



# Prosperity Minerals Holdings Limited

(Incorporated in JERSEY with limited liability)  
Stock code: PMHL.L

## Annual Report 2007



# Prosperity Minerals Holdings Limited

Annual Report 2007



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## Highlights

The Group operates a cement manufacturing business in the People's Republic of China (PRC) and an iron ore trading business serving the same market.

All financials are expressed in US dollars, unless otherwise stated, with volumes in metric tons or tonnes.

Shares in Prosperity Minerals Holdings Limited are traded on the AIM Market of the London Stock Exchange under ticker code PMHL.L.

### 2007 HIGHLIGHTS

\$ million	2007	2006	% change
Revenue	<b>331.3</b>	226.4	46
EBITDA	<b>56.3</b>	35.3	59
Operating profit	<b>40.9</b>	35.3	16
Profit before tax	<b>45.9</b>	33.6	37
<i>Cents</i>			
Basic earning per share	<b>37.4</b>	65.4	-43
Dividend per share (including proposed final dividend)	<b>18.0</b>	70.0	-75
NAV per share	<b>177.0</b>	9.6	1,744
<i>Times (x)</i>			
Dividend cover (including proposed final dividend)	<b>2.1</b>	0.9	133
Dividend cover (excluding proposed final dividend)	<b>5.7</b>	0.9	533
EBITDA interest cover	<b>9.8</b>	19.5	-50
EBIT interest cover	<b>8.4</b>	19.5	-57
<i>Ratios</i>			
Operating margin (%)	<b>12.4%</b>	15.6%	-21
ROCE (%)	<b>19%</b>	714.4%	-97
Quick ratio	<b>1.03</b>	1.22	-16

## Corporate Information

### BOARD OF DIRECTORS

*Chairman and Chief Executive Officer*

(David) Ben Koon WONG\*

\* Mr Ben Koon Wong, is commonly known as David Wong, and is referred to as such throughout this document.

*Chief Financial Officer*

Patrick Siu Ming LI

*Executive Director*

Jian Ping WU

Johannes Petrus MULDER

*Non-Executive Director*

John Campbell ROBERTSON

Anthony John WILLIAMS

Sandy Chun-Kwan CHIM

Ben Ren LIU

Michael Kim Hung YUEN

Yu Lin ZHAO

The business address of each of the Directors is Suites 1801-6, 18/F., Tower 2, The Gateway, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong SAR

### REGISTERED OFFICE

Whiteley Chambers

Don Street

St Helier

Jersey JE4 9WG

Channel Islands

### BUSINESS ADDRESS

Suites 1801-6, 18/F., Tower 2, The Gateway, 25 Canton Road, Tsim Sha Tsui, 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

### LEGAL ADVISERS TO THE COMPANY AS TO ENGLISH LAW

Norton Rose

3 More London Riverside

London SE1 2AQ

United Kingdom

### LEGAL ADVISERS TO THE COMPANY AS TO JERSEY LAW

Ogier

Whiteley Chambers

Don Street

St Helier

Jersey JE4 9WG

Channel Islands

### LEGAL ADVISERS TO THE COMPANY AS TO PRC LAW

Sino-West Law Associates

31/F., Tower 1, Dongjun Plaza

836 Dongfeng Road East

Guangzhou 510080

PRC

### AUDITORS

KPMG

8/F Prince's Building

10 Chater Road

Central

Hong Kong SAR

### REGISTRARS

Computershare Investor Services

(Channel Islands) Limited

Ordnance House

31 Pier Road

St Helier

Jersey JE4 8PW

Channel Islands

## Corporate Information

### PUBLIC RELATIONS

Citigate Dewe Rogerson  
3 London Wall Buildings  
London Wall  
London EC2M 5SY  
United Kingdom

### PRINCIPAL BANKERS

Industrial and Commercial Bank of China  
(Asia) Limited  
34/F ICBC Tower  
3 Garden Road, Central  
Hong Kong SAR

Hang Seng Bank Limited  
83 Des Voeux Road, Central  
Hong Kong SAR

Fortis Bank Hong Kong Branch  
Fortis Bank Tower  
77-79 Gloucester Road  
Hong Kong SAR

Australia and New Zealand Banking Group Limited  
Hong Kong Branch  
31/F One Exchange Square  
8 Connaught Place, Central  
Hong Kong SAR

Rabobank International Hong Kong Branch  
43/F Two Exchange Square  
8 Connaught Place, Central  
Hong Kong SAR

Taishin International Bank Hong Kong Branch  
15/F Tower II  
Admiralty Centre  
18 Harcourt Road  
Hong Kong SAR

United Overseas Bank Group Hong Kong Branch  
25/F Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong SAR

CITIC Ka Wah Bank Macau Branch  
Unit B, 31/F Bank of China Building  
No. 323 Avenida Doutor Mario Soares  
Macau SAR

Citic Bank Shang Bu Sub-Branch, Shenzhen Branch  
Shenzhen City  
The People's Republic of China

China Merchant Bank, Shenzhen Branch  
Shenzhen City  
The People's Republic of China

## Chairman's Statement



Mr. David Ben Koon Wong  
*Chairman*

For more than 30 years I have traded building materials in Asia and, particularly, in the People's Republic of China (PRC); and the first thing you realise is the criticality of these resources to developing economies. You also learn to appreciate the importance of quality, the need for continuity of supply and the contribution of well organised logistics. Creating and fostering long term relationships, based on trust, is a further vital ingredient which, in my view, is just as important as

paying and being paid on time. Similarly, seeking to be a good and responsible citizen is both, a fundamental aim and one which serves to enhance and sustain the business over time.

The two core building materials are cement and iron ore from which concrete and steel are made. Prosperity is involved in both manufacturing in the case of cement and trading in and supply of iron ore to major steel mills in the PRC.

## Chairman's Statement

Cement manufacturing is a new activity for Prosperity and as a company we are now entering our second year of ownership. In April 2006, we acquired 100% of Yingde Dragon Mountain Cement Company Limited (YDM) and 25% of Prosperity Conch Cement Company Limited (PCC) – both brand new facilities which employ modern suspension pre-heater dry processing. The design capacity of the clinker\* and cement plant at YDM is 5.9 million tonnes per annum, while at PCC it is 7.9 million tonnes per annum. PCC is a joint venture with Anhui Conch Cement Company Limited (Anhui Conch), which is the largest cement manufacturer in the PRC and listed on both the Hong Kong and Shanghai Stock Exchanges. As an indication of the scale of the operations, these facilities on their own could supply the UK with all its annual requirements for cement and have significant capacity to spare (demand came to 11.3 million tonnes last year according to estimates from Euroconstruct).

Both YDM and PCC are based in the Guangdong Province (formerly known as the 'Canton Province' in the English speaking world) in the south of the country. In fiscal 2007, YDM sold 3.0 million tonnes of cement and 2.7 million tonnes of clinker, while PCC which was commissioned during the year sold 1.8 million tonnes of cement and 4.5 million tonnes of clinker.

In addition, Prosperity has recently finalised an expansion of its operations into the key geographical area of Anhui Province in the central PRC through the acquisition of a 40% interest in Anhui Chaodong Cement Company

Limited (Chaodong) a public company listed on the Shanghai Stock Exchange. This 40% interest shall be diluted to 33.06% after the completion of a share reform passed at a meeting of the Chaodong shareholders held in May 2007. Details of Chaodong are given in the Management Review and Analysis which follows.



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



Prosperity's iron ore trading business opened for business in 1992 when I began sourcing the product from Brazil, South Africa and Australia; and I signed my first long term supply contract, in the same year, with a representative company of Kumba

### Footnote

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

## Chairman's Statement

Resources, the South African minerals giant. In early 2006, we commenced importing modest quantities (approximately 10% of our shipments) of iron ore from Thailand, which is a lot closer to the PRC than the more traditional export nations giving us a very significant advantage on our spot selling price due to substantially lower freight costs. For the year ended 31 March 2007, our total shipments from all sources amounted to 3.2 million tonnes.

### 2006-07 PERFORMANCE

Prosperity's shares were admitted to trading on the AIM market of the London Stock Exchange in May of last year and I am delighted to present, this, its first set of annual results as a listed company.

In the 12 months ended 31 March 2007, Prosperity generated profit before tax of \$45.9 million, which reflects a 37% increase. The Board regards this as a very satisfactory set of results, which were achieved despite a weather-affected first half and difficult trading conditions in July and August, in particular, for iron ore. There are no comparatives for the cement businesses but iron ore did see a sharp fall in both operating profits and margins year on year. This situation improved in the second half of the year and in the new fiscal year to date. Details of the individual performance of each Division are given in the Management Review and Analysis which follows.

A maiden final dividend of 12 cents per ordinary share has been recommended by the Board. If approved by the Annual General Meeting on 25 July 2007 this will, together with the first-ever interim dividend of 6 cents per ordinary share (already paid on 24 January 2007), result in a total dividend of 18 cents per ordinary share for the year.

Turning to the key area of cash, EBITDA (earnings before interest, taxes, depreciation and amortisation) is a proxy for cash flow. In the year it amounted to \$56.3 million, up from \$35.3 million in fiscal 2006. What is more, net interest payments were covered 9.8 times by EBITDA (2006: \$19.5 times). Net assets at 31 March 2007 amounted to \$208.1 million (2006: \$4.9 million), while net debt, defined as total borrowings net of cash, was \$37.7 million (2006: \$11.4 million).

### CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance with the objective of building the long-term interests of the Group and maximising returns to shareholders and stakeholders. Our move from a private to a publicly traded company required certain board adjustments in order to comply with corporate governance best practice. The appointment of five independent non-executive directors and one non-executive director bring to the Group a wealth of knowledge on AIM and growth businesses, UK corporate governance, iron ore market and cement operations. They are making valuable contributions to the growth of the Group. I very much appreciate their involvement and wish to thank them all for their efforts.

