year ended 31 March 2006 are as follows:

	<i>Year ended 31 March 2006 US\$'000</i>
Capital expenditure	<u>23</u>
Depreciation	<u>21</u>

- (b) ***Geographical activities***

The Pro-Rise Group operates solely in the People's Republic of China. Accordingly no geographical analysis of activities is presented.

24 Ultimate holding company

The directors consider the ultimate holding company of the Pro-Rise Group at 31 March 2006 to be Prosperity Minerals Group Limited incorporated in the British Virgin Islands.

25 Subsequent events

The following significant events took place subsequent to 31 March 2006:

On 13 April 2006 Prosperity Minerals (International) Limited acquired 25 per cent. of the share capital of Prosperity Conch Cement Co. Limited, which is constructing a cement and clinker plant due to be completed by the end of June 2006. The net assets of Prosperity Conch Cement Co. Limited at 31 December 2005 were RMB 362 million (US\$ 45 million).

On 13 April 2006 Prosperity Cement Investment Limited acquired 100 per cent. of the share capital of Yingde Dragon Mountain Cement Co. Ltd., a producer of clinker and cement incorporated in the People's Republic of China. Yingde Dragon Mountain Cement Co. Ltd. generated a profit after taxation of RMB 201 million (US\$25 million) for the year ended 31 December 2005 and had net assets of RMB 700 million (US\$87 million).

On 18 May 2006 the Company issued 46,191,134 Ordinary Shares to the Controlling Shareholder, the sole shareholder of Pro-Rise, and 2,581,128 Ordinary Shares to Max Will and 2,581,128 Ordinary Shares to Max Start as directed by the Controlling Shareholder, as consideration for the purchase of the entire issued share capital of Pro-Rise. All such Ordinary Shares were issued credited as fully paid.

Pro-Rise has declared a dividend of US\$4.9 million.

C: Yingde Dragon Mountain Cement Co., Ltd.



8 Salisbury Square
London EC4Y 8BB
United Kingdom

Accountants' report

The Directors
Yingde Dragon Mountain Cement Co., Ltd.
Long Wei Hill
Wang Bu Town
Yingde City
Guandong Province
People's Republic of China

19 May 2006

Dear Sirs

Yingde Dragon Mountain Cement Co., Ltd. (the 'Company')

We report on the restated financial information set out on pages 76 to 91 for the year ended 31 December 2005 (the '2005 restated financial information'). This restated financial information has been prepared for inclusion in the AIM Admission Document dated 19 May 2006 of Prosperity Minerals Holdings Limited on the basis of the accounting policies set out in note 1 (b). This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The directors of the Company are responsible for preparing the 2005 restated financial information.

It is our responsibility to form an opinion on the 2005 restated financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the 2005 restated financial information. It also included an assessment of the accounting principles used and significant estimates and judgments made by those responsible for the preparation of the 2005 restated financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the 2005 restated financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the 2005 restated financial information gives, for the purposes of the AIM Admission Document dated 19 May 2006, a true and fair view of the state of affairs of Yingde Dragon Mountain Cement Co., Ltd. as at 31 December 2005 and of its profit and cash flows for the year then ended in accordance with the basis of preparation set out in note 1 (b).

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

KPMG LLP

Income statement

		<i>31 December</i>
		<i>2005</i>
	<i>Note</i>	<i>US\$'000</i>
Revenue		101,999
Cost of sales		<u>(73,172)</u>
Gross profit		28,827
Other operating income	3	2,374
Selling and distribution expenses		(1,301)
Administrative expenses		<u>(3,547)</u>
Profit from operations		<u>26,353</u>
Finance costs	5a	<u>(1,462)</u>
Profit before taxation	5b	24,891
Income tax (expense)/credit	6	<u>–</u>
Profit for the year		<u>24,891</u>
Attributable to:		
Equity holders of the parent		<u>24,891</u>

Balance sheet

		<i>31 December</i>
		<i>2005</i>
	<i>Note</i>	<i>US\$'000</i>
Non-current assets		
Property, plant and equipment	7	127,322
Prepaid lease payments	8	11,825
Mining rights	9	14,955
		<hr/> 154,102
Current assets		
Inventories	10	5,834
Trade and other receivables	11	14,109
Pledged bank deposits	12	7,435
Cash and cash equivalents		4,033
		<hr/> 31,411
Current liabilities		
Trade and other payables	14	49,098
Amount due to ultimate holding company	15	14,732
Amount due to a shareholder	15	4,410
Amount due to a director	15	376
Bank loans – amount due within one year	16	24,783
		<hr/> 93,399
Net current liabilities		<hr/> (61,988)
Non-current liabilities		
Bank loans – amount due after one year	16	4,957
		<hr/> 87,157
Net assets		<hr/> 87,157
Capital and reserve		
Capital	17	50,574
Retained earnings		33,512
Foreign currency translation reserve		3,071
		<hr/> 87,157
Shareholders' funds		<hr/> 87,157

Statement of changes in equity

	<i>Contributed capital</i>	<i>Retained earnings</i>	<i>Foreign Currency Translation Reserve</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January 2005	50,574	8,621	–	59,195
Foreign exchange adjustment	–	–	3,071	3,071
Profit for the year	–	24,891	–	24,891
At 31 December 2005	<u>50,574</u>	<u>33,512</u>	<u>3,071</u>	<u>87,157</u>

Cash flow statement

Year ended
31 December
2005
US\$'000

Operating activities

Profit for the year	24,891
Adjustments for:	
Finance income	(28)
Finance expense	1,462
Depreciation	4,656
Allowance for bad and doubtful debts	192
Amortisation of prepaid lease payments	244
Amortisation of mining rights	818

Operating cash flows before movements in working capital

Increase in trade and other receivables	(6,579)
Increase in inventories	(784)
Increase in trade and other payables	11,811
Increase in amount due to a director	301
Cash from operations	36,984
Interest paid	(1,463)

Net cash from operating activities

Investing activities

Interest received	28
Purchase of property, plant and equipment	(56,102)
Increase in pledged bank deposits	(7,324)

Net cash used in investing activities

Financing activities

Repayment of bank loans	(8,544)
Advance from ultimate holding company	16,068
Advance from shareholder	5,151

Net cash from financing activities

Decrease in cash and cash equivalents	(15,202)
Exchange rate effects	278

Cash and cash equivalents at 1 January

Cash and cash equivalents at 31 December

Analysis of the balances of cash and cash equivalents

Cash and cash equivalents

Notes to the financial information

1 Background

(a) Introduction

The restated financial information has been prepared for inclusion in the Admission Document dated 19 May 2006 of Prosperity Minerals Holdings Limited. The Company is established in the People's Republic of China (the "PRC") and is engaged in the production and sale of clinker and cement. In the opinion of the directors, the ultimate holding company at 31 December 2005 is Shanghai Aijian Trust and Investment Company Limited which is also established in the PRC. Upon acquisition of 100 per cent. interest in the Company on 13 April 2006, the parent is Prosperity Cement Investment Limited incorporated in Hong Kong and the ultimate holding company is Prosperity Minerals Group Limited incorporated in British Virgin Islands. The address of the registered office and principal place of business of the Company is Long Wei Hill, Wang Bu Town, Yingde City, Guangdong Province, the PRC.

(b) Basis of preparation

The Company is obligated to prepare financial statements in accordance with Chinese Generally Accepted Accounting Principles ("Chinese GAAP") for local statutory purposes. As such, the accounts prepared for local purposes for the year ended 31 December 2005 have been restated for the purpose of inclusion in the AIM Admission Document in accordance with 'International Financial Reporting Standards adopted for use in the European Union' ("IFRS"). In applying IFRS the directors have noted the recommendations of the Committee of European Securities Regulators ("CESR") for companies preparing one-year financial information for inclusion in prospectuses (Ref: CESR/05-054b). The basis of preparation of this restated financial information may differ from the basis applicable if the 2005 restated financial information had comprised the first financial statements of the Company under IFRS.

The Company is not a first time adopter of IFRS in this restated financial information as the information is not prepared wholly in accordance with IFRS and, accordingly, contains no statement of compliance with IFRS. The basis of preparation and the accounting policies below explain how the financial information has been prepared. Historical information or comparative amounts included in financial statements for a future accounting period that do contain a statement of compliance with IFRS may differ from this restated financial information.

In view of the basis of preparation and purpose of the financial information, the directors have not presented comparative amounts for the balance sheet and related disclosure notes as of 31 December 2005 and the related statement of income, cash flows and changes in equity and related disclosure notes for the year ended 31 December 2005 are not presented.

The directors have given due and careful consideration to the working capital requirements of the Company and the Company's ability to continue as a going concern.

The restated financial information has been prepared on a going concern basis because Prosperity Minerals Group Limited has agreed to provide adequate funds for the Company to meet in full its financial obligations as they fall due for the foreseeable future.

2 Significant accounting policies

Accounting policies set out below describe how IFRS have been applied in the preparation of the 2005 restated financial information

The basis of measurement (section below) describes how IFRS have been applied in the preparation of the 2005 restated financial information.

The accounting policies are based on IFRS that are effective for accounting periods beginning on 1 January 2005.

2 Significant accounting policies (continued)

The Company has not applied those IFRS that would be effective only for annual periods beginning January 2006 and later. The directors anticipate that the application of these new Standards and Interpretations will have no material impact on the financial statements of the Company.

IAS 1 (Amendment)	Capital disclosures
IAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
IAS 39 (Amendment)	Cash flow hedges of forecast intragroup transactions
IAS 39 (Amendment)	The fair value option
IAS 39 and IFRS 4 (Amendment)	Financial guarantee contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments: Disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Right to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment

(b) *Basis of measurement*

The functional currency of the Company is Renminbi (“RMB”). In view of the purpose for which this restated financial information has been prepared, the directors have chosen to present the 2005 restated financial information in United States dollars as this is consistent with the financial information included in the AIM Admission Document. In presenting the 2005 restated financial information in United States dollars the Company has complied with the translation method set out in IAS 21 “The Effects of Changes in Foreign Exchange Rates”

The restated financial information has been prepared under the historical cost convention.

The preparation of the 2005 restated financial information required management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual estimates may differ from these estimates.

The accounting policies set out below have been applied consistently to the period presented in this 2005 restated financial information.

(c) *Revenue recognition*

Sale of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Rental income from properties under operating leases is recognised on a straight line basis over the period of the relevant leases.

Service income is recognised when the services are rendered.

2 Significant accounting policies (continued)

(d) *Property, plant and equipment*

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a land use right and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of construction in progress. Construction in progress is carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use i.e. when they are in the location and condition necessary for them to be capable of operation in the manner intended by management.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account the estimated residual value, using the straight line method, as follows:

Buildings	30 years
Plant and machinery	15 years
Electronic and office equipment	5 years
Motor vehicles, trucks and mixers	5 years

(e) *Mining rights*

Mining rights are stated at cost less accumulated amortisation and any identified impairment loss. The cost of mining rights is amortised on a unit of production basis.

(f) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(g) *Impairment*

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) *Financial instruments*

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2 Significant accounting policies (continued)

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(j) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, cash at bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(k) *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities including bank loans, trade and other payables, amount due to ultimate holding company, amount due to a shareholder and amount due to a director are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(l) *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

2 Significant accounting policies (continued)

(l) *Taxation (continued)*

Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) *Foreign currencies*

The currency of the primary economic environment in which the Company operates is RMB (its functional currency). Transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in its functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

(n) *Operating leases*

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

(o) *Retirement benefit costs*

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3 Other operating income

	<i>Year ended 31 December 2005 US\$'000</i>
Service income	1,744
Rental income	60
Interest income	29
Others	541
	<hr/>
	2,374
	<hr/>

Service income is related to construction services provided to a related party.

4 Staff costs

	<i>Year ended 31 December 2005 US\$'000</i>
Salaries, wages and other benefits	2,512
Contribution to retirement benefit schemes	66
	<hr/> 2,578 <hr/>

The remuneration of the directors is not included in this financial information, as to date it has been borne by shareholders.

	<i>Year ended 31 December 2005 US\$'000</i>
Number of employees at year end	<hr/> 709 <hr/>

5 Profit before taxation

Profit before taxation is arrived at after charging:

	<i>Year ended 31 December 2005 US\$'000</i>
(a) Finance costs:	
Interest on bank loans	1,444
Interest on amount due to ultimate holding company	18
	<hr/> 1,462 <hr/>
(b) Other items:	
Auditors remuneration	7
Allowance for bad and doubtful debts	192
Amortisation of mining rights	818
Depreciation	4,656
Lease payments charged to the income statement	244
	<hr/>

6 Taxation

Pursuant to the relevant laws and regulations in the PRC, the Company is entitled to full exemption from Chinese Mainland Enterprise Income Tax for the first two years commencing from 2005 and 50 per cent. reduction for the following three years.