### BOARD CHANGES

Immediately prior to the year end, we were pleased to announce the appointment of a new Executive Director in Johannes Petrus Mulder; which became effective on 1 April 2007. Mr Mulder joins us from Exxaro Resources Limited (formerly Kumba Resources Limited or Kumba Resources) where he worked as a General Manager and then Manager of Business Development in South Africa. Mr Mulder

## Chairman's Statement

also held senior positions in Kumba Resources itself including Chief Representative of Kumba Resources in Beijing (1997-2002) and a Director and General Manager of Kumba Hong Kong Ltd (2003-2006) and Kumba Hongye Zinc Company. The Board believes he will be of great assistance to our iron ore trading business. At the same time, but in an unrelated move, Michael James Allen stepped down from the Prosperity Board but he remains with the Company as its geologist.

### OUR PEOPLE

The achievements in the year and the foundation which has been laid for the future could not have been made without the people who work every day for Prosperity; and their number is nearly 900. When I read other companies' annual reports, I often feel that votes of thanks can appear platitudinous or even condescending. I am, thus, at pains here to underline my sincerest gratitude to the Directors, management and staff of Prosperity for their hard work throughout the year; and I look forward to meeting as many as I can during the current year.

### SHAREHOLDERS

I would also like to record my thanks to our new external, mostly European-based, shareholders for their support during the year.

### PROSPECTS

Prosperity serves one market, the PRC, which is now the World's fourth largest economy (behind the US, Japan and Germany). It is also the largest consumer of both cement and iron ore, as I mentioned earlier. The nation's GDP is also growing at a double digit rate and although this may slow moderately from current levels, due to PRC

Government fiscal and monetary policy, it is still expected to remain robust.

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

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

**David Ben Koon Wong**  
*Chairman & CEO*

26 June 2007

## Management Review and Analysis



### Financial performance

#### – Profit and Loss Account

The Company completed its cement acquisitions with the purchase of 100% of YDM and 25% of PCC – on an adjacent plant-in the middle of 2006, funded from the proceeds of its initial public offering. The profit and loss account for the reporting period included the maiden results of these new cement business units since acquisition.

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

EBITDA was \$56.3 million for the year (2006: \$35.3 million) and included other operating income of \$5.3 million (2006: \$2.7 million), which originated from both cement and iron ore businesses; in 2006 it came from demurrage income from the iron ore business.

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

Interest expenses were \$5.7 million, up from \$1.8 million in 2006. Interest was covered 9.7 times (2006: 19.6 times) by operating profit; and 9.8 times (2006: 19.5 times) by EBITDA. Net finance costs were \$2.2 million in 2007 (2006: \$1.7 million) including an exchange gain of \$1.9 million (2006: exchange loss of \$22,000).

## Management Review and Analysis

The Company's share of associate company profits—i.e. 25% of PCC for the first time—amounted to \$3.2 million.

In addition, and shown as a separate item, there were proceeds of \$3.9 million profit (2006: nil) on a sale of land at YDM cement plant to the Yingde Municipal Government (2006: nil). This was paid for by way of a Government grant.

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

Basic and diluted earnings per share amounted to 37 cents (2006: 65 cents), a decrease of 43.1%.

The maiden dividend for the year is 18 cents per ordinary share and includes a proposed final payment of 12 cents. If this is approved at the AGM, it will be payable on 1 August 2007 to shareholders on the Company's register at the close of business on 6 July 2007. The ex-dividend date is 4 July 2007. The total dividend in the year (\$7.7 million) shown in the profit and loss account excludes the proposed final payment and is covered 5.7 times by earnings (\$44.1 million). At the half year, the Company's two founding shareholders, David Wong, Chairman and CEO, and Madam Ching Fong Hon, who together hold 40.9% of the issued share capital, waived their entitlement to an interim dividend. This equates to a

sum of \$3.2 million which has been retained by the Company.

### – Balance sheet and cash flow

There was a net cash inflow from operating activities of \$20.6 million for the year (2006: outflow of \$14.3 million). Investing activities, including acquisitions, absorbed \$156.7 million (2006: a positive investing cashflow of \$93,000). Financing activities comprised principally of the issue of new shares and gross cash and cash equivalents at 31 March 2007 were \$182.8 million (2006: \$14.3 million).

Liquidity as measured by the current ratio (which is current assets divided by current liabilities) was 1.12 (2006: 1.22); while the quick ratio (i.e. current assets-less-inventories divided by current liabilities) was 1.03 (2006: 1.22).

Capital expenditure of \$19.3 million represented 5.8% of turnover (2006: 0.01%).

Net debt at the year end, defined as total borrowings net of cash and cash equivalents, was \$37.7 million (2006: \$11.4 million) against net assets of \$208.1 million as at 31 March 2007 (2006: \$4.9 million). Gearing ratio (i.e. total borrowings divided by total shareholders' fund) at the end of fiscal 2007 was 43% (2006: 325%).

## Management Review and Analysis

Goodwill has arisen on acquisition of YDM and it was reported in its previous unaudited half yearly and third quarter results to be \$67 million. Approximately \$26 million of this amount has been reclassified to be Merger Reserve on the balance sheet as at 31 March 2007 (please see Consolidated Statement of Changes in Equity of the Audited Financial Statements herein) in compliance with the International Financial Reporting Standards. There is no effect on the income statement as a result of this reclassification.



### Cement manufacturing

#### – The PRC cement market

In 2006, the PRC's GDP grew by 10.7%, which was another year of spectacular growth. The nation is expected to maintain its robust economic growth in 2007. A report by UBS revised the forecast at a rise of 9.2% in the PRC's GDP for 2007. In the first quarter of 2007, GDP gained 11.1% year-on-year, despite efforts by the government to dampen its rate of growth. [Source: the National Bureau of Statistics of China] With GDP forecast to rise 10.8% year-on-

year in the second quarter of 2007, the GDP growth rate for the first half of 2007 will be at 11% year-on-year. [Source: *National Development and Reform Commission*] The significant growth of the PRC economy provides an excellent climate for cement demand to flourish.

In March 2007, the National Development and Reform Commission ("NDRC") of the PRC issued a Notice on Efforts to Phase Out Obsolete Cement Production Capacity, wherein phasing out of obsolete cement production capacity during the "Eleventh Five-Year Plan" period from 2007 to 2010 was discussed.

The PRC cement market grew at more than 8% per annum in the five years to 2005. Last year, however, it grew 19% to reach 1.2 billion tonnes, with some 50% of this total represented by modern dry method production. The PRC plans to increase the ratio of modern dry method production to 70% of the total by 2010. In order to meet this goal, the PRC government plans to eliminate obsolete capacity of 250 million tonnes by 2010, an average reduction of 50 million tonnes a year. This is the target of the country to reduce the number of cement enterprises from the current 5,000 to 3,500; and by the year 2020, the number of cement producers is to be reduced to 2,000.

The aim of these measures is to modernise the cement industry to reach world standards in technology and environmental protection. The elimination of cement production lines with small capacity and outdated technology will promote

## Management Review and Analysis

more energy efficient, environmentally friendly production. [Source: NDRC] In turn, this provides an excellent operating environment for an efficient cement producer such as Prosperity.

### – Energy and the importance of coal

Coal is the primary source of energy in cement manufacturing and its largest single cost (approaching half). In 2006, national coal consumption was just under 2.4 billion tonnes and demand and supply of coal in the PRC was generally balanced. However, there is also a thriving import and export market. [Source: National Bureau of Statistics of China]

In 2006, average coal prices rose by RMB 1.10 to RMB 301.55 per tonne (approximately \$39.0 per tonne). [Source: NDRC] For the current year, coal production costs are expected to rise due to a tightening of environmental protection policies and safety requirements and this will feed through to selling prices. However, Prosperity is well experienced in the dynamics of the coal and energy markets and these changes have been anticipated fully in the Company's budgeting. It is also seeking to blend high and low quality coal as a means of reducing the cost of coal.



### – Guangdong province cement market

In 2006, Guangdong Province's GDP grew by 14.1%, constituting one eighth of the country's total GDP. [Source: Statistics Bureau of Guangdong Province] Guangdong's GDP is expected to increase by 9% in 2007 [Source: Statistics Bureau of Guangdong Province]. Similarly, industrial production grew by 17.6% in 2006 against 2005 and construction output by 7.7% with real estate investment up by 13.9%. [Source: Guangdong Provincial Government]

Management believes that there were slightly more than 500 total cement operators, with total production capacity of over 143 million tonnes, in Guangdong Province in 2006. Among these operators, about 35% were modern dry method production operators and the remaining 65% were inefficient operators.

Demand for cement was strong in Guangdong in 2006. Management believes that total demand amounted to about 105 million tonnes of which 89 million tonnes, an increase of 10% over 2005, was sourced locally and 16 million tonnes was "imported" from neighbouring provinces, mainly from Guangxi via the river system. Demand for cement is expected to be strong in the coming years in view of the growing number of infrastructure and property development projects in Guangdong, plus the 2010 Asian Games related projects. Moreover, the Guangdong Provincial Government has committed to speed up the process of phasing out inefficient operators. Accordingly, Prosperity's management

## Management Review and Analysis

believes that 10 million tonnes of inefficient cement production capacity was eliminated during 2006, 15 million tonnes will be eliminated in 2007-08 and a further 15 million tonnes will be eliminated in 2009-10.

### – Anhui province cement market

In 2006, Anhui Province's GDP reached RMB614.19 billion (\$78 billion), an increase of 13% over 2005. Anhui experienced industrial growth to the value of RMB220 billion, an increase of 19% from 2005.

Cement production in Anhui during 2006 reached 44 million tonnes, an increase of 37% in 2005.

Coal production increased by 6%, while electricity generation capacity increased by 13.2%.

The construction industry experienced an increase by 12% on a year-on-year basis. Property investment also increased for 2006, by 39%. Four new highways have been completed between An Chin and Chi Zhou, adding some 245 km of highways to the province's infrastructure. 2006 also saw 12 million tonnes of new coking coal production capacity come into operation in Anhui Province. The increase in industrial growth, construction and property investment provides an excellent environment for the cement market. *(Source: 2006 Anhui Economic and Social Growth Report)*

### Prosperity's cement operations in fiscal 2007

	<b>YDM 100%</b>	<b>PCC JV 100%</b>	<b>Prosperity's 25% interest</b>
Revenue (in million US\$)	124	129	32
Cement	72	46	11
Clinker	52	83	21
Segment profit before administrative expenses	30	20	5
Volumes (in million tonnes)			
Cement	3.04	1.80	
Clinker	2.73	4.51	

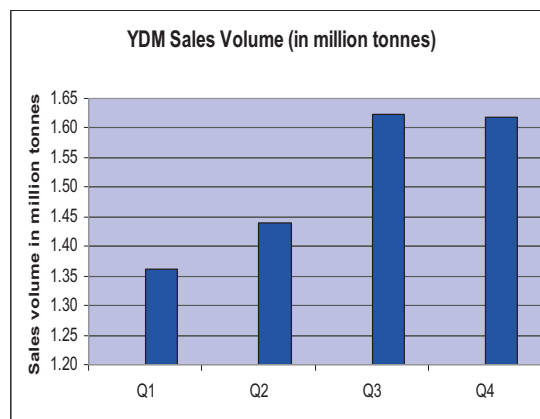
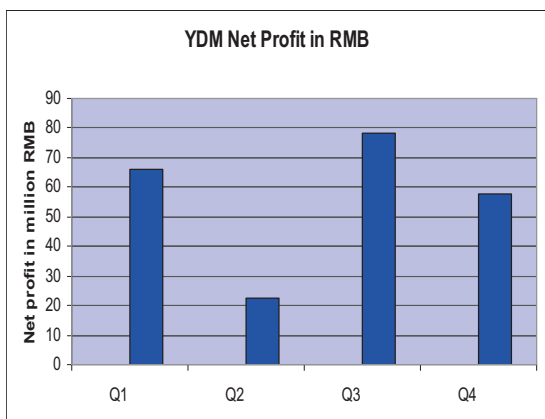
## Management Review and Analysis

Yingde Dragon Mountain Cement Company Limited (YDM)

YDM performed in line with expectations despite the unusually bad weather and Typhoon Bilis hitting Guangdong in the first half. During the fiscal year ended 31 March 2007, YDM sold 3.04 million tonnes of cement and 2.73 million tonnes of clinker. Revenue amounted to \$124.4 million and segment result (being profit from operation less unallocated operating income and expenses) amounted to \$29.8 million. There are no comparatives.

The system is expected to generate an annual saving of \$8.0 million net of operating expense. With a total investment cost estimated at \$24.2 million, the annual rate of return on investment is expected to be about 33%.

The equipment necessary for the project was purchased from the Japanese company Kawasaki and the generating set is expected to have a capacity of 27000kW. The system should generate 193 million kWh annually, to be reused in production.



– Residual heat electricity generation unit

Construction of a residual heat electricity generation unit is underway at YDM. The system utilises the exhaust heat emitted during the production of clinker to generate electricity.

The residual heat electricity generation system is an environmentally friendly optimisation of available energy, as it reduces the amount of coal burned in the production of clinker; which is significant. The residual heat electricity generating system should reduce the amount of carbon dioxide released into the air by approximately 75,000 tonnes per annum.

During the production of clinker, exhaust heat of about 350 degrees Celsius is emitted, representing about 15-20% of the energy used in the production process, and the recovery of residual heat will optimise available energy which is in line with PRC governmental policy that encourages heavy industry to carry out power saving projects.

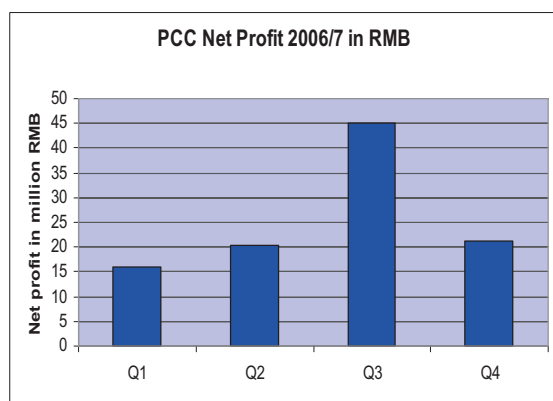
The residual heat electricity generating unit is expected to commence operation in August 2007.

## Management Review and Analysis

Prosperity Conch Cement Company Limited (PCC)

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

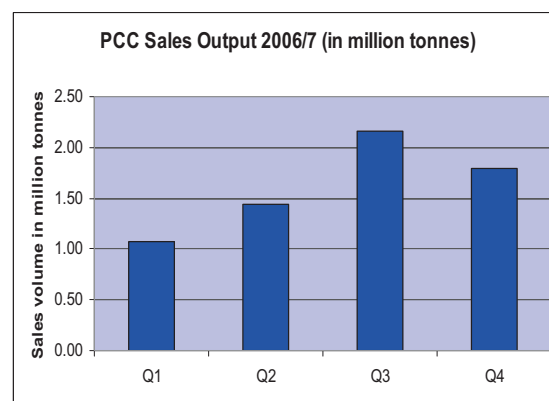
All six grinding mills at PCC were commissioned during 2006: number one on 10 August; number two on 25 June; number three on 16 August; number four on 25 September number five on 12 September; and number six on 30 September.



PCC also performed in line with expectations, despite the unusually wet weather in the first half, including Typhoon Bilis, which adversely affected the cement industry in Guangdong.

For the fiscal year ended 31 March 2007, PCC had a sales volume of 1.80 million tonnes of cement and 4.51 million tonnes of clinker, generating a net profit of \$13 million of which Prosperity's share was \$3.2 million.

Cement prices recovered in the year and Prosperity raised its prices by 4.7% in September 2006. However, the realised price of cement in Guangdong was lower year-on-year due primarily to additional new capacity coming on stream and the incidence of regional imports. Both of these factors proved to be temporary influences. Furthermore, demand is already beginning to reflect the building work associated with the forthcoming Asian Games combined with the elimination of inefficient cement operators by the Guangdong Provincial Government. This means that in the first two months of the new fiscal year, Prosperity has seen a marked increase in cement prices.



Anhui Chaodong Cement Company Limited (Chaodong)

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

On 29 November 2006, Prosperity obtained approval from the State-owned Assets Supervision and Administration Commission of the PRC State

## Management Review and Analysis

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

Subsequent to the CSRC waiver, the Chaodong shares, which bear full voting rights and entitlements, have been restructured from non-tradable to tradable. However, under the terms of the share purchase agreement, Prosperity has undertaken not to sell the Chaodong shares it acquires within three years of the date the shares are transferred to Prosperity.

The share reform (or restructure) scheme of Chaodong was approved at a Special Shareholders' Meeting on 8 May 2007 whereby the non-tradable shares, of which Prosperity holds 80 million, were approved to be converted into tradable shares, in exchange the existing tradable shareholders are to be issued with 5.25 additional new shares for every 10 existing tradable shares. As a result of such reform, the shareholding of Prosperity in Chaodong (being at 80 million shares unchanged after the

enlargement of the share capital) will be diluted from 40.00 percent to 33.06 percent. This plan of share reform approved by Chaodong's shareholders is to be approved by the Ministry of Commerce as a matter of formality. Once this approval is obtained, Chaodong will issue these additional new shares to the current tradable shareholders and convert the current non-tradable shares of Prosperity and other such non-tradable shareholders to ordinary tradable shares.

In the year ended 31 December 2006, Chaodong sold 2.69 million tonnes of cement. Chaodong intends to invest in two more cement projects in Anhui Province: Chao Hu and Liu An, which will add an additional 4.2 million tonnes of cement and clinker capacity.

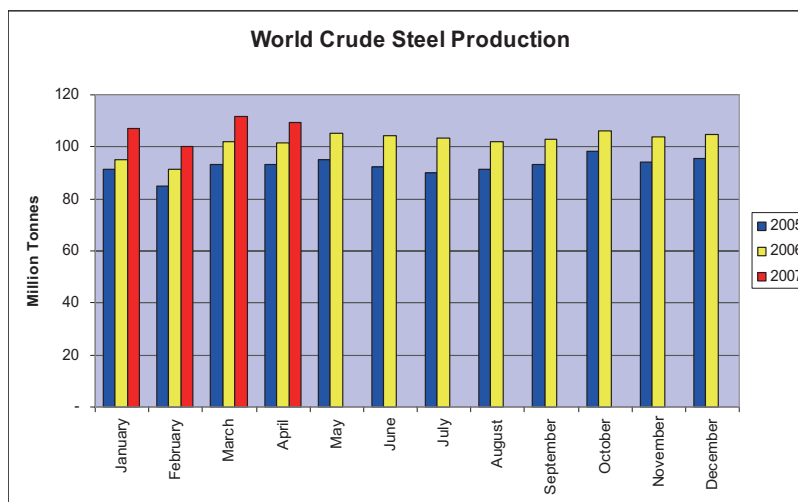
### Further expansion plans

Prosperity is actively investigating opportunities of expanding cement operations into other parts of the PRC.

### Iron ore trading

– The global steel market

In 2006, world crude steel production was 1.2 billion tonnes, an increase of 9.8% from 2005.