7 Property, plant and equipment

	<i>Land and Buildings US\$'000</i>	<i>Plant and machinery US\$'000</i>	<i>Electronic and Office Equipment US\$'000</i>	<i>Motor vehicles, trucks and mixers US\$'000</i>	<i>Construction in progress US\$'000</i>	<i>Total US\$'000</i>
Cost:						
At 1 January 2005	21,217	44,472	276	1,789	8,148	75,902
Additions	4,250	4,697	388	45	46,722	56,102
Transfers	6,818	26,503	–	–	(33,321)	–
Foreign exchange differences	710	1,610	13	46	411	2,790
At 31 December 2005	<u>32,995</u>	<u>77,282</u>	<u>677</u>	<u>1,880</u>	<u>21,960</u>	<u>134,794</u>
Accumulated depreciation						
At 1 January 2005	967	1,623	30	57	–	2,677
Provided for the year	824	3,361	119	352	–	4,656
Foreign exchange differences	37	92	3	7	–	139
At 31 December 2005	<u>1,828</u>	<u>5,076</u>	<u>152</u>	<u>416</u>	<u>–</u>	<u>7,472</u>
Net book value:						
At 31 December 2005	<u>31,167</u>	<u>72,206</u>	<u>525</u>	<u>1,464</u>	<u>21,960</u>	<u>127,322</u>

8 Prepaid lease payments

The Company's prepaid lease payments comprise:

	<i>31 December 2005 US\$'000</i>
Medium-term leasehold land in the PRC	<u>12,077</u>
Analysed for reporting purposes as:	
Current portion (included in trade and other receivables)	252
Non-current portion	<u>11,825</u>
	<u>12,077</u>

The Company has received the above leasehold land from the shareholders in prior years as capital contribution. As of 31 December 2005 the relevant government authority had not yet granted the land use right certificate to the Company. Subsequent to year-end on 31 March 2006 the relevant government authority issued a land use right certificate for use of the land for a period of 50 years till 6 January 2056.

9 Mining rights

31 December
2005
US\$'000

Cost

At 1 January 2005 15,595
Foreign exchange difference 399

At 31 December 2005 15,994

Amortisation

At 1 January 2005 203
Provided for the year 818
Foreign exchange difference 18

At 31 December 2005 1,039

Net Book Value

At 31 December 2005 14,955

The amortisation of mining rights is charged to administrative expenses.

10 Inventories

31 December
2005
US\$'000

Cost

Raw materials and consumables 4,052
Work in progress 141
Finished goods 1,641

5,834

11 Trade and other receivables

31 December
2005
US\$'000

Trade receivables
– outsiders 2,699
– related companies 2,369
Notes receivable 4,279
Prepayments 2,019
Prepaid lease payments 252
Other receivables 2,491

14,109

An allowance has been made for estimated irrecoverable amounts of trade and other receivable of US\$191,732.

The directors consider the carrying amount of trade and other receivables approximate to its fair value.

12 Pledged bank deposits

The amounts represent deposits pledged to banks to secure banking facilities granted to the Company.

The deposit amounts are fixed for a term of one year and carry a fixed interest rate of 2.25 per cent. per annum. The directors consider that the carrying amount of pledged bank deposits approximates its fair value.

13 Other financial assets

The directors consider that the carrying amount of bank balances and cash approximates to its fair value.

14 Trade and other payables

	<i>31 December</i> <i>2005</i> <i>US\$'000</i>
Trade payables	
– outsiders	6,242
– related companies	290
Bills payable	8,674
Advance from a related company	12,232
Construction and retention money payable	12,108
Receipt in advance from customers	2,549
Accrued expenses	1,199
Other payables	5,804
	<hr/> <u>49,098</u>

The directors consider the carrying amount of trade and other payables approximates to its fair value.

15 Other financial liabilities

The amount due to ultimate holding company is unsecured, carries a fixed interest rate and is due for repayment in June 2006.

The amount due to a shareholder and a director are unsecured, interest-free and are repayable on demand.

The directors consider that the carrying amounts of amount due to ultimate holding company, a shareholder and a director approximate to their fair values.

16 Interest bearing loans and borrowings

Bank loans are repayable as follows:

	<i>31 December</i> <i>2005</i> <i>US\$'000</i>
Within one year	24,783
After one year but within two years	4,957
	<hr/> 29,740
Less: Amount due within one year included in the current liabilities	(24,783)
Amount due after one year	4,957
	<hr/> 2,478
Secured	2,478
Unsecured	27,261
	<hr/> 29,739

The bank loans are denominated in RMB and carry fixed interest rate ranged from 5.022 per cent. to 5.58 per cent. and are secured by the Company's property, plant and equipment with carrying value of US\$28,032,144 at the balance sheet date.

The directors consider that the carrying amount of the bank loans approximates to its fair value.

17 Share Capital

	<i>31 December</i> <i>2005</i> <i>US\$'000</i>
Registered & contributed capital	<hr/> 50,574

18 Dividend

Subsequent to the balance sheet date, a final dividend of RMB 186,810,267 has been declared by the directors.

19 Operating leases

At the balance sheet date, the Company has contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

	<i>Land and buildings</i> <i>US\$'000</i>
Within one year	<hr/> 6

Leases are negotiated for the term of one year.

20 Capital Commitments

	<i>US\$'000</i>
Capital expenditure in respect of property, plant and equipment – contracted for but not provided in the financial statements	<hr/> 36,096

21 Retirement Benefits Schemes

The employees of the Company are members of government-managed retirement benefit schemes operated by the local government in the Chinese Mainland. The Company is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to these schemes is to make the specified contributions.

22 Financial risk management objectives and policies

The Company's major financial instruments include trade and other receivables, trade and other payables, bank loans, amount due to ultimate holding company, amount due to a shareholder and amount due to a director. Details of these financial instruments are disclosed in notes 11 to 16. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of trade and other receivables as stated in the balance sheet. In order to minimise the credit risk, the management of the Company has delegated a team responsible for denomination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the majority of the counterparties are banks with a good reputation.

The credit risk on trade receivables is concentrated on three customers which represent 88 per cent. of the accounts receivable balance at 31 December 2005. However, management considers the strong financial background and credibility of these customers, and there is no significant credit risk.

Liquidity risk

The Company is exposed to a liquidity risk as a significant percentage of the Company's funding requirements is through bank loans and an advance from its ultimate holding company. In the opinion of the directors, most of the borrowings that mature within one year are able to revolve and financial support where necessary is provided by Prosperity Minerals Group Limited. The Company expects to have adequate sources of funding to finance the Company and manage the liquidity position.

Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short term in nature. Interest bearing financial liabilities are mainly bank loans and amount due to ultimate holding company with fixed interest rates which expose the Company to fair value interest rate risk. The Company currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk exposure should the need arise.

23 Material related party transactions

(a) Related party transactions

During the year, the Company has the following significant transactions with related parties:

<i>Relationship of related parties</i>	<i>Nature of transactions</i>	<i>US\$'000</i>
Ultimate holding company	Interest expense	(18)
Companies with common management	Sales of goods	33,558
	Service income	1,744

(b) Related party balances

- (i) Included in trade and other receivables is an aggregate balance of US\$8,022,580 due from related companies with common management. The amounts are unsecured, interest-free and repayable on demand.
- (ii) Included in trade and other payables is an aggregate balance of US\$12,522,075 due to related companies with common management. The amounts are unsecured, interest-free and repayable on demand.

(c) Guarantee

As at 31 December 2005, guarantees of US\$27,260,787 are provided by a related company with common management in favour of banks in respect of banking facilities granted to the Company.

24 Ultimate holding company

In the opinion of the directors, the ultimate holding company at 31 December 2005 is Shanghai Aijian Trust and Investment Company Limited. Upon acquisition of 100 per cent. interest in the Company on 13 April 2006, the parent is Prosperity Cement Investment Limited incorporated in Hong Kong and the ultimate holding company is Prosperity Minerals Group Limited incorporated in British Virgin Islands.

PART IV

UNAUDITED PRO FORMA FINANCIAL STATEMENT OF NET ASSETS OF PROSPERITY MINERALS HOLDINGS LIMITED

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the transaction on the Company's net assets as if the transaction had taken place on 31 March 2006. This unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results. The unaudited pro forma statement of net assets is compiled on the basis set out below from the accountants' reports set out in Part III of this document.

	<i>Balance sheet of Prosperity Minerals Holdings Limited 31 March 2006 (Note 1) US\$'000</i>	<i>Balance sheet of Pro-Rise Group at 31 March 2006 (Note 2) US\$'000</i>	<i>Balance sheet of Yingde Dragon Mountain 31 December 2005 (Note 3) US\$'000</i>	<i>Adjustments (Note 4) US\$'000</i>	<i>IPO proceeds and costs (Note 5) US\$'000</i>	<i>Pro forma balance sheet of Prosperity Minerals Holdings Limited Group (Note 6) US\$'000</i>
Non-current assets						
Property, plant and equipment	–	41	127,322	–	–	127,363
Prepaid lease payments	–	–	11,825	–	–	11,825
Mining rights	–	–	14,955	–	–	14,955
Goodwill	–	–	–	35,700	–	35,700
Investment in associate	–	–	–	18,000	–	18,000
Total non-current assets	<u>–</u>	<u>41</u>	<u>154,102</u>	<u>53,700</u>	<u>–</u>	<u>207,843</u>
Current assets						
Inventories	–	–	5,834	–	–	5,834
Trade and other receivables	–	21,223	14,109	–	–	35,332
Other financial assets	–	1,000	–	–	–	1,000
Pledged bank deposits	–	–	7,435	–	–	7,435
Cash and cash equivalents	–	4,633	4,033	(140,900)	202,878	70,644
Total current assets	<u>–</u>	<u>26,856</u>	<u>31,411</u>	<u>(140,900)</u>	<u>202,878</u>	<u>120,245</u>
Total assets	<u>–</u>	<u>26,897</u>	<u>185,513</u>	<u>(87,200)</u>	<u>202,878</u>	<u>328,088</u>
Current liabilities						
Interest bearing loans and borrowings	–	16,055	24,783	19,142	–	59,980
Trade and other payables	–	5,885	49,098	–	–	54,983
Amounts due to ultimate holding company	–	–	14,732	(14,732)	–	–
Amounts due to shareholder	–	–	4,410	(4,410)	–	–
Amounts due to a director	–	–	376	–	–	376
Income tax payable	–	18	–	–	–	18
Total current liabilities	<u>–</u>	<u>21,958</u>	<u>93,399</u>	<u>–</u>	<u>–</u>	<u>115,357</u>

	<i>Balance sheet of Prosperity Minerals Holdings Limited 31 March 2006 (Note 1) US\$'000</i>	<i>Balance sheet of Pro-Rise Group at 31 March 2006 (Note 2) US\$'000</i>	<i>Balance sheet of Yingde Dragon Mountain 31 December 2005 (Note 3) US\$'000</i>	<i>Adjustments (Note 4) US\$'000</i>	<i>IPO proceeds and costs (Note 5) US\$'000</i>	<i>Pro forma balance sheet of Prosperity Minerals Holdings Limited Group US\$'000</i>
Non-current liabilities						
Bank loans – amounts due after more than one year	–	–	4,957	–	–	4,957
Deferred tax liabilities	–	5	–	–	–	5
Total non-current liabilities	–	5	4,957	–	–	4,962
Total liabilities	–	21,963	98,356	–	–	120,319
Net assets	–	4,934	87,157	(87,200)	202,878	207,769

Notes:

- 1 Extracted from the Accountant's report on Prosperity Minerals Holdings Limited at 31 March 2006 as set out in Part III of this document. Prosperity Minerals Holdings Limited has share capital of US\$0.04 and unpaid share capital of US\$0.04.
- 2 Extracted from the Accountant's report on the Pro-Rise Group at 31 March 2006 as set out in Part III of this document.
- 3 Extracted from the Accountant's report on Yingde Dragon Mountain at 31 March 2006 as set out in Part III of this document.
- 4 Acquisition of 25 per cent. of Prosperity Conch Cement for consideration of US\$18,000,000 (translated at 31 March 2006 exchange rate) and of 100 per cent. of Yingde Dragon Mountain for consideration of US\$122,900,000 (translated at 31 March 2006 exchange rate). Intercompany and shareholder loans have been classified as interest bearing loans and borrowings. No account has been taken of fair value adjustments, which may arise.
- 5 IPO proceeds of US\$216.0 million (translated at 15 May 2006) less expenses of US\$13.1 million (translated at 15 May 2006).
- 6 No account has been taken of trading since 31 March 2006 (31 December 2005 for Yingde Dragon Mountain). Dividends declared after these dates have not been reflected.

PART V

ADDITIONAL INFORMATION

1 Responsibility

- 1.1 The Directors, whose names and functions are set out in the paragraph headed “Directors, Senior Management and Employees” in Part I of this document, and the Company, whose registered office is set out in paragraph 2 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 KPMG accepts responsibility for its reports contained in Part III of this document. To the best of the knowledge of KPMG (who has taken all reasonable care to ensure that such is the case) the information contained in the reports is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Company

- 2.1 The Company, whose registered office is at Whiteley Chambers, Don Street, St Helier, Jersey JE4 9WG, Channel Islands (tel: +44 1534 504000), 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 “Law”).
- 2.2 The Company’s principal place of business is 11/F, Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong SAR.
- 2.3 The legal and commercial name of the Company is Prosperity Minerals Holdings Limited.
- 2.4 The principal activity of the Company is to act as the holding company of the Group, whose principal activities are as described in Part I of this document. Save as disclosed in Part I of this document, there are no exceptional factors which have influenced the Company’s activities.
- 2.5 The principal legislation under which the Company operates is the Law and the regulations made thereunder.
- 2.6 The Ordinary Shares have been created under the Law.
- 2.7 The Company is the holding company of the Group. Details of the Company’s subsidiaries are set out in paragraph 4 below.