Data source: IISI

## Management Review and Analysis

### – PRC steel market

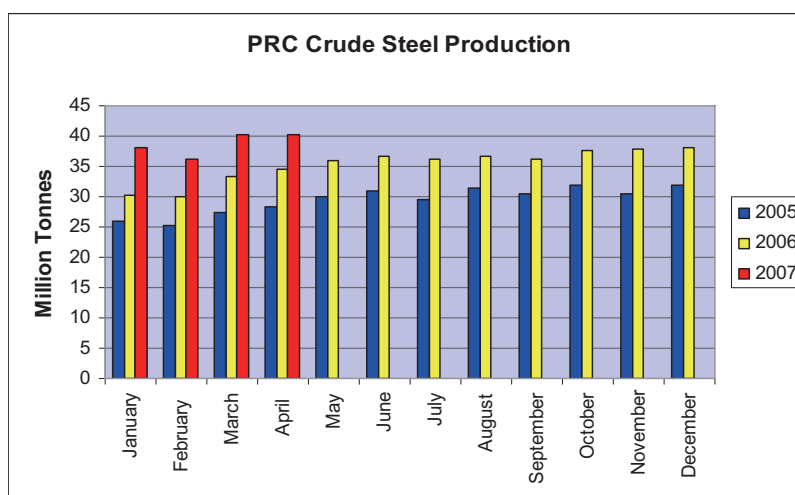
The PRC produced 423 million tonnes of crude steel in 2006, up 20% from 2005.

In the first quarter of 2007, crude steel production in the Asia region amounted to 173.6 million tonnes, an increase of 16% in the same period of 2006. The Asia region produced 55% of world crude steel production during the first three months of 2007.

The PRC produced 114.4 million tonnes of crude steel in the first quarter of 2007 which is an increase of 22% over the first quarter of 2006. As steel output

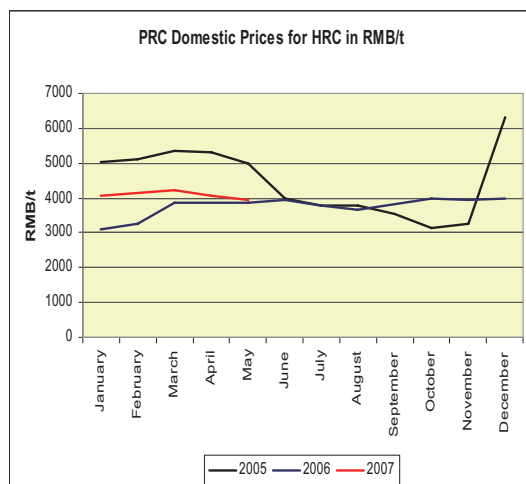
in the PRC increases, it drives up the demand for key raw materials such as iron ore.

The PRC government recently intensified its efforts to curb the export of energy intensive products in a bid to reduce its use of natural resources. In light of this, the PRC's Ministry of Finance has levied a 5-10% tax on exports of the same 83 types of finished steel for which the tax rebate was recently abolished. The tax took effect on 1 June 2007. Despite the export tax increase, it appears likely that Chinese mills will continue to sell into the higher priced markets, mainly Europe, the Middle East and some parts of East Asia.

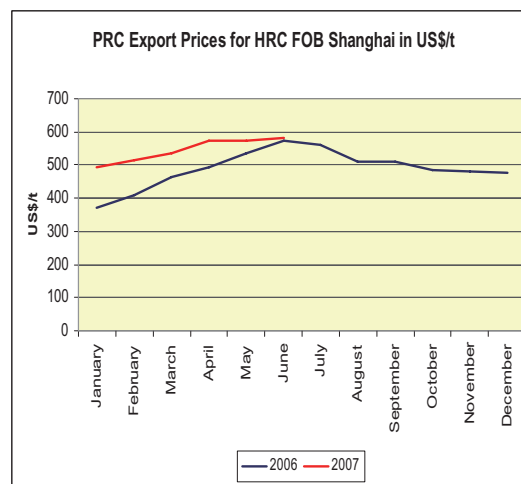


Data source: IISI

### PRC steel prices



Source: SBB



Source: SBB

## Management Review and Analysis

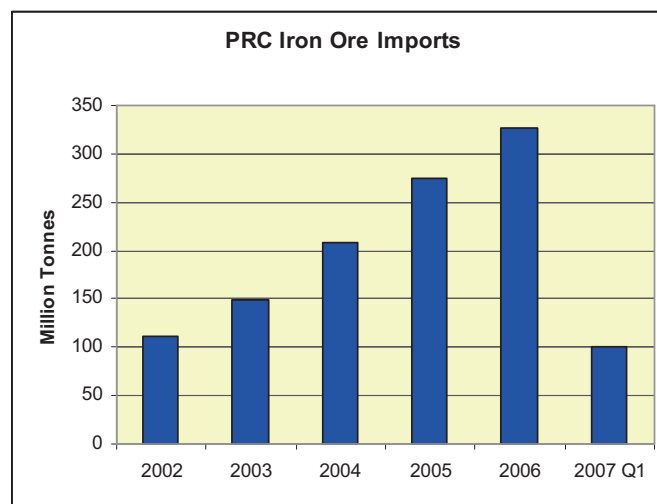
PRC iron ore market

– PRC supply of iron ore

Year	Domestic Production (Crude Ore)		Imports		Total	
	Million tonnes	% change	Million tonnes	% change	Million tonnes	% change
2003	261.085	+12.8%	148.198	+30.1%	409.283	+19.4%
2004	310.105	+18.8%	208.076	+40.4%	518.181	+26.6%
2005	420.493	+25.3%	275.260	+13.2%	695.753	+34.3%
2006	588.171	+39.9%	326.300	+18.5%	914.471	+31.4%

The strong steel market in the PRC provides a good environment for the iron ore market. In 2006, the PRC imported 326 million tonnes of iron ore, up 19% from 275 million tonnes in 2005.

PRC Iron Ore Import Quantities



Source: Umetal.net

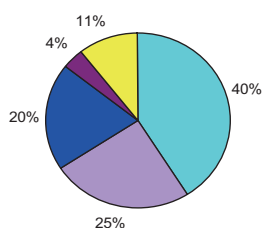
## Management Review and Analysis

PRC Iron Ore Imports by Countries (in million tonnes)

	2002	2003	2004	2005	2006	Q1 2007
Australia	42.78	58.17	78.14	112.18	126.76	38.51
India	22.53	32.30	50.17	68.55	74.78	23.86
Brazil	29.77	38.40	46.04	54.71	75.85	22.46
South Africa	10.30	9.56	11.10	10.55	12.56	3.60
Others	6.10	9.77	22.64	29.26	36.36	11.78
<b>Total</b>	<b>111.49</b>	<b>148.20</b>	<b>208.08</b>	<b>275.26</b>	<b>326.30</b>	<b>100.21</b>

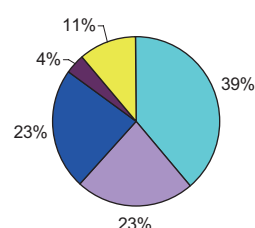
Source: Umetal.net

PRC Iron Ore Imports by Country 2005

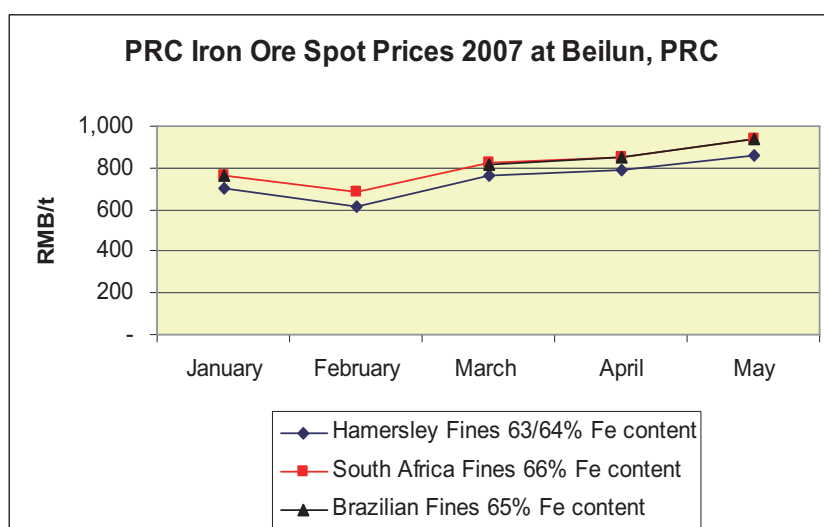


Legend: Australia (light blue), India (purple), Brazil (dark blue), South Africa (maroon), Others (yellow)

PRC Iron Ore Imports by Country 2006



Legend: Australia (light blue), India (purple), Brazil (dark blue), South Africa (maroon), Others (yellow)



Source: Umetal.net

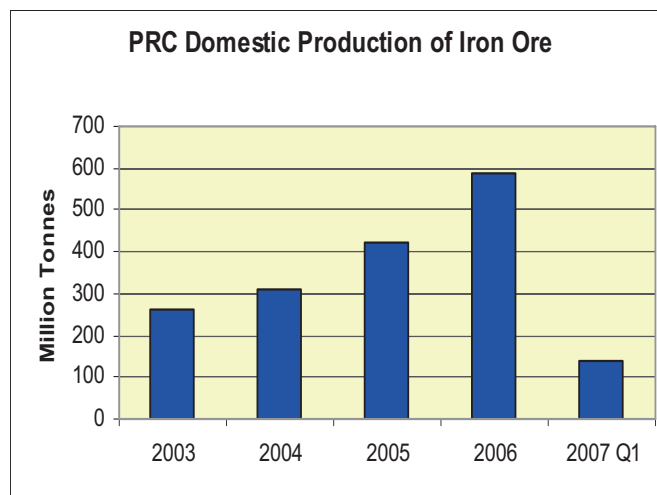
## Management Review and Analysis

Domestic production of iron ore within the PRC has also experienced an increase. Domestic iron ore reserves have very low iron content, estimated to be around 30%. The crude ore that is mined therefore has to be concentrated to improve the iron content to around 66%. This means that the domestic iron

ore concentrate production is much less than the crude ore mined, which are usually the numbers quoted. The decrease in quality of the iron ore mined domestically makes it likely that the PRC will need to import a higher proportion of its iron ore in future.