3 Share Capital

3.1 *Authorised and issued share capital*

- 3.1.1 The authorised and issued share capital of the Company as at the date of this document is as follows:

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
185,000,000	£1,850,000	Ordinary Shares	51,353,392	£513,533

- 3.1.2 The authorised and issued share capital of the Company, as it is expected to be immediately following Admission (assuming full subscription of the Placing Shares) will be as follows:

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
185,000,000	£1,850,000	Ordinary Shares	129,056,392	£1,290,563

3.1.3 The Company was incorporated with an authorised share capital of £30,000 divided into 3,000,000 Ordinary Shares, of which one Ordinary Share was issued fully paid to each of the two subscribers to the Memorandum of Association of the Company. Since incorporation, the following changes to Company's share capital have occurred:

(a) By a special resolution passed on 18 May 2006:

- (a) the authorised share capital of the Company was increased from £30,000 to £1,850,000, by the creation of 182,000,000 further Ordinary Shares;
- (b) in substitution for all existing authorities, the Directors were empowered pursuant to and in accordance with Article 2.16 to allot or make offers or agreements to allot equity securities wholly for cash as if Article 2.8 of the Articles did not apply to any such allotment, provided that such power was limited to:
 - (i) the allotment of Ordinary Shares in connection with the Placing;
 - (ii) the allotment after Admission of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares, or in connection with any other form of issue of such securities in which holders are offered the right to participate, in proportion (as nearly as may be) to the respective number of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in relation to fractional entitlements or legal or practical problems arising in connection with the laws of, or of the requirements of any generally recognised regulatory body or stock exchange in any territory; and
 - (iii) the allotment after Admission (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of £129,056.40,

provided that such power shall expire (unless previously renewed, varied, or revoked by the Company in a general meeting) at the conclusion of the 2007 annual general meeting of the Company provided that the Company may before such expiry, or the expiry of any renewal of the authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity shares in pursuance of such offer or agreement as if the authority had not expired.

3.1.4 Under the Law and Article 2.2 all of the unissued share capital of the Company may be issued by the Directors.

3.1.5 There are no pre-emption rights attaching to the issue of share capital of the Company under the Law. Article 2.8 of the Articles (to the extent not disapplied as referred to in paragraph 3.1.3(b) above pursuant to Article 2.16) confers on Shareholders rights of pre-emption in respect of the allotment of equity securities in the Company for cash and applies to authorised but unissued share capital. These rights of pre-emption rights have been disapplied in order (i) to permit the Directors to allot the Ordinary Shares for which subscribers are being procured by Evolution Securities pursuant to the Placing, (ii) to give the Directors flexibility in relation to rights issues or other pre-emptive issues and (iii) to permit the Directors to allot Ordinary Shares for cash having a nominal value of £129,056.40.

3.1.6 On 18 May 2006 the Company issued 46,191,134 Ordinary Shares to the Controlling Shareholder, the sole shareholder of Pro-Rise, and 2,581,128 Ordinary Shares to Max Will and 2,581,128 Ordinary Shares to Max Start as directed by the Controlling Shareholder, as consideration for the purchase of the entire issued share capital of Pro-Rise. All such Ordinary Shares were issued credited as fully paid.

- 3.1.7 The Placing Shares will be issued credited as fully paid up and free from all liens, charges, encumbrances and other third party rights and will rank in full for all dividends and other distributions declared, paid or made by the Company after Admission. The Placing Shares will be created under the Law.
- 3.1.8 There are no other options granted over Ordinary Shares. The Company has adopted the Share Option Scheme, but, as at the date of this document, no options have been granted under the Share Option Scheme.
- 3.1.9 Save as disclosed in the foregoing sub-paragraphs of this paragraph 3:
- (a) no share or loan capital of any member of the Group is under option or has been agreed, conditionally or unconditionally, to be put under option;
 - (b) there has been no change in the amount of the issued share or loan capital of the Company, since its incorporation; and
 - (c) other than in connection with the Placing or upon the exercise of options granted pursuant to the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company.
- 3.1.10 Save as disclosed in paragraph 3.6, up to the date of this document, not more than 10 per cent. of the share capital of the Company has been paid for with assets other than cash.
- 3.1.11 The Ordinary Shares are all in registered form, are denominated in pounds sterling and are freely transferable.

3.2 *Squeeze-out rules*

Under articles 117 and 118 of the Law, an offeror in respect of a takeover offer has the right to acquire shares which he has not or is not contracted to acquire where he has acquired or is contracted to acquire 90 per cent. in value of the shares to which the offer relates. The offeror may not issue a notice requiring acquisition of minority shareholders unless he has acquired or contracted to acquire such shares before the end of four months beginning with the date of the offer and no notice may be given after the end of the period of two months beginning with the date on which he has acquired or contracted to acquire 90 per cent. or more of the shares to which the offer relates. The squeeze out of minority shareholders can be completed at the end of six weeks from the date of the notice requiring the squeeze out.

By virtue of article 119 of the Law, minority shareholders in respect of a takeover offer, before the end of the period within which the offer can be accepted, can require the offeror to purchase the remaining shares provided the offeror has acquired or has contracted to acquire not less than nine tenths in value of all the shares in the company. An offeror shall within one month of the end of the period within which the offer can be accepted give the remaining shareholders notice of their rights to require repurchase. The period for the exercise of the remaining shareholders' rights to be bought out cannot end prior to the period of three months after the end of the period during which the offer can be accepted. These rights do not apply if the offeror has given notice under article 117.

3.3 *Change of control*

So far as the Directors are aware, there are no arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

3.4 *Public takeover bids occurring in the last and current financial years*

There have been no public takeover bids by third parties in respect of the share capital of any Group Company in the financial year ending 31 March 2006 and between 31 March 2006 and 18 May 2006 (being the latest practicable date before the publication of this document).

4 The Company's subsidiaries and associated companies

4.1 The Company is the parent company of the Group and has the following subsidiaries and subsidiary undertakings. Their principal activities, registered offices, place of incorporation and the proportion of their share capital held (directly or indirectly) by the Company are shown below:

<i>Name</i>	<i>Principal activity</i>	<i>Registered office</i>	<i>Place of incorporation</i>	<i>Directly or Indirectly</i>	<i>Interest held</i>	<i>Notes</i>
Pro-Rise Business Limited	Intermediate holding company for the Group	Sea Meadow House, Blackburne Highway, Road Town, Tortola, BVI	BVI	Directly	100%	
Prosperity Minerals (International) Limited	Investment holding of the Group's cement business	11/F Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon	Hong Kong	Indirectly	100%	(1)
Prosperity Cement Investment Limited	Investment holding of the Group's cement business	11/F Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon	Hong Kong	Indirectly	100%	(1)
Prosperity Materials Macao Commercial Offshore Limited	Trading of iron ore and iron oxides	Aladema Fr. Carlos D'Assumpcao, no.263, China Civil Plaza Building 20/F, Macao	Macao	Indirectly	100%	(1)
Prosperity Minerals Limited	Advisory, planning and administrative services for the Group	11/F Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon	Hong Kong	Indirectly	100%	(1)
Prosperity Minerals Management Limited	Human resources and administration	11/F Prosperity Industrial Building, 89 Wai Yip Street, Kwun Tong, Kowloon	Hong Kong	Indirectly	100%	(1)
Super Data Limited	Freight Chartering	Sea Meadow House, Blackburne Highway, Road Town, Tortola, BVI	BVI	Indirectly	100%	(1)(3)
Yingde Dragon Mountain Cement Co., Ltd.	Manufacturing of cement and clinker	Long Wei Hill, Wang Bu Town, Yingde City, Guangdong Province, PRC	PRC	Indirectly	100%	(2)

Notes

- (1) Each of Prosperity Minerals (International) Limited, Prosperity Cement Investment Limited, Prosperity Materials Macao Commercial Offshore Limited, Prosperity Minerals Limited, Prosperity Minerals Management Limited and Super Data Limited is wholly-owned by Pro-Rise which is wholly-owned by the Company.
- (2) Prosperity Cement Investment Limited, which is indirectly wholly-owned by the Company, owns 100 per cent. of the issued share capital of Yingde Dragon Mountain Cement Co., Ltd.
- (3) Super Data Limited is currently dormant.

4.2 Prosperity Minerals (International) Limited, which is indirectly wholly-owned by the Company owns 25 per cent. of the issued share capital of Prosperity Conch Cement Company Limited, a company incorporated in the PRC. The principal activity of Prosperity Conch Cement is the manufacture of cement and clinker. Its registered office is No.1 Zhen Yang Road, Ying Cheng, Yingde City, Guangdong Province, PRC.

4.3 Save as disclosed in paragraphs 4.1 and 4.2 of this Part V, there are no undertakings in which the Company holds a proportion of the capital that is likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits.

5 Summary of the Memorandum and the Articles

5.1 Memorandum of Association

The Company is a public company and a par value company under the relevant provisions of the Law. The liability of each member arising from his holding of a share in the Company is limited to the amount (if any) unpaid on it. The Company has unlimited corporate capacity as set out on page 1 of its Memorandum of Association.

5.2 Articles of Association

The Articles, which were adopted on 18 May 2006, contain provisions (amongst others) to the following effect:

5.2.1 *Rights attaching to shares*

(a) *Issue of shares*

Subject to rights of pre-emption set out below, the Directors may approve the allotment, grant of options over or otherwise dispose of shares to such persons, at such times and on such terms as they think fit. The Company may by ordinary resolution determine that a share be issued with certain rights and restrictions.

The rights of pre-emption are as follows: when proposing to allot equity securities to a person, the Company must first offer them to every holder on at least the same terms. The number of equity securities offered will be in proportion to the nominal share value held by the relevant holder to the nominal value of the issued share capital. This procedure does not apply to an allotment of shares where such equity securities are or will be wholly or partly paid otherwise than in cash nor does it apply to shares allotted or issued under an employee share scheme.

The Company may, by special resolution, (i.e. a majority of two-thirds of voting Shareholders) give the Directors the power to avoid this procedure.

(b) *Voting rights*

(i) At any general meeting, a resolution put to the vote of the meeting shall, in the first instance, be voted upon by a show of hands. At a general meeting on a show of hands every shareholder who is present in person or by proxy has one vote.

(ii) On a poll, every shareholder who is present in person or by proxy or (being a corporation) is present by a representative has one vote for every share in the capital of the Company of which he is the holder.

(c) *Restrictions on voting*

In the case of joint holders, the person whose name appears first in the register of members will hold the vote attached to the relevant share. Unless otherwise decided by the Board, no vote is allowed in respect of a share where a call or other amount due and payable in respect of the share is unpaid.

(d) *Dividends*

The Company may by ordinary resolution declare dividends in accordance with the respective rights of the Shareholders but no dividend can exceed the amount recommended by the Directors. Holders of Ordinary Shares are entitled to dividends *pro rata* according to the number of shares held. This is subject to any priority of payment of dividends as determined by the Articles, the class rights of other classes of shares or by special resolution. Subject to the provisions of the Law, interim dividends may be paid if it appears to the Directors that they are justified by the level of the Company's distributable reserves. Unless otherwise provided by rights attaching to the shares, all dividends will be declared and paid according to the amounts paid up on the shares on which the dividend is paid.

(e) *Variation of rights*

Where the capital of the Company is divided into different classes of shares, rights attached to any class of shares may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated. This can be done with the consent in writing of the holders of a majority in nominal value of the issued shares of the relevant class or by an ordinary resolution passed at a separate meeting of the holders of the issued shares of that class.

(f) *Alteration of capital*

The Company may by special resolution:

- (i) increase its share capital by creating new shares of such amount and in such currency or currencies as it thinks expedient;
- (ii) consolidate and divide all or any of its shares (whether issued or not) into shares of a larger amount than its existing shares;
- (iii) convert all or any of its fully paid shares into stock, and re-convert that stock into fully paid shares of any denomination;
- (iv) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum save that in a sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share will be the same as it was in the case of the share from which the reduced share is divided;
- (v) subject to the Articles and the Law, convert any of its fully paid shares which have a nominal value expressed in one currency into fully paid shares of a nominal value of another currency and denominate the nominal value of its issued or unissued shares in units of the currency into which they have been converted; and
- (vi) cancel shares which, at the date of the passing of the resolution to cancel them, have not been taken or agreed to be taken by a person, and diminish the amount of the Company's share capital by the amount of the shares so cancelled.

(g) *Purchase of own shares and reduction of capital*

Subject to the confirmation by the court as required by the Law and to the rights attaching to existing shares, the Company may by special resolution reduce its share capital or any capital redemption reserve or any share premium account in any way.

The Company may also purchase, or agree to purchase in the future, any shares of any class (including redeemable shares) in its own capital in any way provided it is authorised to do so by special resolution.

(h) *Winding-up*

If the Company is wound up, the Company may, by a special resolution and subject to any other sanction required by the Law or a court, divide the whole or any part of the assets of the Company among the holders in specie provided that no holder will be compelled to accept any assets upon which there is a liability.

5.2.2 *Transfer of shares*

- (a) Subject to the Articles, the instrument of transfer of a share must be in writing and may be in any usual form or in any other form which the Directors may approve and must be executed by or on behalf of the transferor and, unless the shares are fully paid, by or on behalf of the transferee.
- (b) Uncertificated shares may be transferred in accordance with the Companies (Uncertificated Securities) (Jersey) Order 1999.

5.2.3 *Directors*

(a) *Number of Directors*

Unless the Company decides otherwise by ordinary resolution, there is no maximum but the minimum is two.

(b) *Appointment of Directors*

The Company may appoint Directors by ordinary resolution. The Board may appoint a Director but such a Director may hold office only until the dissolution of the next annual general meeting after his appointment unless he is reappointed during that meeting.

(c) *Retirement of Directors by rotation*

At each annual general meeting one third of the Directors who are subject to retirement by rotation will retire. If the number of Directors is not divisible by three, the number nearest to but not less than one-third will retire from office. If there are fewer than three Directors who are subject to retirement by rotation, one will retire from office.

If any one or more Directors: (i) were last appointed or reappointed three years or more prior to the meeting; (ii) were last appointed or reappointed at the third immediately preceding annual general meeting; or (iii) at the time of the meeting will have served more than nine years as a non-executive Director of the Company (excluding as the chairman of the Board), he or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting.

(d) *Permitted interests of Directors*

Subject to the Law and provided he has disclosed to the Board the nature and extent of any direct or indirect interest, a Director notwithstanding his office:

- (i) may enter into or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or any of its subsidiary undertakings or in which the Company or any of its subsidiary undertakings is otherwise interested either in connection with his tenure of an office or place of profit or as seller, buyer or otherwise;
- (ii) may hold another office or place of profit with the Company or any of its subsidiary undertakings (except that of auditor or auditor of a subsidiary of the Company or any of its subsidiary undertakings) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity to the Company or any of its subsidiary undertakings, and in that case on such terms as to remuneration and otherwise as the Board may decide either in addition to or instead of other remuneration provided for by the Articles;
- (iii) may be a director or other officer of, or employed by, or a party to a contract, transaction, arrangement or proposal with or otherwise interested in, a company promoted by the Company or any of its subsidiary undertakings or in which the Company or any of its subsidiary undertakings is otherwise interested or as regards which the Company or any of its subsidiary undertakings has a power of appointment; and
- (iv) is not liable to account to the Company or any of its subsidiary undertakings for a profit, remuneration or other benefit realised by such contract, arrangement, transaction, proposal, office or employment and no such contract, arrangement, transaction or proposal is avoided on the grounds of any such interest or benefit.

An interest of a Director is not deemed to include any interest that might arise simply by virtue of the holding of shares or other securities in the Company.

(e) *Remuneration of Directors*

Unless otherwise decided by ordinary resolution, the Directors (but not any alternate Directors) will be paid such amount of aggregate fees as the Board decides. These fees will be divided in proportions decided by the Board or equally and may not exceed £500,000 per annum without the consent of the members of the Company by ordinary resolution.

(f) *Directors' interests in shares*

Directors are required to notify the Company on the same day if they acquire or agree to acquire Ordinary Shares in the Company or, if they already hold Ordinary Shares, of any change in or agreement to change their shareholding. When a director is appointed, he must notify the Company of any Ordinary Shares he holds. All notifications are to be made on either the day the acquisition or disposal takes place or the date of the agreement to acquire or dispose or the date of appointment as applicable. The Company is to keep a register of the Director's shareholdings at its registered office which is open to inspection by the members. Directors are, pursuant to these provisions, also required to disclose shares held by (i) Companies in which they hold 33 per cent. or more of the voting rights or otherwise control or direct; (ii) husbands, wives, civil law partners, infant sons and daughters (including step children); and (iii) trusts in which they, or any of these persons, are related. These provisions also apply to shadow directors.

5.2.4 *Directors' powers*

The Board may delegate to a Director holding executive office any of its powers, authorities and discretions for such time and on such terms and conditions as it thinks fit. The Board may also delegate any of its powers, authorities and discretions (with power to sub-delegate) to a person or a committee consisting of more than one person (whether a member of the Board or not) as it thinks fit.

5.2.5 *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board is required to restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure that the aggregate principal amount outstanding at any time in respect of all borrowings by the Group (exclusive of any intra-group borrowings) after deducting the amount of cash deposited will not, without the previous sanction of an ordinary resolution of the Company exceed £200 million.

5.2.6 *Meetings of Shareholders*

- (a) Annual general meetings are to be held once every year. They can be convened by the Board at such time and place as it thinks fit provided that there must not be a gap of more than 15 months between one annual general meeting and the next. Extraordinary general meetings, being meetings other than annual general meetings, may be convened whenever the Board thinks fit. Annual general meetings and any extraordinary general meeting at which a special resolution is to be proposed or at which some other resolution of which special notice under the Law has been given to the Company require not less than 21 clear days' notice. All other extraordinary general meetings require not less than 14 clear days' notice.
- (b) The notice must be given to all holders and to all persons recognised by the Directors as having become entitled to a share following the death, bankruptcy or incapacity of a Shareholder. Shorter notice is possible, in the case of an annual general meeting, by the agreement of all the members entitled to attend and vote at the meeting and, in the case of an extraordinary general meeting, by a majority of members holding not less than 95 per cent. of the total voting rights.
- (c) The notice must specify that a member entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of him and that a proxy need not also be a member. Where more than one proxy is validly appointed for the same share for use at the same meeting, the last valid one is treated as revoking or replacing any previous

ones. An instrument appointing a proxy is to be in writing in any usual form, or as approved by the Directors, and must be executed by or on behalf of the appointor. The Board may accept the appointment of a proxy received in an electronic communication on such terms and subject to such conditions as it considers fit, subject to the Law and the Electronic Communications (Jersey) Law 2000.

- (d) The quorum of a general meeting is two persons entitled upon the business to be transacted, each being a Shareholder present or by proxy.
- (e) In the case of joint holders of a share, a notice will be given to whichever of them is named first in the register of Shareholders in respect of the joint holding and notice given in this way is sufficient notice to all joint holders.

5.2.7 *Written Resolutions of Shareholders*

Under the Law and the Articles, provision may be made in the form of a resolution in writing for each Shareholder to indicate how many of the votes in respect of a resolution in writing which he would have been entitled to cast at a meeting to consider the resolution he wishes to cast in favour of or against such resolution or to be treated as abstentions and the result of any such resolution in writing need not be unanimous and shall be determined upon the same basis as on a poll.

5.2.8 *Untraced Shareholders*

Subject to the Companies (Uncertificated Securities) (Jersey) Order 1999 in respect of untraced Shareholders, in the event a Shareholder is deemed to be untraceable, the Company may sell the shares of that Shareholder at the best price reasonably obtainable. This power of sale is subject to certain conditions before it is triggered. Principally, three cash dividends must have become payable in respect of the untraced shares during a period of not less than 12 years and the holder must not have presented any cheque, warrant or money order payable by the Company throughout the 12 year period. The Company must then advertise its intention to exercise the power of sale in the relevant press. After publication of the advertisement, the holder has a further three months to communicate with the Company and therefore effectively terminate the power of sale. The Company and any one Director are given an irrevocable power of attorney by the holder to do all such acts and to agree and execute all such agreements, documents and instruments of transfer in order to effect the transfer of the shares in these circumstances. Any amounts raised by the power of sale are owed to the relevant member although the Company does not act as trustee of these monies and they do not carry interest.

5.2.9 *Distribution of assets on a liquidation*

The assets of the Company remaining after payment of its liabilities will, subject to the rights of the holders of other classes of shares, be applied to the holders of Ordinary Shares equally *pro rata* to their holdings of Ordinary Shares.

5.2.10 *Indemnity of officers*

Subject to the Law, the Company indemnifies every director, alternate director or secretary of the Company out of the Company's assets against expenses and any liability incurred by such person in the proper execution of his duties, or the proper exercise of his powers. No such right of indemnification shall exist with respect to a claim brought by such person against the Company except as provided for in the Articles.

The Law disallows any agreement by the Company to exempt any person from, or indemnify any person against, any liability which by law would otherwise attach to the person by reason of the fact that the person is or has been an officer of the Company.

However, the Law allows certain exceptions to this, particularly in respect of any liability incurred otherwise than to the Company if the person acted in good faith with a view to the best interests of the Company.

5.2.11 *Notification of interests in shares*

Shareholders are under a duty to disclose their interests in shares if they hold more than 3 per cent. of any class of issued shares and if their shareholding of such class subsequently falls below 3 per cent. During the period a Shareholder's holding of shares of any particular class remains above 3 per cent., he is under a duty to disclose further acquisitions or disposals once such acquisitions or disposals, on an aggregate basis, equate to 1 per cent. or more of the issued shares of that class. A Shareholder's duty to disclose his shareholding in respect of these provisions of the Articles is, provided the Company's issued share capital is divided into different classes, determined on a class by class basis.

Registered Shareholders can also be obliged by the Board by virtue of the Articles to disclose whether they hold their shares legally and beneficially for themselves or for some other party. They can also be obliged to disclose the nature of the arrangement, if one exists, and the class of persons or parties for whom they ultimately hold the shares (e.g. a family trust, individual or company). In the event that the relevant Shareholder holds less than 0.25 per cent. of the relevant class of issued shares, they need make no further disclosure. In the event that they hold 0.25 per cent. or more of the issued shares of the relevant class, then they can be obliged to disclose the identity of the ultimate party for whom they hold the shares. Failure to comply with these provisions can result in, at the Board's discretion, a suspension of voting rights of the relevant member and a withholding (but not forfeiture) of dividends for a period of up to one year.

6 **Directors of the Company**

- 6.1 The Directors, their respective functions within the Company and brief biographies are set out in the paragraph headed "Directors, senior management and employees" in Part I of this document.
- 6.2 During the five years immediately prior to the date of this document, the Directors have held or currently hold the following directorships and/or are or were partners of the following partnerships:

<i>Director</i>	<i>Current directorships/ partnerships</i>	<i>Former directorships and partnerships held within the previous five years</i>
David Wong	<i>Group companies</i> Pro-Rise Business Limited Prosperity Cement Investment Limited Prosperity Conch Cement Co., Ltd. Prosperity Materials Macao Commercial Offshore Limited Prosperity Minerals Holdings Limited Prosperity Minerals Limited Prosperity Minerals (International) Ltd Prosperity Minerals (Management) Ltd Super Data Limited Yingde Dragon Mountain Cement Co., Ltd.	<i>Group companies</i> N/A
	<i>Other companies</i> Advance Success Limited Bliss Hero Investment Limited BNS Maritime Inc. Bulk Logistics Ltd Cheong Sing Merchandise Agency Limited Fion Shipping Inc. Golden Tapestry Profits Limited Guangzhou Xingda Decorative Sheet Co., Limited	<i>Other companies</i> Prosperity Handbags and Footwear Limited Prosperity Minerals (Asia) Limited Prosperity Steel (Asia) Co. Limited PSA Macao Commercial Offshore Limited PMI Maritime Inc. Progain International (Hong Kong) Limited

<i>Director</i>	<i>Current directorships/ partnerships</i>	<i>Former directorships and partnerships held within the previous five years</i>
Jian Ping Wu	<i>Group companies</i>	<i>Group companies</i>
	Prosperity Conch Cement Co Ltd	None
	Prosperity Minerals Holdings Limited	
	Yingde Dragon Mountain Cement Co. Ltd.	
	<i>Other companies</i>	<i>Other companies</i>
	Joy Harvest International Holdings Limited	None
	Sound Kingdom Limited	
Michael James Allen	<i>Group companies</i>	<i>Group companies</i>
	Prosperity Minerals Holdings Limited	None
	<i>Other companies</i>	<i>Other companies</i>
		Canadian Mining Management Services Inc. HIM Mining Consultancy Runan Pacific Enterprises The Capital Market Allied Limited The Capital Market Limited Prosperity TCMA Mining Limited
John Campbell Robertson	<i>Group companies</i>	<i>Group companies</i>
	Prosperity Minerals Holdings Limited	None
	<i>Other companies</i>	<i>Other companies</i>
	Telrock Communications Ltd	MineWorks Resources Corporation Mitra Energy Limited Nabarro Wells & Co. Limited
	Elixir Petroleum Limited	
	<i>Partnerships</i>	
	NWCF LLP	
Anthony John Williams	<i>Group companies</i>	<i>Group companies</i>
	Prosperity Minerals Holdings Limited	None
	<i>Other companies</i>	<i>Other companies</i>
	Building Value Ltd. Connaught plc SAS Holdings Ltd	ABN AMRO AMEC plc
Sandy Chun-Kwan Chim	<i>Group companies</i>	<i>Group companies</i>
	Prosperity Minerals Holdings Limited	None
	<i>Other companies</i>	<i>Other companies</i>
	Canadian Mining Management Services, Inc.	Asian eMarket Limited
	Chination Group Limited	Barnet Consultancy Limited
	Chination.Net Limited	Best Start Services Limited
	Diverge International Consulting Ltd	Crown Tech Holdings Limited
	Fairmark Industries Limited	Clever Able Investments Limited
	Faithfull Rich International Ltd	Clever United Holdings Limited
	Golden City Group Ltd	Crystal Top Holdings Group Limited
	Max Luck Holdings Limited	E-Opportunity Limited
	Mega-Fun Holdings Limited	Emerald Capital Limited
	Pan Pacific International Limited	Grade Honor Limited
	Pearl River Tyre (Holdings) Limited	Hai Yang Investment Limited
	Showers of Blessings Evangelistic Ministry (Hong Kong) Limited	Heroic Asia (Investments) Limited Olympic Glory Limited
	The Capital Market Allied Limited	Omnicorp Limited
	The Capital Market Limited	Omnitech Holdings Limited
	Union Sino Limited	Premier Stage Limited
	Victory Epoch Limited	Proven Sino Investments Limited
	Weltrend Development Limited, Hong Kong	Prosperity TCMA Mining Limited Prosperous Returns Limited Sharp Capital International Ltd