### PRC Domestic Production of Iron Ore

	<b>Production (in million tonnes)</b>
2003	261.09
2004	310.11
2005	420.49
2006	588.17
2007 Q1	139.28



Source: Umetal.net

## Management Review and Analysis

### Prosperity Iron Ore Trading

In fiscal 2007 the iron ore trading business generated revenue of \$206.9 million which was a decrease of 8.6% on the previous year (2006: \$226.4 million). This was reflected in the

lower tonnage at 3.2 million tonnes, which also represented a 8.6% dip year on year (2006: 3.5 million tonnes). Segment result in 2007 came in at \$21.5 million which compares with \$38.0 million in 2006, i.e. a decline of 43.4%.

Iron ore trading	2007	2006
Revenue (\$m)	<b>206.9</b>	226.4
Operating profit (\$m)	<b>21.5</b>	38.0
Tonnage (m)	<b>3.2</b>	3.5

### Prosperity's iron ore sources by country (in tonnes)

	Apr-May 2007	FY2006/7	FY2005/6
South Africa	<b>291,929</b>	2,085,353	1,909,332
Brazil	–	477,995	668,582
Australia	–	313,275	671,190
Thailand	<b>209,607</b>	331,505	53,713
Others	–	7,580	171,106
<b>TOTAL</b>	<b>501,536</b>	3,215,708	3,473,923

## Management Review and Analysis

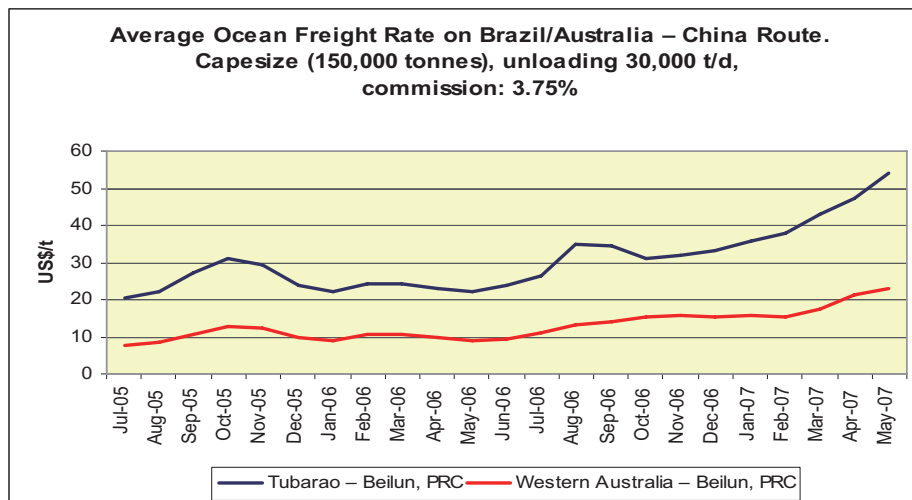
The iron ore trading business experienced difficult trading conditions during the period from July to September 2006. This was due to four factors.

Firstly, there was a significant and sudden increase in freight rates in July and August. On long distance shipments from Brazil or Australia to the PRC, freight is a significant part of the CIF (Cost, Insurance and Freight) cost of iron ore.

Secondly, the contract price for the iron ore year commencing 1 April 2006 was only agreed in late June 2006. Similarly, the 19% increase in the iron ore contract price was above the expected 10-15% range. This reduced the ability of the steel mills to

absorb the impact of the higher freight rates, as they were, by then, resistant to input price changes.

Thirdly, the PRC Government's austerity measures, which were first introduced in 2004, have continued to develop and gather momentum in the year. This has led to the rationalisation of a number of sectors including steel and will, ultimately, favour the large and more efficient steel mills, which are the Prosperity's main customers. However, this has led to a surge in domestic steel supply in 2006, which negatively impacted steel prices and the spot price for iron ore during that time. Fourthly, the unusually severe weather during the summer of 2006 adversely affected the construction industry.



## Management Review and Analysis

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

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

### Exchange movements

The Group's sales and cost base of cement operation are denominated in RMB whereas the Group's sales and cost base of iron ore trading are denominated in US dollars. As the Group's exchange risk is limited in scope, there is no forward exchange contract currently in place.

### Financial risk management

The principal credit risk the Group faces is the trade receivables. The risk is limited by the fact that the Group's sale of cement is settled largely by cash against delivery and prepayments. Credit terms are carefully granted to government related projects. The Group's customers of iron ore are predominantly the big steel mills or large importers in the PRC and the trade receivables are supported by letters of credit issued by reputable banks.

The RMB denominated loans are related to the construction and working capital finance of cement operation. The tenor is ranging from one to three years.

The US dollars denominated loans are mainly the transit loans relating to the iron ore trading activities supported by the letters of credit issued by reputable banks. The tenor is less than 90 days.

### Directors' share purchases

In September 2006, Chairman and CEO David Wong acquired 2.1 million shares in the Company at a price of 117 pence per ordinary share. This takes his holding to 27.5% and together with the other founding shareholder, Madam Ching Fong Hon, they account for 40.9% of the issued equity of Prosperity. In addition five other directors bought a total of 288,008 shares at 115 pence per ordinary share in October 2006.

### Share price

The Company raised funds through a placing at 148 pence per ordinary share and was admitted to trading on AIM London Stock Exchange in May 2006 and since then has traded in a range from 110 pence to 155.5 pence. At the time of writing in mid-June 2007, the share price was at its peak of 155.5 pence and, at that price, the market capitalisation is £200.7 million (\$393.6 million).

### Quarterly reporting

As previously promulgated, the Company now reports on a quarterly basis. The next unaudited results for the period ending 30 June 2007, will be announced during the third quarter of 2007.

## Board of Directors and Senior Management

The Directors' and senior managers' biographical details are set out below:

### Executive Directors

#### *Mr David Wong*

Mr Wong, aged 54, is the co-founder of the Group and chairman and chief executive officer of the Group. He is responsible for the strategic planning, business development and overall management of the Group. Mr 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, he 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 (H.K.) Limited.

#### *Mr Patrick Siu Ming Li*

Mr Li, aged 44, 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 Johannes Petrus Mulder*

Mr Mulder was appointed as an executive director of the Company, effective 1 April 2007. Mr. Mulder is responsible for overseeing the strategic planning of iron ore trading and the potential iron ore mining businesses of the Group. Mr Mulder joined Prosperity from Exxaro Resources (formerly Kumba Resources) where he worked as a general manager and then manager of business development in South Africa. Mr Mulder also held senior positions in Kumba Resources, which is one of the leading iron ore mining companies in South Africa, including the chief representative of Kumba Resources, Beijing (1997-2002), and a director and general manager of Kumba Hong Kong Ltd (2003-2006) and Kumba Hongye Zinc Company.

## Board of Directors and Senior Management

Mr Mulder, aged 60, holds a Bachelors degree in Mining Engineering from the University of Pretoria, and a Masters degree in Business Economics from the University of South Africa. He has extensive experience in the steel and mining industries. During his nine years in Beijing and Hong Kong, Mr Mulder spearheaded the China strategy of the company and was also involved in marketing iron ore in Asia.

### *Mr Michael James Allen*

Mr Allen, aged 54, was an executive director and the chief technical officer of the Company, responsible for providing technical advisory to 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 as a consultant at 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 Allen stepped down from the Prosperity Board with effect 1 April 2007 but has remained with the Group as its geologist.

### *Mr Jian Ping Wu*

Mr Wu, aged 41, is an executive director and the president of the cement plant owned and operated by the Group's subsidiary, YDM. 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 YDM. Mr Wu was responsible for planning and project-managing the construction of the YDM plant and has been in charge of its day-to-day operations of the plant since construction was completed.

## Board of Directors and Senior Management

### Non-Executive Directors

#### *Dr John Robertson*

Dr Robertson, aged 61, 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.

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*

Mr Williams, aged 53, 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 and became a director in January 1988 as his building research team rose to a top five ranking. In 1989, he joined Morgan Stanley as Head of Building & Construction Research, initiating coverage of building materials and construction equities on a global basis.

## Board of Directors and Senior Management

Mr Williams joined Tarmac plc as director of Corporate Planning in 1992. During his time with the Group it underwent extensive rationalisation, financial reconstruction and international expansion. From 1996, he worked for ING Barings as a Director in Global Corporate Finance and latterly was a Director of European Equities at ABN AMRO. In 2002 he founded Building Value, an independent strategic advisory firm, with a focus on the building, construction and support services sectors. Mr Williams is also Non-Executive Chairman of Watts Group plc and a Non-Executive Director of Baggeridge Brick plc and Ridgeons Group Ltd.

### *Mr Sandy Chun-Kwan Chim*

Mr Chim, aged 51, 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. In addition, Mr. Chim has been appointed to the Supervisory Committee of Anhui Chaodong Cement Co. Limited, which is listed on the Shanghai Stock Exchange in the People's Republic of China.

### *Professor Ben Ren Liu*

Mr Liu, aged 64, 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 and chairman 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.

## Board of Directors and Senior Management

### *Mr Michael Kim Hung Yuen*

Mr Yuen, aged 45, 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), a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Certified General Accountants Association of Ontario. Mr Yuen previously worked in Poon, Mak & Wan, Certified Public Accountants as an Audit Manager from 1993 to 1998. Mr Yuen is currently a sole proprietor of Michael Yuen & Co., a Hong Kong Certified Public Accountants firm, and has acted as an independent non-executive director of Prosperity International Holdings (H.K.) Limited and New Universe International Group Limited since 2002.

### *Mr Yu Lin Zhao*

Mr Zhao, aged 61, 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 45, 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 Mr 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.