<i>Director</i>	<i>Current directorships/partnerships</i>	<i>Former directorships and partnerships held within the previous five years</i>
Sandy Chun-Kwan Chim (continued)	<i>Other companies</i>	<i>Other companies</i> Shenzhen Xinli Furniture Company Limited Showers of Blessings Evangelistic Ministry South China Product Co. Ltd Super Intellect Limited Talent Sino Holdings Limited Treasure Chance Limited Universal Asia Trading Ltd Up Crown International Limited Vandyke Limited Windsor Treasure Group Holdings Limited Winnerway Holdings Inc.
	<i>Partnerships</i> Chim & Seto, LLP	
Ben Ren Liu	<i>Group companies</i> Prosperity Minerals Holdings Limited	<i>Group companies</i> None
	<i>Other companies</i> None	<i>Other companies</i> None
Michael Kim Hung Yuen	<i>Group companies</i> Prosperity Minerals Holdings Limited	<i>Group companies</i> None
	<i>Other companies</i> Prosperity International Holdings (H.K.) Limited Gaintop (H.K.) Limited New Universe International Group Limited	<i>Other companies</i> None
	<i>Sole Proprietorships</i> Michael Yuen & Co	
Yu Lin Zhao	<i>Group Companies</i> Prosperity Minerals Holdings Limited	<i>Group Companies</i> None
	<i>Other companies</i> None	<i>Other companies</i> None

6.3 *Further Information*

- 6.3.1 David Wong was a director of Amy Handbags Manufacturers Limited, a handbag manufacturing company incorporated in Hong Kong with manufacturing facilities in the PRC, which went into insolvent liquidation on 25 September 2002. David Wong was a director of the company from 5 November 1986 to 28 June 2000.
- 6.3.2 David Wong was appointed as an executive director (and is a major shareholder) of Prosperity International Holdings on 2 August 2002 and continues to hold such position. Prosperity International Holdings was the subject of a public criticism made by the Stock Exchange of Hong Kong Limited on 8 August 2005 for certain breaches of the GEM Listing Rules in failing to (i) despatch and publish on time its accounts for the year ended 31 March 2003; and (ii) issue an announcement, publish a circular on time and obtain prior independent shareholders' approval in respect of certain connected transactions (as defined in the GEM Listing Rules) conducted during the period from 12 September 2002 to 26 November 2002.
- 6.3.3 David Wong is a 50 per cent. shareholder in and director of the following joint venture companies (which are all a part of the same joint venture operation): Liyang Xingang Steel

Making Co. Ltd, Liyang Jianxin Iron Making Co. Ltd, Liyang Changxing Making Raw Materials Co. Ltd and Liyang Changxing Iron and Steel Making Auxiliary Facilities Co. Ltd. The commencement date of the Business Licenses of all of the above except Liyang Changxing Making Raw Materials Co. Ltd. was 30 July 2002. The commencement date of the Business Licence of the latter company was 13 January 2003.

The joint venture companies became involved in disputes with a number of third parties. The joint venture is still resolving these legal disputes and is currently run by David Wong's 50 per cent. joint venture partner.

- 6.3.4 David Wong is an executive director (and is a major shareholder) and Michael Kim Hung Yuen is a non-executive director of Prosperity International Holdings. Prosperity International Holdings was previously engaged in the manufacture of decorative plastic sheets. Following intense competition and increased fuel costs Prosperity International Holdings decided to diversify its business to include the trading of cement clinker in June 2005.

Prosperity International Holdings disposed of its decorative sheets manufacturing business in January 2006 and is now engaged in the trading of cement clinker and other building materials. Prosperity International Holdings is not currently a direct competitor of the Cement Companies as its primary focus is the export of cement clinker from the PRC to purchasers in Taiwan, while the Cement Companies' focus is on the sale of high quality cement and clinker in Guangdong Province.

David Wong is also a shareholder in Prosperity Materials which is also engaged in the trading of cement clinker. Prosperity Materials is not currently a direct competitor of the Cement Companies for similar reasons to those relating to Prosperity International Holdings.

- 6.3.5 Save as disclosed above, none of the Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) ever been declared bankrupt or been the subject of an individual voluntary arrangement;
- (c) ever been a director of a company which, while he was a director or within 12 months of his ceasing to be a director, had a receiver appointed or entered into compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or with any class of its creditors;
- (d) ever been a partner within a partnership which, while he was a partner or within 12 months of his ceasing to be a partner, entered into compulsory liquidation, administration or a partnership voluntary arrangement;
- (e) owned any asset which has been placed in receivership or been a partner in a partnership whose assets have been placed in receivership while he was a partner or within the 12 months preceding such event; or
- (f) been the subject of any public criticism by statutory or regulatory authorities (including recognised professional bodies) nor has any of them ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7 Directors' shareholdings and other interests

- 7.1 The table below shows the interests of the Directors in the Ordinary Shares or interest of a person connected (within the meaning of section 346 of the CA 1985) with a Director which would be notifiable to the Company in accordance with the Articles (as summarised in 5.2.11 above) as at 18 May 2006 (being the latest practicable date before the publication of this document) and as expected immediately following Admission:

<i>Director</i>	<i>Immediately prior to Admission</i>		<i>Immediately after Admission</i>	
	<i>Percentage of Ordinary issued ordinary Shares share capital</i>		<i>Percentage of Ordinary issued ordinary Shares share capital</i>	
	<i>Shares</i>	<i>share capital</i>	<i>Shares</i>	<i>share capital</i>
David Wong ⁽¹⁾	33,379,705	65%	33,379,705	25.9%
Sandy Chun-Kwan Chim ⁽²⁾	337,838	0.66%	337,838	0.3%

Notes:

- (1) David Wong's shareholding is held indirectly through (i) Prosperity Minerals Group Limited (which holds 46,191,136 Ordinary Shares, being 35.8 per cent. of the Company's issued ordinary share capital following Admission) in which he holds a 65 per cent. shareholding; (ii) Max Start (which holds 2,581,128 Ordinary Shares, being 2.0 per cent. of the Company's issued ordinary share capital following Admission) in which he holds a 65 per cent. shareholding; and (iii) Max Will (which holds 2,581,128 Ordinary Shares, being 2.0 per cent. of the Company's issued ordinary share capital following Admission) in which he holds a 65 per cent. shareholding.
- (2) Mr Chim's shareholding is held indirectly through The Capital Market Allied Limited, in which he holds a 50 per cent. interest.

7.2 All of the above interests are or will be beneficial.

7.3 *Major Shareholders*

Under Jersey law there is no requirement to notify interests in shares. The following persons, not being Directors (whose interests in Ordinary Shares are set out in paragraphs 7.1 and 7.2 above) had, as at 18 May 2006 (being the latest practicable date before the publication of this document), interests in Ordinary Shares or voting rights in the Company which would be notifiable to the Company under the Articles (as summarised in paragraph 5 above):

<i>Director</i>	<i>Immediately prior to Admission</i>		<i>Immediately after Admission</i>	
	<i>Percentage of Ordinary issued ordinary Shares share capital</i>		<i>Percentage of Ordinary issued ordinary Shares share capital</i>	
	<i>Shares</i>	<i>share capital</i>	<i>Shares</i>	<i>share capital</i>
Prosperity Minerals Group Limited	46,191,136	90.0%	46,191,136	35.8%

Madam Ching Fong Hon will hold post Admission a 13.9 per cent. beneficial interest in the Company through (i) Prosperity Minerals Group Limited; (ii) Max Start; and (iii) Max Will, in each of which she holds a 35 per cent. shareholding.

7.4 Save as disclosed above:

7.4.1 none of the Directors nor any member of their respective immediate families nor any person connected with the Directors (within the meaning of Section 346 of the CA 1985) has any interest, whether beneficial or otherwise, in the share or loan capital of the Company;

7.4.2 none of the Directors or any member of a Directors' family (as defined in the AIM Rules) is interested in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares including a contract for difference or a fixed odds bet; and

7.4.3 there are no outstanding loans or guarantees provided by the Company for the benefit of the Directors nor are there any outstanding loans or guarantees provided by any of the Directors for the benefit of the Company.

7.5 Save as disclosed above, there are no persons, so far as the Company is aware, who will immediately following Admission be interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital, nor, so far as the Directors are aware, is there any person or persons who are or, following the Placing will or are likely to be, directly or indirectly, jointly or severally, able to exercise control over the Company.

7.6 None of the persons listed above has or will have, in relation to their Ordinary Shares, special voting rights.

8 Directors' service contracts and letters of appointment

8.1 Service contracts and letters of appointment have been entered into between the Company and the Directors, all of which are summarised below and are dated 18 May 2006:

8.1.1 David Wong

David Wong has a service contract with the Company which provides for him to act as Chief Executive Officer and Chairman of the Company at a salary of £200,000 per annum. The agreement is stated to continue without limit in time, subject to it being terminable by either party by giving not less than 12 months' notice in writing. The Company reimburses David Wong for reasonable contributions to medical insurance, death in service benefits, permanent health insurance and travel insurance schemes and provides 20 paid days holiday per annum. David Wong is also entitled to an accommodation allowance up to a maximum of £10,000 per month. The payment of any bonus to David Wong is at the Company's discretion. David Wong's service agreement contains restrictive covenants which restrict him, for a period of 12 months following the termination of employment, from soliciting senior employees of the Company and from being involved in any competing undertaking.

8.1.2 Patrick Siu Ming Li

Mr Li has a service contract with the Company which provides for him to act as Chief Financial Officer and as an Executive Director of the Company at a salary of £200,000 per annum. The agreement is stated to continue without limit in time, subject to it being terminable by either party by giving not less than 12 months' notice in writing at any time. The Company reimburses Mr Li for reasonable contributions to medical insurance, death in service benefits, permanent health insurance and travel insurance schemes and provides 20 paid days holiday per annum. Mr Li is also entitled to an accommodation allowance of £50,000 per annum. A bonus of £100,000 will be payable within 14 days from the date of the audited accounts for the financial year ending on 31 March 2007 if the Group's net profit for the financial year ending on 31 March 2007 is at least US\$50 million. In respect of each financial year thereafter a bonus of up to £100,000 (reviewed annually) will be payable conditional upon the achievement by the Company of its annual target. The payment of any further bonus to Mr Li is at the Company's discretion. Mr Li's service agreement contains restrictive covenants which restrict him, for a period of 12 months following the termination of employment, from soliciting senior employees of the Company and from being involved in any competing undertaking.

8.1.3 Michael James Allen

Mr Allen has a service contract with the Company which provides for him to act as Chief Technical Officer and Executive Director of the Company at a salary of £102,000 per annum. The agreement is stated to continue without limit in time, subject to it being terminable by either party by giving not less than 12 months' notice in writing at any time. The Company reimburses Mr Allen for reasonable contributions to medical insurance, death in service benefits, permanent health insurance and travel insurance schemes and provides 20 paid days holiday per annum. The payment of any bonus to Mr Allen is at the Company's discretion. Mr Allen's service agreement contains restrictive covenants which restrict him, for a period of 12 months following the termination of employment, from soliciting senior employees of the Company and from being involved in any competing undertaking.

8.1.4 Jian Ping Wu

Mr Wu has a service contract with the Company which provides for him to act as an Executive Director of the Company at a salary of RMB 540,000 per annum (approximately £39,000). The agreement is stated to continue without limit in time, subject to it being terminable by either party by giving not less than 12 months' notice in writing at any time. The Company reimburses Mr Wu for reasonable contributions to medical insurance, death in service benefits, permanent health insurance and travel insurance schemes and provides 20 paid days holiday per annum. The payment of any bonus to Mr Wu is at the Company's discretion. Mr Wu's service

agreement contains restrictive covenants which restrict him, for a period of 12 months following the termination of employment, from soliciting senior employees of the Company and from being involved in any competing undertaking. Mr Wu is also provided with staff quarters.

8.1.5 *John Robertson*

Dr Robertson has a letter of appointment which provides for him to act as a non-executive Director of the Company for no more than 18 days per annum for a fee of £40,000 per annum. If Dr Robertson is requested by the Company to spend in excess of 18 days per annum in attendance at meetings with investors, investment banks, lawyers, accountants or other regulatory entities in Europe he shall be paid a daily fee of £1,500. The appointment begins with effect from Admission and will continue for a period of three years, unless terminated in various circumstances including, *inter alia*, by either party giving not less than three months' notice in writing at any time.

8.1.6 *Anthony Williams*

Mr Williams has a letter of appointment which provides for him to act as a non-executive Director of the Company for no more than 18 days per annum for a fee of £40,000 per annum. If Mr Williams is requested by the Company to spend in excess of 18 days per annum in attendance at meetings with investors, investment banks, lawyers, accountants or other regulatory entities in Europe he shall be paid a daily fee of £1,500. The appointment begins with effect from Admission and will continue for a period of three years, unless terminated in various circumstances including, *inter alia*, by either party giving not less than three months' notice in writing at any time.

8.1.7 *Sandy Chun-Kwan Chim*

Mr Chim has a letter of appointment which provides for him to act as a non-executive Director of the Company for no more than 18 days per annum for a fee of £40,000 per annum. If Mr Chim is requested by the Company to spend in excess of 18 days per annum in attendance at meetings with investors, investment banks, lawyers, accountants or other regulatory entities in Europe he shall be paid a daily fee of £1,500. The appointment begins with effect from Admission and will continue for a period of three years, unless terminated in various circumstances including, *inter alia*, by either party giving not less than three months' notice in writing at any time.

8.1.8 *Ben Ren Liu*

Mr Liu has a letter of appointment which provides for him to act as a non-executive Director of the Company for a fee of £20,000 per annum. The appointment begins with effect from Admission and will continue for a period of three years, unless terminated in various circumstances including, *inter alia*, by either party giving not less than three months' notice in writing at any time.

8.1.9 *Michael Kim Hung Yuen*

Mr Yuen has a letter of appointment which provides for him to act as a non-executive Director of the Company for a fee of £25,000 per annum. The appointment begins with effect from Admission and will continue for a period of three years, unless terminated in various circumstances including, *inter alia*, by either party giving not less than three months' notice in writing at any time.

8.1.10 *Yu Lin Zhao*

Mr Zhao has a letter of appointment which provides for him to act as a non-executive Director of the Company for a fee of £20,000 per annum. The appointment begins with effect from Admission and will continue for a period of three years, unless terminated in various circumstances including, *inter alia*, by either party giving not less than three months' notice in

writing at any time.

- 8.2 The aggregate remuneration (including salaries, fees, pension contributions, bonus payments, consultancy fees and benefits in kind) paid to the Directors of the Group in the 12 months up to 31 March 2006 amounted to HK\$1,276,000 (approximately £84,830), this represents the remuneration paid to the only two Directors employed in the Group during the period. It is estimated that for the year ending 31 March 2007, the total aggregate remuneration of the Directors will be approximately £920,000.
- 8.3 There are no outstanding loans or guarantees granted or provided by the Company to or for the benefit of any of the Directors.
- 8.4 In respect of the last completed financial year of the Group, no member of the administrative, management or supervisory bodies' service contracts with the Company or any member of the Group provided for benefits on termination of employment.
- 8.5 Each of the Directors, in accordance with the terms of their respective service agreement or letter of appointment, have the benefit of an indemnity from the Company in respect of any liability to third parties incurred by him as a result of his actions or omissions as a Director of the Company or any Group company. Such persons will only be indemnified (a) to the extent permitted by law; (b) subject to such exclusions as are determined by the Board from time to time and (c) subject to the Director complying in full with the requisite notification procedures in force at the relevant time, and provided that the relevant Director has not been dismissed by the Company in certain specified circumstances as outlined in each of the respective service agreements or letters of appointment.

9 Directors' interests in transactions

Save as disclosed at paragraphs 6, 7, 11 and 19 of this Part V, no Director has or has had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions, or significant to the business of the Group and which was effected by any member of the Group in the current or immediately preceding financial year or during an earlier period and which remains in any respect outstanding or unperformed.

10 Summary of the principal features of the Share Option Scheme

10.1 Introduction

The Company has established a discretionary share option scheme, the Share Option Scheme, under which options are to be granted over Ordinary Shares. The following is a summary of the principal terms of the Share Option Scheme.

10.2 Administration

The Share Option Scheme is operated by the Remuneration Committee.

10.3 Eligibility

Any employee or director of the Group and any provider of services or any person who has agreed to provide services to the Group is eligible to participate, at the Remuneration Committee's discretion, in the Share Option Scheme.

10.4 Grant of options

Options may be granted in the six week periods following:

- (a) the adoption of the Share Option Scheme;
- (b) the date on which any amendment to the Share Option Scheme becomes effective; and
- (c) an announcement by the Company of its interim or final results.

10.5 Options may also be granted outside these periods, in exceptional circumstances, at the discretion of the Remuneration Committee. No options may be granted under the Share Option Scheme after the tenth anniversary of its adoption.

10.6 *Scheme limit*

At any time, the total number of Ordinary Shares which have been issued or are issuable under options granted under the Share Option Scheme or under any other employee share scheme which the Company may establish in the future may not exceed that number of Ordinary Shares which is equal to ten per cent. of the Company's issued share capital from time to time. Options granted more than ten years previously are not taken into account for the purposes of this limit.

10.7 *Individual limit*

During any financial year of the Company, options may not normally be granted to any individual over Ordinary Shares with a value (measured at the date of grant) of more than 100 per cent. of his remuneration. However, in exceptional circumstances at the discretion of the Remuneration Committee, this limit may be increased to 200 per cent..

10.8 *Exercise price*

The exercise price of options granted after Admission will not be less than the market price of an Ordinary Share at the date of grant.

10.9 *Exercise of options*

Options will become exercisable on the second anniversary of the date of grant and may not be exercised after the tenth anniversary of the date of grant.

The exercise of options may be made dependent upon the achievement of performance conditions.

10.10 *Leavers*

Early exercise of an option will be permitted if an optionholder dies. In all other circumstances, a leaver's option will be forfeited unless the Remuneration Committee determines otherwise.

10.11 *Change of control*

In the event of a change of control of the Company, options may be exercised for a short period thereafter but normally only to the extent that any performance conditions have been satisfied.

10.12 *Variation of capital*

In the event of a rights or capitalisation issue or any sub-division, consolidation, reduction or other variation of the Company's share capital, the scheme limit, the exercise price of an option and the number of shares subject to an option may be adjusted in such manner as the Remuneration Committee determines is fair and reasonable.

10.13 *Voting, dividend and other rights*

Until participants receive Ordinary Shares, they have no voting or dividend rights. Ordinary Shares allotted under the Share Option Scheme will rank *pari passu* with existing shares then in issue with the exception of rights attaching by reference to a record date prior to the allotment date. Application will be made for the Ordinary Shares to be admitted to trading on AIM.

All awards are non-transferable and non-pensionable.

10.14 *Amendments*

The Share Option Scheme may be amended by the Board, although amendments to the material detriment of an optionholder would require his prior written consent.

11 Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or a member of the Group within two years immediately preceding the date of this document and are, or may be, material to the Company.

11.1 *Nominated Adviser and Broker Agreement*

A nominated adviser and broker agreement dated 19 May 2006 between the Company (1), the Directors (2) and Evolution Securities (3) pursuant to which the Company has, conditional upon Admission, appointed Evolution Securities to act as nominated adviser and broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Evolution Securities a fee of £50,000 per annum for its services as nominated adviser and broker under the agreement, together with all reasonably and properly incurred expenses and VAT. The agreement contains certain undertakings and indemnities given by the Company. The agreement continues until terminated by either party giving the other 30 days' written notice (save in certain circumstances where no notice or a shorter notice provision applies).

11.2 *Placing Agreement*

A conditional agreement (the "Placing Agreement") dated 19 May 2006 between Evolution Securities (1), the Company (2) and the Directors (3), pursuant to which, Evolution Securities has agreed as agent for the Company to use its reasonable endeavours to procure subscribers for the Placing Shares proposed to be issued by the Company at the Placing Price and, if and to the extent it is not able so to procure, itself as principal to subscribe for the Placing Shares at the Placing Price. The Placing Agreement is conditional, *inter alia*, on Admission occurring by no later than 8.00 a.m. on 24 May 2006 or such later time as the Company and Evolution Securities may agree, being in any event no later than 8.00 a.m. on 30 June 2006.

The Placing Agreement contains various warranties from the Company and the Directors and indemnities from the Company and certain Directors in favour of Evolution Securities. The liability of the Directors giving the warranties and, where applicable, the indemnities is limited to certain amounts and within certain time limits. Evolution Securities may terminate the Placing Agreement in certain circumstances prior to Admission, including circumstances where any warranties are found to be untrue or incorrect in any material respect or in the case of a material adverse change in the financial or trading position or prospects of any or all of the Company or the Group. Under the Placing Agreement, the Company has agreed to pay to Evolution Securities a corporate finance fee of £150,000 plus commission of 5 per cent. of the funds raised pursuant to the Placing, together with all reasonably and properly incurred costs and expenses and VAT thereon, where appropriate.

Pursuant to the Placing Agreement, the Directors have undertaken that they will not sell, transfer or otherwise dispose of any Ordinary Shares held by them for a period commencing on Admission and ending, on the later of the first anniversary of Admission and the date of publication of the Company's audited financial statements for the year ended 31 March 2007. For a further period ending on the date of the publication of the Company's audited financial statements for the year ended 31 March 2008 such undertakings will continue to apply in respect of 50 per cent. of their interests in Ordinary Shares and disposal of the remaining 50 per cent. shall be subject to certain orderly market arrangements, save in certain limited circumstances.

11.3 *Lock-in Deed*

A lock-in deed dated 19 May 2006, and made between the Company (1), the Controlling Shareholder (2), Max Start (3), Max Will (4), the Legacy Shareholders (5) and Evolution Securities (6) pursuant to which each of the Controlling Shareholder, Max Will and Max Start have undertaken to Evolution Securities and the Company that they will not (subject to certain exceptions) sell, transfer or otherwise dispose or agree to dispose of their interests in Ordinary Shares for the period from Admission to the later of the first anniversary of Admission and the date of publication of the Company's audited financial statements for the year ended 31 March 2007. For a further period ended on the date of publication of the Company's audited financial statements for the year ended 31 March 2008 such undertakings will continue to apply

in respect of 50 per cent. of their interests in Ordinary Shares and disposal of the remaining 50 per cent. shall be subject to certain orderly market arrangements. In addition, the Legacy Shareholders have undertaken to procure the compliance of the Controlling Shareholders, Max Start and Max Will with the terms of the agreement and not to dispose of their interests in those companies for the duration of the agreement (subject to certain limited exceptions).

11.4 *Share Exchange Deed*

A share exchange deed dated 18 May 2006 and made between the Controlling Shareholder (1) and the Company (2), pursuant to which the Company agreed to purchase the entire issued share capital of Pro-Rise in consideration for the allotment and issue to the existing shareholder of Pro-Rise or to their order of in aggregate 51,353,390 Ordinary Shares credited as fully paid.

11.5 *Relationship Deed*

A relationship deed dated 18 May 2006 between the Company (1), the Controlling Shareholder (2), Prosperity Materials (3), Max Start (4), Max Will (5), David Wong (6) and Ching Fong Hon (7) (the "Relationship Deed"), pursuant to which the Controlling Shareholder has undertaken to ensure that, following Admission, the Company and its subsidiaries will be capable at all times of carrying on business independently of the control of which the Controlling Shareholder would otherwise be able to exercise by virtue of its shareholding in the Company (further details of which are set out in paragraph 7.3 above) and that all transactions between the Controlling Shareholder, Prosperity Materials and any member of the Group will be carried out at arm's length and on a normal commercial basis. In particular, the Controlling Shareholder has undertaken that it will not seek to influence any director or non-executive director of any Group company in any way at any board meeting or otherwise in relation to the day to day operational or managerial control of the Company or any Group company. The Relationship Deed is conditional upon Admission becoming effective no later than 8.00 a.m. on 30 June 2006.

The agreement will terminate when the covenantors (not including Prosperity Materials) hold in aggregate together and with their associates less than 10 per cent. of the issued share capital of the Company. The Relationship Deed contains non compete provisions such that until the agreement is terminated due to the aggregate shareholding falling below 10 per cent., and for two years thereafter, the covenantors undertake not to:

11.5.1 carry on, directly or indirectly, or be engaged in the Core Activity (defined in the agreement as iron ore trading and production and sale of cement in PRC (specifically excluding for clarity the sale of cement and clinker by Prosperity International Holdings and Prosperity Materials, both of which export cement and clinker from the PRC), each as further described in this document; and

11.5.2 except as permitted under the agreement, acquire or hold a Relevant Interest (defined as means any direct or indirect interest in assets or shares including any interest in indebtedness of any undertaking) in any undertaking carrying on directly or indirectly or engaged in the Core Activity.

The following exceptions are carved out of the non compete provisions:

11.5.3 the covenantors or any of their associates shall not be prevented from acquiring or holding a Relevant Interest in any undertaking that is, directly or indirectly carrying on a Core Activity where:

- (a) the Relevant Interest is a direct or indirect holding (for investment purposes only) of not more than five per cent. in aggregate between the covenantors and their associates of the shares of a company listed on a recognised stock exchange provided that neither the covenantors nor any of their associates is directly or indirectly involved in the management of such company;

- (b) the covenantors or any of their associates acquires a Relevant Interest in an undertaking whose operations in the Core Activity are below a certain level provided such Relevant Interest is notified to the Company; or
- (c) where the Relevant Interest is and such opportunity is first offered to a member of the Group, and the relevant member of the Group informs the covenantors that a majority of the independent Directors have passed a resolution stating the Board's intention to forego the opportunity, provided that the terms of acquisition are no more favourable for such party(ies) than those which were offered to the Group.