## Board of Directors and Senior Management

### *Mr Hung Yuen Yeung*

Mr Yeung, aged 37, 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 Bachelor's degree 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 59, 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 53, is a vice president of YDM. 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 YDM in 2003 and continues to hold these positions.

### *Mr Zong Biao Zhang*

Mr Zhang, aged 47, is a vice president of YDM. 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.

## Directors' Report

The Directors are pleased to present their annual report on the affairs of the Group and the audited consolidated financial statements for the year ended 31 March 2007.

### PRINCIPAL ACTIVITIES

The principal activity of the Group throughout the year was the manufacture and sale of cement in the People's Republic of China and the trading of iron ore serving the same market.

The Company was incorporated in Jersey on 26 January 2006 as the holding company of all the Group's businesses, acquired Pro-Rise Business Limited on 18 May 2006 and was admitted to AIM on 24 May 2006.

### BUSINESS REVIEW

A review of the Group's performance, business activities and future developments is contained in the Chairman's Statement on pages 4 to 7.

### RESULTS

The Consolidated Income Statement is set out on page 42 and shows the Group's result for the year ended 31 March 2007.

### DIVIDENDS

The Directors have recommended the payment of a final dividend of US12 cents per ordinary share. An interim dividend of US6 cents per ordinary share was paid on 24 January 2007.

## Directors' Report

### DIRECTORS

The Directors of the Company during the year were as follows:

	Date of appointment	Date of resignation
David Wong*	26 January 2006	-
Patrick Siu Ming Li*	26 January 2006	-
Michael James Allen*	25 April 2006	1 April 2007
Jian Ping Wu*	25 April 2006	-
John Campbell Robertson†	25 April 2006	-
Anthony John Williams†	25 April 2006	-
Sandy Chun-Kwan Chim‡	25 April 2006	-
Ben Ren Liu†	25 April 2006	-
Michael Kim Hung Yuen†	25 April 2006	-
Yu Lin Zhao†	25 April 2006	-

\*Executive director

‡Non-executive director

†Independent non-executive director

In addition, Johannes Petrus Mulder was appointed to the Board as an executive director on 1 April 2007 by a resolution of the existing Board of directors.

In accordance with the Articles of Association, Messrs JP Wu, JC Robertson, AJ Williams, SC Chim BR Liu, MKH Yuen, YL Zhao and JP Mulder who were appointed by a resolution of the Board of Directors will retire and Mr PSM Li who will retire by way of rotation and each will submit themselves for re-election at the AGM.

## Directors' Report

The Directors' biographical details are set out on pages 23 to 28.

The Directors who served the Company during the year together with their beneficial interests, including family holdings, in the ordinary shares of the Company as at 31 March 2007 were as follows:

	At 31 March 2007		On Admission	
	Number of ordinary shares	Percentage of issued share capital	Number of ordinary shares	Percentage of issued share capital
David Wong <sup>(1)</sup>	35,057,815	27.16%	32,940,515	25.52%
Sandy Chun-Kwan Chim <sup>(2)</sup>	554,180	0.43%	337,838	0.26%
Patrick Siu Ming Li	43,121	0.03%	-	-
John Campbell Robertson	10,000	0.01%	-	-
Anthony John Williams	10,000	0.01%	-	-
Michael James Allen	8,545	0.01%	-	-
			-	-

Notes:

- (1) David Wong's shareholding as at 31 March 2007 is held directly as to 2,117,300 Ordinary Shares and indirectly through (i) Prosperity Minerals Group Limited which holds 45,515,460 Ordinary Shares, in respect of which David Wong is interested in 65 percent., giving him an interest in 29,585,049 Ordinary Shares; (ii) Max Start Holdings Limited which holds 2,581,128 Ordinary Shares, in respect of which David Wong is interested in 65 percent., giving him an interest in 1,677,733 Ordinary Shares; and (iii) Max Will Profits Limited which holds 2,581,128 Ordinary Shares, in respect of which David Wong is interested in 65 percent, giving him an interest in 1,677,733 Ordinary Shares.
- (2) Sandy Chim's shareholding as at 31 March 2007 is held directly as to 216,342 Ordinary Shares and indirectly through The Capital Market Allied Limited which holds 675,676 Ordinary Shares, in respect of which Sandy Chim is interested in 50 percent., giving him an interest in 337,838 Ordinary Shares.

## SHARE CAPITAL

Details of the share capital of the Company as at 31 March 2007 are set out in the financial statements.

There are no share options outstanding as at 31 March 2007.

Simultaneously with its admission to AIM on 24 May 2006, the Company completed a placing of 77,703,000 new ordinary shares of 1 pence each at 148 pence per ordinary share which raised gross cash proceeds of £115 million. The net proceeds of the placing received by the Company amounted to approximately £104.8 million. Since the placing the Company has not issued any further shares.

## Directors' Report

Under the Companies Law the Directors have the power to allot all of the unissued authorised share capital of the Company although the Articles of Association require shares issued for cash to be offered to existing shareholders in proportion to their existing shareholdings. A special resolution will be proposed at the AGM to grant the Directors the authority to allot unissued shares for cash without first offering them to existing shareholders, limited to an aggregate nominal amount of £129,056.40, representing approximately 10% of the issued share capital of the Company on 21 June 2007, being the latest practicable date prior to the printing of this document.

### EMPLOYEES

The Group's policy is to consult and discuss with the employees on matters likely to affect employee interests, including information about the Group's achievements and plans. This is accomplished through individual performance reviews and team briefings. Participation by employees in the progress, environmental protection and profitability of the Group is encouraged, where appropriate through annual fixed bonus and performance-related bonus payments and share option schemes.

It is the Group's policy to ensure equal opportunity for employment, training, career development and promotion, irrespective of sex, race, religion or disability. In the event of members of staff becoming disabled, every effort would be made to ensure that their employment with the Group continues and that appropriate training is arranged.

### GOING CONCERN

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Consequently, the Directors have continued to adopt the going concern basis in preparing the financial statements of the Group for the year ended 31 March 2007.

### POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in the financial statements.

## Directors' Report

### AUDITORS

The Directors appointed KPMG as the auditors of the Company. A resolution to reappoint KPMG as auditors of the Company will be proposed at the AGM.

On behalf of the Board

**Patrick Siu Ming Li**

*Director*

26 June 2007

## Corporate Governance

There are no specific corporate governance rules in Jersey. However, the Directors recognise the value of the principles of good governance and the Combined Code. As an AIM company there is no requirement to adopt the Combined Code, However, the Directors intend to continue to comply with its main provisions as far as is practicable and appropriate having regard to the size and nature of the Group.

### THE BOARD

The Board of the Company consists of four executive Directors, who hold the key operational positions in the company, and six non-executive directors, who bring a breadth of experience and knowledge. Five of these non-executive Directors are independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. The composition of the Board ensures that no one individual or group dominates the decision making process.

### BOARD MEETINGS

In addition to ad hoc meetings arranged to discuss particular transactions and events and the AGM, the full Board met on eleven occasions during the year under review. The Audit committee met on two occasions, the Remuneration committee on one occasion and the Nomination committee on one occasion. The attendance record of the directors is shown on the table below.

				Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings				11	2	1	1
David Ben Koon Wong				11	--	--	--
Patrick Siu Ming Li				11	--	--	--
Jian Ping Wu				9	--	--	--
Michael James Allen				11	--	--	--
Sandy Chun-Kwan Chim	○	#		11	--	1	1
John Campbell Robertson	*	○		11	2	--	1
Anthony John Williams	*	#		11	2	1	--
Michael Kim Hung Yuen	*	○	#	10	2	1	1
Ben Ren Liu				8	--	--	--
Yu Lin Zhao				10	--	--	--

\* Audit Committee Members

○ Nomination Committee Members

# Remuneration Committee Members

## Corporate Governance

### AUDIT COMMITTEE

The Audit Committee currently comprises three non-executive Directors and is chaired by Mr Michael Kim Hung Yuen, who as a fellow of the Association of Chartered Certified Accountants, possesses the relevant financial experience, and currently comprises Dr John Campbell Robertson and Mr Anthony John Williams.

The terms of reference for the audit committee, which have been agreed by the Board and are available to shareholders on request, 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 also provide for the audit committee to have unrestricted access to the Company's auditors.

During fiscal 2007 the Committee met twice with each Committee member attending both meetings. Meetings are attended by invitation, by the Chief Financial Officer, the Group Financial Controller and Sandy Chun Kwan Chim.

### REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three non-executive Directors and is chaired by Mr Anthony Williams and currently comprises Mr Sandy Chun Kwan Chim and Mr Michael Kim Hung Yuen.

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 also administers the Company's share option scheme.

During fiscal 2007 the Remuneration Committee met once.

### NOMINATION COMMITTEE

The Nomination Committee currently comprises three non-executive directors and is chaired by Dr John Campbell Robertson and currently comprises Mr Sandy Chun Kwan Chim and Mr Michael Kim Hung Yuen.

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.

During fiscal 2007 the Nomination Committee met once.

## Corporate Governance

### INTERNAL CONTROLS

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness and confirms that this review has been conducted during the period. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which was in place for fiscal 2007 and up to the date of approval of the Annual Report and Accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

The key elements of the internal control system may be described as the control environment which is represented by the following:

- the key business objectives which are clearly specified at all levels within the business;
- an organizational structure which sets out details of reporting lines and appropriate limits of authority for different processes;
- a range of corporate policies which deal with control issues in respect of corporate governance, management accounting, financial reporting and risk management; and
- a management team which operates on the basis of regular performance reports and dialogue with the Board.