11.6 *Transorient Supply Contract*

Prosperity Materials Macao Commercial Offshore Limited ("Prosperity Macao") and Transorient Ore Supplies Limited ("Transorient"), a representative of Kumba, entered an iron ore supply contract, dated 26 July 2005, which will commence from the start of the 2006 Iron Ore Year. The agreement is for the supply by Transorient and the purchase by Prosperity Macao of not less than 1.45 million mt of iron ore produced by Kumba Resources Limited until March 2012 (an ore year runs from 1 April to 31 March). Under the contract Transorient has indicated its intention to increase the guaranteed minimum quantities to Prosperity Macao subject to iron ore availability and the agreement of the parties during the term of the agreement. The quality of the ore is stated in the agreement, but the penalties for the ore not being the stated quality, the price, the method of weighing, the method of sampling and analysis, the payment method and the procedure for shipment are all determined on an annual basis by the parties signing an annual addendum. An addendum has not been signed for April 2006 to March 2007 and this will not be done until the global price fixing for this year has been decided. At the date of this document and in the meantime these matters are being dealt with on an order by order basis. Prosperity Macao guarantees the ore will be delivered to and utilised exclusively by Ma An Shan. Iron and Steel Works and Nanjing Iron and Steel Works, both in PRC although from time to time other end users may be agreed with the supplier.

11.7 *Midwest Supply Contract*

Midwest Corporation Limited ("Midwest") entered an iron ore supply contract dated 2 September 2004, for the supply by Midwest and the purchase by the Group of a guaranteed minimum annual tonnage of 1 million dry mt of Midwest Fine Ore until March 2007 (an ore year runs from 1 April to 31 March). By a letter dated 13 April 2006 it was agreed to reduce the amount supplied under this agreement for the year April 2006 to March 2007 to 500,000 dry mt. The quality of the ore, penalties for the ore not being the stated quality, the method for calculating the price, the method of weighing, the method of sampling and analysis, the payment method and the procedure for shipment are all stated in the agreement.

There is also a provision for an annual review pursuant to which the parties review and (a) agree the ore price published in the Tex report; (b) establish the timing and tonnage mix for the next contract year; (c) recalculate the demurrage and despatch rates; and (d) recalculate the rebate or premium used in the calculation of the price. Ore pricing for the current year has been agreed between the parties as the Yandi Benchmark, however as with the other global iron ore mechanisms, this has not yet been fixed, therefore an addendum has not been signed for April 2006 to March 2007 at the date of this document. The end-user is specified as Liyang Xingang Steel Making Co. Limited or as agreed between the buyer and the seller. David Wong is a 50 per cent. shareholder in, and director of, Liyang Xingang Steel Making Co. Limited.

11.8 *Conch Cement Joint Venture*

11.8.1 *Conch Cement JV Agreement*

Prosperity Minerals (International) Limited entered into the joint venture agreement with Anhui Conch and Anhui Huaining Conch Cement Company Limited (together "Anhui") (the "Conch Cement JV Agreement") on 18 December 2005. Prior to the execution of the Conch Cement JV Agreement, Prosperity Conch Cement was owned 92 per cent. by Anhui Conch and

8 per cent. by Anhui Huaining Conch Cement Company Limited. Pursuant to the Conch Cement JV Agreement, Anhui and Prosperity Minerals (International) Limited agreed to increase the share capital of Prosperity Conch Cement to RMB580 million (approximately £38.6 million) by subscribing for equity, such subscription being subject to governmental approval for conversion of the company into a sino-foreign equity joint venture company. Following the completion of share registration on 13 April 2006, Prosperity Minerals (International) Limited now holds 25 per cent. of the equity in Prosperity Conch Cement and the remaining 75 per cent. is held by Anhui. Pursuant to an amendment, Anhui and Prosperity Minerals (International) Limited were required to have contributed 35 per cent. of their respective equity contributions before 15 May 2006, it was subsequently agreed by the parties that the 35 per cent. payment would be paid shortly following Admission with the remainder to be paid by the respective parties by June 2007. Prosperity Minerals (International) Limited's total equity contribution will be RMB145 million.

The Conch Cement JV Agreement includes terms governing board composition, management and the transfer of a party's interest in Prosperity Conch Cement. The term of Prosperity Conch Cement's operation is 25 years, but this can be extended by agreement of all parties and may be terminated early with the consent of all parties or if a party transfers its interest without approval.

11.8.2 *Equity increase agreement*

An agreement between Anhui Conch, Anhui Huaining Conch Cement Company Limited and Prosperity Minerals (International) Limited dated 18 December 2005 which reiterates the equity contributions required under the Conch Cement JV Agreement and stating that prior to the execution of the agreement Prosperity Conch Cement was owned 92 per cent. held by Anhui Conch and 8 per cent. by Anhui Huaining Conch Cement Company Limited. Pursuant to the agreement Anhui and Prosperity Minerals (International) Limited agreed to increase the share capital to RMB580 million by Anhui Conch contributing RMB73.18 million (approximately £4.9 million) giving it a 70 per cent. interest; Prosperity Minerals (International) Limited contributing RMB145 million (approximately £10 million), giving it a 25 per cent. interest; leaving Anhui Huaining Conch Cement Company Limited with a 5 per cent. interest.

11.9 *Yingde Dragon Mountain Share Transfer Agreements*

Prosperity Cement entered into a share transfer agreement on 25 January 2006 (the "Share Transfer Agreement"), with Prosperity Materials pursuant to which Prosperity Materials agreed to transfer its 25 per cent. equity interest in Yingde Dragon Mountain to Prosperity Cement. Prosperity Materials and Prosperity Cement agreed that the consideration payable by Prosperity Cement would be £25,000,000, which will be funded from the proceeds of the Placing. Such amount represented a premium to the cost price of the shares of US\$14.2 million set out in the Share Transfer Agreement. The Share Transfer Agreement came into effect on 14 March 2006 following receipt of the necessary government approval and the transfer of shares was registered and a new business licence was issued to Yingde Dragon Mountain on 13 April 2006 reflecting its status as a wholly foreign owned company. Upon completion of the registration of the share transfer pursuant to this agreement, Prosperity Cement acquired all the rights, powers and obligations of Prosperity Materials under a joint venture agreement made between Prosperity Materials, Shanghai Aijian Trust and Investment Company Limited and Ningbo City Jingang Trust and Investment Company Limited, dated 22 October 2004, in respect of the Yingde Dragon Mountain (the "Dragon Mountain Cement JV Agreement"). All equity contributions in respect of the 25 per cent. interest in Yingde Dragon Mountain had been paid by Prosperity Materials prior to the transfer of its interest to Prosperity Cement.

Prosperity Cement entered into a share transfer agreement on 25 February 2006 (the "Share Transfer Agreement") with Shanghai Aijian Trust and Investment Company Limited ("Shanghai Aijian") and Ningbo City Jingang Trust and Investment Company Limited ("Ningbo City") pursuant to which Shanghai Aijian and Ningbo City agreed to transfer their aggregate 75 per cent. equity interest in Yingde Dragon Mountain to Prosperity Cement for RMB 642,165,000 to be paid within 3 months of receipt of government approval to the share transfer, i.e. by 13 June 2006. The Share Transfer

Agreement came into effect following receipt of the necessary government approval when the transfer of shares was registered. Upon completion of the registration of the share transfer pursuant to this agreement, Prosperity Cement acquired all the rights, powers and obligations of Shanghai Aijian and Ningbo City. All equity contributions in respect of the 75 per cent. interest in Yingde Dragon Mountain had been paid by Shanghai Aijian and Ningbo City prior to the transfer of their interests to Prosperity Cement.

The term of the Yingde Dragon Mountain's operation is 25 years, but this can be extended and may be terminated early.

11.10 *Conch Registered Trademark Licence Agreement*

By an agreement dated 11 October 2004 between Anhui Conch and Yingde Dragon Mountain, Anhui Conch granted Yingde Dragon Mountain a licence to use the Conch trademark from the date of the agreement until 9 June 2009 in consideration for RMB 0.5 per ton of cement, payable every six months. Under the agreement Yingde Dragon Mountain agreed to implement strict quality control measures to ensure its products complied with certain standards.

11.11 *Management Agreement*

An agreement dated 18 May 2006 between Anhui Conch and the Company, pursuant to which Anhui Conch agrees to provide Yingde Dragon Mountain for a period of three years from the date of the agreement (with an option to extend for a further three years at either Anhui Conch's or the Company's election) management consultation services and all necessary business contact in consideration for 0.1 per cent. of the annual sales income of Yingde Dragon Mountain, payable monthly. The terms of the management agreement include: organisation of daily equipment maintenance; daily control for cement and clinker produced to ensure it complies with applicable laws and regulations; sourcing raw materials and storage of the same; monthly marketing and sales planning; consultation for upgrading technology and machinery used in the cement project. There is also an option for Yingde Dragon Mountain to renew the trademark licence granted by Anhui Conch under the trademark licence agreement described in paragraph 11.10 above when it expires.

11.12 *Cement Sales Agreement*

An agreement dated 18 May 2006 between Prosperity Conch Cement and Yingde Dragon Mountain pursuant to which the parties agree to set up joint sales and raw material supply teams and to have site management meetings on a monthly basis to review the joint sales, raw material supply and general site maintenance. The agreement is for a period of three years from the date of the agreement and can be renewed for a further three years.

11.13 *Advisory Services contract with The Capital Market Allied Limited*

By an agreement dated 25 April 2006 between The Capital Market Allied Limited (of which Sandy Chun-Kwan Chim is a director and shareholder) and the Company, the Company has, conditional on Admission, agreed to pay The Capital Market Allied Limited an advisory fee of 1 per cent. of the gross cash proceeds of the Placing plus expenses of £350,000 in consideration for certain advisory services provided and to be provided to the Company in connection with Admission. In addition, The Capital Market Allied Limited has received 675,676 Ordinary Shares from the Controlling Shareholder.

12 **Taxation**

The statements below are intended only as a general guide to the tax position of Shareholders under current UK and Jersey law and practice and are subject to any changes therein. They do not cover all tax matters that may be important to a particular investor. **If you are in any doubt about your tax position you should consult your own professional adviser.**

12.1 *UK taxation*

The information below, which relates only to UK taxation, is applicable to the Company and to persons who are both domiciled and resident or ordinarily resident in the UK for taxation purposes

and who will hold the absolute beneficial title to shares in the Company as an investment. It is based on current UK tax law and what is understood to be current HM Revenue and Customs published practice, which law or practice is, in principle, subject to change possibly with retrospective effect.

12.1.1 *The Company*

The Directors intend that the Company will be managed and controlled in such a way that it should not be resident in the UK for UK tax purposes. Accordingly, and provided that the Company does not carry on a trade in the UK (whether or not through a branch or agency situated there) the Company will not be subject to UK income tax or corporation tax other than on any UK source income.

12.1.2 *Shareholders*

(a) *Income*

UK resident Shareholders will be liable to income tax on the gross amount of any dividends received. Higher rate individual taxpayers will be liable to income tax at 32.5 per cent. and other individual taxpayers at 10 per cent. Since the Company will not be UK resident there will be no tax credit in respect of the dividends. UK resident corporate Shareholders will be liable to corporation tax in respect of any dividends received from the Company. Under current Jersey law, when the Company pays dividends to UK resident Shareholders, it is neither entitled nor required to withhold any amount on account of tax.

(b) *Capital gains*

Shareholders (other than those holding Ordinary Shares as dealing stock, who are subject to separate rules) who are resident or ordinarily resident in the UK, or who carry on a trade, profession or vocation in the UK through a branch or agency (or in the case of a company, a permanent establishment) with which their investment in the Company is connected may, depending on their circumstances and subject to any available exemptions or reliefs, be liable to UK tax on capital gains realised on the disposal of their Ordinary Shares. For individual Shareholders who are resident or ordinarily resident in the UK and who are employees of the Company, business asset taper relief may be available to reduce the taxable gains, and for those Shareholders who are not employees of the Company, non-business asset taper relief may be available to reduce the taxable gains. The amount of the taper relief reduction will depend upon how long, measured in complete years, the Ordinary Shares have been held. Corporate Shareholders who are resident in the UK for taxation purposes will benefit from indexation allowance which, in general terms, increases the capital gains tax base cost of an asset in accordance with the rise in the retail prices index. Indexation allowance may operate to reduce a chargeable gain, but not so as to create an allowable loss.

12.1.3 *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

As the Company is not incorporated in the UK and the register of Shareholders will at all times be kept offshore, no SDRT will be payable on an agreement to transfer Ordinary Shares. Instruments transferring Ordinary Shares will not be within the scope of UK stamp duty provided that no such instrument of transfer is executed in the UK and any instrument of transfer which is executed outside the UK does not relate to any property situated, or to any matter or thing done or to be done, in the UK.

12.1.4 *Individual Savings Accounts (ISAs) and Personal Equity Plans (PEPs)*

Ordinary Shares in the Company will be eligible to be held in the stocks and shares component of an ISA or an existing PEP, as the Ordinary Shares in the Company will be listed on a recognised stock exchange.

12.1.5 Other UK tax considerations

Investors should be aware that if the Company is controlled by persons who are resident in the UK or, in certain circumstances, where a UK resident has at least a 40 per cent. interest, the Company will be a “controlled foreign company” for the purpose of Chapter IV Part XVII of the Income and Corporation Taxes Act 1988 (“ICTA”). If the Company or its subsidiaries become controlled foreign companies, any UK resident company which, either alone or together with connected or associated persons, holds 25 per cent. or more of the share capital of the Company (or Ordinary Shares which entitle it to 25 per cent. or more of the income of the Company) may, subject to various exemptions which may apply, be assessed to corporation tax in respect of the profits of the Company or its subsidiaries which are attributable to such investor’s interest in the Company.