The management of all forms of risk continues to be an important part of ensuring that the Group creates and protects value for the Company's shareholders. Given the size of the Group the executive members of the Board are closely involved in the day-to-day management of the business and are directly responsible for key areas of risk. They report regularly through a self-assessment process to the rest of the Board on significant changes in risks in their parts of the business and how these risks are being managed. A member of the Board has responsibility on behalf of the Board, for overseeing these processes, for providing a degree of assurance as to the operation and validity of the system of internal control and for ensuring planned corrective actions and improvements are independently monitored for timely completion. They report their findings to the Audit Committee and the Board.

## Corporate Governance

### GOING CONCERN

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Consequently, the Directors have continued to adopt the going concern basis in preparing the financial statements of the Group for the year ended 31 March 2007.

### COMMUNICATIONS WITH SHAREHOLDERS

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance. There is regular dialogue with institutional shareholders for which the Board, as a whole, has responsibility.

All shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Group. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts, and to approve the Directors Remuneration.

The Company operates and regularly updates its website ([www.pmhl.co.uk](http://www.pmhl.co.uk))

## Directors' Remuneration Report

Directors' remuneration from 1 April 2006 to 31 March 2007

GBP		Total	Basic salary and allowance	Bonus	Pension
Executive Director	Ben Koon Wong	969,661	290,500	663,805	15,356
Executive Director	Patrick Siu Ming Li	360,135	229,167	114,718	16,250
Executive Director	Michael James Allen	99,786	94,500	5,286	–
Executive Director	Jian Ping Wu	32,586	32,586	–	–
Non-executive Director	John Robertson	35,000	35,000	–	–
Non-executive Director	Anthony Williams	35,000	35,000	–	–
Non-executive Director	Sandy Chun Kwan Chim	61,147	35,000	26,147	–
Non-executive Director	Michael Kim Hung Yuen	21,875	21,875	–	–
Non-executive Director	Ben Ren Lu	17,500	17,500	–	–
Non-executive Director	Yu Lin Zhao	17,500	17,500	–	–
		1,650,190			

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and financial statements. The AIM Rules require the Directors to prepare annual financial statements for the Group in accordance with International Accounting Standards.

IAS1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires faithful representation of the effects of transactions, events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of International Financial Reporting Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

The Directors are required pursuant to their Articles of Association and the Companies Law to maintain accounting records.

## Independent Auditors' Report

We have audited the consolidated financial statements of Prosperity Minerals Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 93 which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of Companies (Jersey) Law 1991. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

## Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group and the Company as at 31 March 2007 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of Companies (Jersey) Law 1991.

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
26 June 2007

## Consolidated Income Statement

	Note	Year ended 31 March	
		2007 US\$'000	2006 US\$'000
Revenue	3	331,339	226,444
Cost of sales		(281,918)	(188,414)
<b>Gross profit</b>		<b>49,421</b>	<b>38,030</b>
Other operating income	4	5,337	2,673
Distribution expenses		(3,733)	(2,941)
Administrative expenses		(10,100)	(2,477)
<b>Profit from operations</b>		<b>40,925</b>	<b>35,285</b>
Finance costs		(5,746)	(1,834)
Finance income		3,510	116
Non-operating income	6	3,944	–
Share of profits of associate	15	3,236	–
<b>Profit before taxation</b>	5	<b>45,869</b>	<b>33,567</b>
Income tax (expense)/credit	8	(1,793)	1
<b>Profit for the year</b>		<b>44,076</b>	<b>33,568</b>
Attributable to:			
Equity shareholders of the Company		44,076	33,568
<b>Dividends</b>	9	<b>7,743</b>	<b>35,739</b>
<b>Earnings per share</b>	10		
Basic and diluted		0.37	0.65

The notes on pages 49 to 93 form part of these financial statements.

## Consolidated Balance Sheet

	Note	31 March	
		2007 US\$'000	2006 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	148,226	41
Mining rights	13	17,330	–
Lease prepayments	14	15,045	–
Interest in an associate	15	22,455	–
Goodwill	16	36,828	–
		<b>239,884</b>	<b>41</b>
<b>Current assets</b>			
Inventories	17	10,635	–
Trade and other receivables	18	67,517	21,223
Other financial assets	19	–	1,000
Pledged deposits	21	2,724	–
Cash and cash equivalents		51,320	4,633
		<b>132,196</b>	<b>26,856</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	22	45,718	16,055
Trade and other payables	23	71,482	5,885
Income tax payable	24(a)	1,307	18
		<b>118,507</b>	<b>21,958</b>
<b>Net current assets</b>		<b>13,689</b>	<b>4,898</b>
<b>Total assets less current liabilities</b>		<b>253,573</b>	<b>4,939</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	22	29,712	–
Long-term payables	25	13,578	–
Deferred tax liabilities	24(b)	2,199	5
		<b>45,489</b>	<b>5</b>
<b>Net assets</b>		<b>208,084</b>	<b>4,934</b>

## Consolidated Balance Sheet

	31 March	
	2007 US\$'000	2006 US\$'000
<b>Capital and reserves</b>		
Share capital	2,351	13
Retained earnings	34,584	4,921
Other reserves	171,149	–
<b>Total equity</b>	<b>208,084</b>	<b>4,934</b>

Approved and authorised for issue by the board of directors on 26 June 2007

**David Ben Koon Wong**  
*Chairman & Chief Executive Officer*

**Patrick Siu Ming Li**  
*Chief Financial Officer*

The notes on pages 49 to 93 form part of these financial statements.

## Balance Sheet

	Note	31 March	
		2007 US\$'000	2006 US\$'000
<b>Non-current asset</b>			
Investments in subsidiaries	12	1	—
		<u>1</u>	<u>—</u>
<b>Current assets</b>			
Amounts due from subsidiaries	20	188,306	—
Cash and cash equivalents		9,121	—
		<u>197,427</u>	<u>—</u>
<b>Current liability</b>			
Trade and other payables	23	2,077	—
		<u>2,077</u>	<u>—</u>
<b>Net current assets</b>			
		<u>195,350</u>	<u>—</u>
<b>Net assets</b>			
		<u>195,351</u>	<u>—</u>
<b>Capital and reserves</b>			
	26		
Share capital		2,351	—
Retained earnings		1,141	—
Other reserves		191,859	—
		<u>195,351</u>	<u>—</u>

Approved and authorised for issue by the board of directors on 26 June 2007

**David Ben Koon Wong**  
Chairman & Chief Executive Officer

**Patrick Siu Ming Li**  
Chief Financial Officer

The notes on pages 49 to 93 form part of these financial statements.

## Consolidated Statement of Changes in Equity

	Share capital US\$'000 Note 26(b)	Share premium US\$'000 Note 26(c)	Statutory reserves US\$'000 Note 26(d)	Merger reserve US\$'000 Note 26(e)	Exchange reserve US\$'000 Note 26(f)	Capital reserve US\$'000 Note 26(g)	Retained earnings US\$'000	Total US\$'000
At 1 April 2005	13	–	–	–	–	–	7,092	7,105
Profit for the year	–	–	–	–	–	–	33,568	33,568
Dividends paid	–	–	–	–	–	–	(35,739)	(35,739)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2006	13	–	–	–	–	–	4,921	4,934
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2006	13	–	–	–	–	–	4,921	4,934
Issue of shares, net of expenses	1,415	189,624	–	–	–	–	–	191,039
Transfer to statutory reserves	–	–	1,749	–	–	–	(1,749)	–
Profit for the year	–	–	–	–	–	–	44,076	44,076
Removal of share capital of Pro-Rise Business Limited from aggregation – Note 26(b)(i)	(13)	–	–	–	–	–	–	(13)
Acquisition of subsidiaries	936	–	–	(26,918)	–	–	–	(25,982)
Exchange difference arising on translation of financial statements of foreign operations	–	–	–	–	3,526	–	–	3,526
Dividend paid to ex-equity shareholder	–	–	–	–	–	–	(4,921)	(4,921)
Interim dividend paid	–	–	–	–	–	3,168	(7,743)	(4,575)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2007	<u>2,351</u>	<u>189,624</u>	<u>1,749</u>	<u>(26,918)</u>	<u>3,526</u>	<u>3,168</u>	<u>34,584</u>	<u>208,084</u>

The notes on pages 49 to 93 form part of these financial statements.

## Consolidated Cash Flow Statement

	Note	Year ended 31 March	
		2007 US\$'000	2006 US\$'000
<b>Operating activities</b>			
Profit before taxation		45,869	33,567
Adjustments for:			
– Non-operating income		(3,944)	–
– Depreciation		7,122	21
– Amortisation		1,051	–
– Finance costs		5,746	1,812
– Finance income		(3,510)	(94)
– Share of profits of associate	15	(3,236)	–
<b>Operating profit before changes in working capital</b>		<b>49,098</b>	<b>35,306</b>
Increase in inventories		(1,173)	–
(Increase)/decrease in trade and other receivables		(35,197)	3,243
Decrease in other financial assets		1,000	–
Increase in amounts due from shareholders		–	(35,739)
Increase/(decrease) in trade and other payables		2,992	(11,660)
Decrease in amounts due to shareholders		–	(5,418)
<b>Cash generated from/(used in) operations</b>		<b>16,720</b>	<b>(14,268)</b>
Receipt of government grant		3,944	–
Hong Kong Profits Tax paid		(18)	(28)
<b>Net cash generated from/(used in) operating activities</b>		<b>20,646</b>	<b>(14,296)</b>

## Consolidated Cash Flow Statement

	Note	Year ended 31 March	
		2007 US\$'000	2006 US\$'000
<b>Investing activities</b>			
Interest received		1,562	116
Payment for purchase of property, plant and equipment		(19,316)	(23)
Acquisition of associate		(18,088)	–
Net cash outflow from acquisition of minority interest	27(a)	(45,550)	–
Net cash outflow from acquisition of subsidiaries	27	(75,287)	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(156,679)</b>	<b>93</b>
<b>Financing activities</b>			
Decrease in pledged deposits		13,697	33
Proceeds from bank loans		70,365	16,055
Repayment of bank loans		(80,501)	–
Interest paid		(4,227)	(1,812)
Foreign exchange gain/(loss)		1,947	(22)
Proceeds from issue of new shares, net of expenses	26(b)(ii)	191,039	–
Dividend paid to ex-equity shareholder		(4,921)	–
Interim dividend paid		(4,576)	–
<b>Net cash generated from financing activities</b>		<b>182,823</b>	<b>14,254</b>
<b>Net increase in cash and cash equivalents</b>		<b>46,790</b>	<b>51</b>
<b>Cash and cash equivalents at 1 April</b>		<b>4,633</b>	<b>4,582</b>
<b>Effect of foreign exchange rate changes</b>		<b>(103)</b>	<b>–</b>
<b>Cash and cash equivalents at 31 March</b>		<b>51,320</b>	<b>4,633</b>

The notes on pages 49 to 93 form part of these financial statements.