Individuals ordinarily resident in the UK should note that Chapter III of Part XVII of ICTA, which contains provisions for preventing the avoidance of income tax by transactions resulting in the transfer of income to persons (including companies) abroad, may render them liable to taxation in respect of any undistributed income and profits of the Company to the extent that such income or profits relate to their respective Shares in the Company. However, this section will not apply where such transactions are entered into for *bona fide* commercial reasons.

It is possible that the Company would, following the Placing, be a close company if it were resident in the UK. As a result, certain transactions entered into by the Company or other members of the Group may have tax implications for holders of Ordinary Shares. Shareholders should consult their own professional advisers on the potential impact of the close company rules.

12.2 Jersey taxation

The following summary of the anticipated tax treatment in Jersey in relation to the payments on the Ordinary Shares is based on the taxation law and practice in force at the date of this document, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Please also note the specific reference to prospective changes of the Jersey tax system in paragraph 12.2.3 below. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Ordinary Shares and the receipt of distributions, whether or not on a winding-up, with respect to the Ordinary Shares under the laws of the jurisdictions in which they may be taxed.

The Company is an “exempt company” within the meaning of Article 123A of the Income Tax (Jersey) Law, 1961, as amended, for the calendar year ending December 31, 2006. The Company is required to pay an annual exempt company charge, which is currently £600, in respect of each subsequent calendar year during which it wishes to continue to have “exempt company” status. The retention of “exempt company” status is conditional upon the Comptroller of Income Tax being satisfied that no Jersey resident has a beneficial interest in the Company except as permitted by published concessions granted by the Comptroller from time to time. By concession, the holding of ordinary shares by a Jersey resident in an exempt company, the shares of which are traded on a recognised stock exchange, is not regarded as a beneficial interest, provided that the holding is *de minimis* or clearance has been obtained from the Comptroller.

The Comptroller of Income Tax has indicated that a holding by Jersey residents of less than 10 per cent. of the share capital of a company shall be treated as *de minimis*.

As an “exempt company” the Company is not liable for Jersey income tax other than on Jersey source income, except by concession bank deposit interest on Jersey bank accounts. For so long as the Company is an “exempt company”, payments in respect of the Ordinary Shares will not be subject to any taxation in Jersey, unless the Shareholder is resident in Jersey, and no withholding in respect of taxation will be required on those payments to any holder of the Ordinary Shares as a matter of Jersey law.

12.2.1 *Taxation of dividends*

Dividends are declared in US Dollars and paid gross in Sterling, with an option for Shareholders to receive payments in US Dollars.

12.2.2 *Taxation of capital gains and estate and gift tax*

Under current Jersey law, there are no death or estate duties, capital gains, gift, wealth, inheritance or capital transfer taxes. No stamp duty is levied in Jersey on the issue or transfer of Ordinary Shares. In the event of the death of an individual sole Shareholder, duty at rates of up to 0.75 per cent. of the value of the Ordinary Shares held may be payable on the registration of Jersey probate or letters of administration which may be required in order to transfer or otherwise deal with Ordinary Shares held by the deceased individual sole Shareholder.

12.2.3 *EU Code of Conduct on Business Taxation*

On 3 June 2003, the European Union Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business taxation. Jersey is not a member of the European Union, however, in keeping with its policy of constructive international engagement, Jersey intends to propose legislation to replace the exempt company regime by the end of 2008 with a general zero rate of corporate tax with effect from January 2009.

Any person who is in any doubt as to his tax position or who is resident, or otherwise subject to taxation, in a jurisdiction other than the UK or Jersey, should consult his professional adviser.

In particular, as this document does not include any information with respect to US taxation, Prospective investors who may be subject to tax in the United States are urged to consult their tax adviser regarding the U.S. federal, state, local and other tax consequences of owning and disposing of the Placing Shares.

13 United States Transfer Restrictions

The Placing Shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Placing Shares are being offered in the United States only to QIBs in reliance on the “private placement” exemption under Section 4(2) of the Securities Act and outside the United States in accordance with Regulation S under the Securities Act (“Regulation S”). Consequently, the Placing Shares offered and sold in the United States are subject to certain restrictions on transfer unless conducted in compliance with the Securities Act and the Placing Shares (to the extent they are issued in certificated form) will bear legends with respect to such transfer restrictions. Placees acquiring Placing Shares in reliance on the “private placement” exemption will be required to execute an investor letter in a form satisfactory to the Company and Evolution Securities. In addition, such purchasers and subsequent purchasers of their Placing Shares will be deemed to have agreed to be bound by the transfer restrictions and to have agreed not to effect transfers of the Placing Shares except to transferees who also agree to be bound by the restrictions, so long as the restrictions continue to apply. Placees purchasing pursuant to the “private placement” exemption under Section 4(2) should consult with their legal advisers regarding these restrictions and the form of investor letter provided by the Company and Evolution Securities.

14 Litigation

Neither the Company nor any member of the Group is or has been engaged in, or is currently engaged in, any litigation or arbitration proceedings, whether as claimant or defendant, which is having or may have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Group and, so far as the Directors are aware, there are no such proceedings pending or threatened against, or brought by, the Company or any other member of the Group.

15 Working capital

In the opinion of the Directors, having made due and careful enquiry taking account of the estimated net proceeds to the Company of the Placing, the working capital available to the Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of Admission.

16 Financial Reporting Procedures

The Directors have established and implemented financial reporting controls and corporate governance guidelines which provide a reasonable basis for them to make proper judgments as to the financial position and prospects of the Group. The Directors intend to maintain such procedures following Admission.

17 Consents

- 17.1 KPMG LLP of 8 Salisbury Square, London, EC4Y 8BB, United Kingdom has given and not withdrawn its written consent to the inclusion in this document of its name, report and the references to it in the form and context in which they appear and has accepted responsibility for its reports set out in Part III of this document for the purposes of paragraph (a) of Schedule Two of the AIM Rules.
- 17.2 Evolution Securities Limited of 100 Wood Street, London EC2V 7AN, United Kingdom has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- 17.3 Nanjing Iron and Steel Group International Trade Co., Ltd (南京鋼鐵集團有限公司) of Block B, 16F, 2-2 Huangpu Road, Nanjing 210016, the PRC has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.4 China National Building Materials and Equipment Import and Export Corporation (中建材集團進出口公司) of 5/F, Longbo Building, No. 3 Nanlishi Rd., Xichen District, Beijing, the PRC has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.5 CVRD of Avenida Graça Aranha no. 26 Rio de Janeiro, Brazil has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.6 Transorient Ore Supplies Limited of 1921, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.7 Kumba Hong Kong Limited of 1901, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.8 Midwest Corporation Limited of Suite 2, 1st Floor, 32 Kings Park Road, West Perth WA 6005, Australia has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.9 Anhui Conch Cement Company Limited of Wuhu City, Anhui Province, the PRC has given and not withdrawn its written consent to the inclusion in this document of its name and the names of Anhui Huaining Conch Cement Company Limited and Prosperity Conch Cement Company Limited in the form and context in which they appear.
- 17.10 Shanghai Aijian Trust and Investment Company Limited of 16th Floor, No. 1389, Jin Qiao Road, Shanghai, the PRC has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- 17.11 Ningbo City Jingang Trust and Investment Company Limited of 11th Floor, No. 51, Yang Shan Road, Jian Bei District, Ningbo City, the PRC has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.

18 Significant change

- 18.1 Save as disclosed in this document there has been no significant change in the financial or trading position of the Group since 31 March 2006, being the end of the period to which the latest audited accounts of the Group relate.
- 18.2 Save as disclosed in this document there has been no significant change in the financial or trading position of Yingde Dragon Mountain since 31 December 2005, being the end of the period to which the latest audited accounts of Yingde Dragon Mountain relate.

19 General

- 19.1 Mr W.K. Ho arranged to introduce the Group to a major international bank. To make this introduction he was paid HK\$400,000 once the trade finance facility for in excess of US\$5 million was granted by the bank to Prosperity Macao. The letter agreement was dated 24 March 2005.
- 19.2 Prosperity Minerals Limited currently leases office space from (i) Prosperity Materials (a related party for the purposes of the AIM Rules) pursuant to a lease agreement for a term of two years from 1 July 2005 to 30 June 2007 at a monthly rate of HK\$21,200; and (ii) Bliss Hero Investments Limited (a related party for the purposes of the AIM Rules) pursuant to a lease agreement for a term of one year from 1 July 2005 to 30 June 2006 at a monthly rate of HK\$8,000.
- 19.3 Save as disclosed in this document, no person (other than professional advisers named in this document and trade suppliers) has:
- 19.3.1 received, directly or indirectly, from the Company within the 12 months preceding the application for Admission; or
- 19.3.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission, any of the following:
- (a) fees totalling £10,000 or more;
 - (b) securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
 - (c) any other benefit with the value of £10,000 or more at the date of Admission.
- 19.4 The total costs and expenses of the Placing, which are payable by the Company, are estimated to amount to £10 million (excluding VAT), out of which Evolution Securities will receive a commission of approximately £5.75 million in respect of the Placing. Accordingly, the net proceeds of the Placing, (assuming full subscription and after deduction of expenses, but excluding the commission payable to Evolution Securities) are estimated at £110.75 million.
- 19.5 The Placing Price is 148p, of which 147p represents a premium over the nominal value of 1p per Ordinary Share.
- 19.6 The financial information set out in Part III of this document does not amount to statutory accounts within the meaning of Article 102 of the Law and no such accounts have been prepared for the Company since its incorporation.
- 19.7 The accounting reference date of the Company is 31 March.
- 19.8 The Ordinary Shares are not currently admitted to dealings on a recognised investment exchange and, other than the Company's application for the Ordinary Shares, both issued and to be issued under the Placing, to be admitted to trading on AIM, no application for such admission has been made.
- 19.9 The Directors have applied for the Ordinary Shares to be issued at Admission to be admitted to CREST. Accordingly, it is expected that the Ordinary Shares will be enabled for settlement in CREST following Admission. Temporary documents of title will not be issued and pending despatch of share certificates or crediting through CREST, transfers will be certified against the share register. It is expected that share certificates will be dispatched within 10 business days of Admission.

- 19.10 KPMG LLP of 8 Salisbury Square, London EC4Y 8BB (a member of the Institute of Chartered Accountants in England and Wales) were the auditors of the Company for the period covered by the financial information in Part III (A) of this document. No auditors of the Company have resigned, been removed, or not been reappointed during the period covered by the financial information in Part III (A).
- 19.11 KPMG of 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong SAR (a member of the Hong Kong Institute of Certified Public Accountants) were the auditors of the Pro-Rise Group for the period covered by the financial information in Part III (B) of this document. No auditors of the Pro-Rise Group have resigned, been removed, or not been reappointed during the period covered by the financial information in Part III (B).
- 19.12 Deloitte Touche Tohmatsu of 26/F Wing On Centre, 111 Connaught Road, Central, Hong Kong SAR (a member of the Hong Kong Institute of Certified Public Accountants) were the auditors of the Group for the period covered by the financial information in Part III (C) of this document. No auditors of the Group have resigned, been removed, or not been reappointed during the period covered by the financial information in Part III (C) of this document.
- 19.13 Save as disclosed below and in paragraph 11.10 of this Part V, the Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business:

	<i>Yingde Dragon Mountain</i>	<i>Prosperity Conch Cement</i>
Mining Licence	Granted: 1 December 2003 Term: 20 years Exclusive right to mine limestone at Long Wei Hill, Yingde City for the production of cement Annual capacity: 7.2 million mt Area: 1,961,500m ² Surface cannon: RMB 3 per mt limestone (natural resources tax)	Application made on 23 November 2005. Qingyuan Municipal Government recommended its approval on 27 December 2005 to the Guangdong Provincial State Land and Resources Bureau, which is currently reviewing the application Expected to be received in the next few months
Safety Mining Certificate	Granted: 15 July 2003 Term: 25 years	In the process of application, expected to be received in the next few months
Cement Production Licence	Granted: 1 September 2005 Term: 31 August 2010 Renewable at the end of this term	To be applied for when Lines 1, 2 & 3 have passed the environmental inspections
Land Use Rights	Exclusive right to use the land that the plant is on until January 2056 for industrial purposes	Exclusive right to use the land that the plant is on until January 2056 for industrial purposes
Environmental	Lines 1 & 2: Inspection completed and confirmation received 28 March 2005 Line 3: Initial approval received 26 July 2004, inspection scheduled in May/June 2006. Line 3 was granted a Trial Production Licence by Guangdong Provincial Environmental Protection Bureau on 19 October 2005. The Trial Production Licence does not have a time limit. The trial production may be terminated if the Line does not pass on the inspection in the next few months	Lines 1 & 2: Initial approval received 23 May 2005 Lines 3 & 4: Initial approval received 21 September 2005 Lines 1,2 & 3: Inspection commenced 25 March 2006, not yet completed Line 4: Inspection to be commenced when line is completed Line 1 was granted a Trial Production Licence by Guangdong Provincial Environmental Protection Bureau on 2 December 2005. The Trial Production Licence does not have a time limit. The trial production may be terminated if the Line does not pass the going inspection

20 Documents Available for Inspection

Copies of this document containing full details about the Company and the Admission of the Ordinary Shares to AIM will be available to the public free of charge from the registered office of the Company and from the offices of Evolution Securities, at 100 Wood Street, London EC2V 7AN, United Kingdom during normal business hours on any weekday, weekends and public holidays excepted, from the date of this document until the date one month following Admission.

19 May 2006