# Notes to the Consolidated Financial Statements

## 1 BASIS OF PRESENTATION

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

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

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

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

- (ii) On 13 April 2006, the Group acquired a 75% equity interest in Yingde Dragon Mountain Cement Company Limited (“YDM”) from two independent parties (see note 27). The purchase method of accounting is used to account for this acquisition.

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

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

The preparation of the consolidated financial statements 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Judgements made by the management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in United States dollars (“USD”), which is the Group’s functional currency. All financial information presented in USD has been rounded to the nearest thousand.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Subsidiaries

- (i) Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

- (ii) In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2 (o)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).
- (iii) A business combination involving entities or business under common control is a business combination in which all the combining entities or business ultimately are controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In the absence of more specific guidance, the Group consistently applies the book value measurement to all common control transactions.

#### (e) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred an obligations or has made payments on behalf of an associate.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(o)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

#### (g) Property, plant and equipment

##### (i) Owned assets

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

Cost included expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Property, plant and equipment (continued)

##### (ii) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### (iii) *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives as follows:

Buildings	30 years
Plant and machinery	15 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (h) **Construction in progress**

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(o)). Cost comprises direct costs of construction as well as interest charges during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in The People's Republic of China ("the PRC").

No depreciation is charged in respect of construction in progress until it is substantially complete and ready for its intended use.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(o)). The mining rights are amortised on a straight-line basis over the remaining useful life of 18 years.

#### (j) Lease prepayments

Lease prepayments represent the purchase cost of land use rights in the PRC. Land use rights are carried at cost less impairment losses (see note 2(o)) and are charged to profit or loss on a straight-line basis over the remaining useful life of 48 years.

#### (k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (l) Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

#### (n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(o)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(o)).

#### (o) Impairment

##### (i) *Impairment of receivables*

Current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is recognised in profit or loss and determined as follows:

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the receivables and the estimated future cash flows, discounted at the current market rate of return for similar receivables where the effect of discounting is material. Impairment losses for the receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For current receivables that are carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the receivables' original effective interest rate (i.e. the effective interest rate computed at initial recognition of these receivables), where the effect of discounting is material.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Impairment (continued)

##### (i) *Impairment of receivables (continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the receivables' carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

##### (ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- mining rights;
- goodwill; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

#### (1) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing the 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Impairment (continued)

##### (ii) *Impairment of other assets (continued)*

##### (2) Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### (3) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (q) Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### (r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

##### (i) *Sale of goods*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Revenue recognition (continued)

##### (ii) *Interest income*

Interest income from bank deposits is recognised in profit or loss as it accrues, using the effective interest method.

##### (iii) *Government grant*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income in the balance sheet and consequently recognised in profit or loss over the useful life of the asset.

#### (t) **Repair and maintenance**

Expenditure on repair and maintenance is charged to profit or loss as it is incurred.

#### (u) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in profit or loss 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 assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (u) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (u) Income tax (continued)

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (v) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

In accordance with the rules and regulations in the PRC, the Group has arranged for its local employees to join defined contribution retirement plans organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plans. The assets of those plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group is required to make monthly defined contributions to these plans at rates from 15% to 20% with the base of their total salary subject to a certain ceiling. The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed above.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (w) Operating lease payments

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

#### (x) Finance costs

Finance costs are recognised in profit or loss using the effective interest rate method.

#### (y) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

#### (z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (aa) Foreign currencies

##### (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 consolidated 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 ending at the dates of 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.

#### (ab) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture to which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

## Notes to the Consolidated Financial Statements

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (ab) Related parties (continued)

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## Notes to the Consolidated Financial Statements

### 3 SEGMENT REPORTING

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

#### Business segments

The Group comprises the following business segments:

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

There are no sales between the business segments.

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

## Notes to the Consolidated Financial Statements

## 3 SEGMENT REPORTING (Continued)

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

## Geographic segment

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

## 4 OTHER OPERATING INCOME

	Year ended 31 March	
	2007 US\$'000	2006 US\$'000
Demurrage income	2,123	2,345
Despatch and delivery income	749	327
Subsidy income – tax refund	1,919	–
Other	546	1
	<u>5,337</u>	<u>2,673</u>

## Notes to the Consolidated Financial Statements

### 5 PROFIT BEFORE TAXATION

(a) Profit before taxation is arrived at after charging:

	Year ended 31 March	
	2007 US\$'000	2006 US\$'000
(i) Staff costs		
Salaries, wages and other benefits	5,273	668
Contribution to retirement benefit schemes	287	22
	<u>5,560</u>	<u>690</u>
(ii) Other items:		
Cost of inventories	99,488	–
Auditors' remuneration	192	4
Operating lease charges in respect of:		
– motor vehicles	12	29
– property	172	21
Depreciation	7,122	21
Amortisation on mining rights	812	–
Amortisation on lease prepayments	239	–
	<u>108,264</u>	<u>74</u>

### 6 NON-OPERATING INCOME

The Group has been awarded a government grant during the year. The grant received amounted to US\$3,944,000 which is related to the proceeds received from sale of land.

## Notes to the Consolidated Financial Statements

## 7 DIRECTORS' EMOLUMENTS

	Year ended 31 March	
	2007 US\$'000	2006 US\$'000
Fees	365	–
Basic salaries, housing allowances, their allowance and benefits in kind	2,773	–
Contributions to pension schemes	60	–
	<u>3,198</u>	<u>–</u>

## 8 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	Year ended 31 March	
	2007 US\$'000	2006 US\$'000
<b>Current tax</b>		
Tax provision for the year – PRC Enterprise income tax	1,289	–
<b>Deferred tax</b>		
Origination and reversal of temporary differences	504	(1)
Total income tax expense/(credit)	<u>1,793</u>	<u>(1)</u>

(i) No provision for Hong Kong Profits Tax is made for 2006 and 2007 as the Group did not earn any income which is subject to Hong Kong Profits Tax.

## Notes to the Consolidated Financial Statements

### 8 INCOME TAX (Continued)

#### (a) Income tax in the consolidated income statement represents (continued):

(ii) Basis of taxation for the individual companies within the Group is as follows:

Prosperity Minerals Macao Commercial Offshore Limited ("PMMCO")	0%
Yingde Dragon Mountain Cement Company Limited ("YDM")	0%/15%

(a) PMMCO was incorporated in Macao as offshore limited company and is exempted from income tax in Macao under Decree Law No. 58/99/M.

(b) YDM was a sino-foreign enterprise and changed to a foreign-owned enterprise in 2006. Pursuant to relevant tax laws of the PRC, YDM is entitled to exemption from the PRC income tax for the first period/year and second year and a 50% relief for the next three years resulting a 15% income tax rate, commencing from the first profit-making period/year of operations. Accordingly, the income tax rate is 0% for the period from 13 April 2006 to 31 December 2006 as this was the second profit-making period. Thereafter, for the period from 1 January 2007 to 31 March 2007, the tax rate of YDM is 15%.

(iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to YDM will be reduced from 33% to 25% after the five-year tax holiday as mentioned in (ii) above. The financial effect of the new tax law on recognition of deferred taxation has been reflected in the financial statements for the year ended 31 March 2007.

#### (b) Reconciliation between actual tax expense/(credit) and accounting profit at applicable tax rates:

	Year ended 31 March	
	2007 US\$'000	2006 US\$'000
Profit before taxation	<u>45,869</u>	<u>33,567</u>
Notional tax on profit before taxation, calculated at the rate applicable to profit in the tax jurisdiction concerned	9,232	5,874
Tax effect of non-deductible expenses	658	–
Tax effect of non-taxable income	(584)	(5,875)
Tax effect of tax concession obtained	(7,513)	–
Actual tax expense/(credit)	<u>1,793</u>	<u>(1)</u>

## Notes to the Consolidated Financial Statements

### 9 DIVIDENDS

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

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

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

(b) The interim dividend declared included US\$3,168,000 waived by certain shareholders.

### 10 EARNINGS PER SHARE

#### (a) Basic earnings per share

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

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

#### (b) Diluted earnings per share

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

## Notes to the Consolidated Financial Statements

### 11 PROPERTY, PLANT AND EQUIPMENT

#### (a) The Group

	Buildings US\$'000	Construction- in- progress US\$'000	Plant and machinery US\$'000	Furniture and fixtures US\$'000	Office equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
<b>Cost:</b>							
At 1 April 2005	–	–	–	–	43	–	43
Additions	–	–	–	–	23	–	23
At 31 March and 1 April 2006	–	–	–	–	66	–	66
Additions	–	18,999	–	107	98	112	19,316
Additions: –through acquisition of subsidiary	35,118	25,007	78,663	–	91	250	139,129
Transfer from CIP	17,187	(34,916)	17,609	–	61	59	–
Exchange adjustments	1,250	890	2,802	–	3	9	4,954
At 31 March 2007	<u>53,555</u>	<u>9,980</u>	<u>99,074</u>	<u>107</u>	<u>319</u>	<u>430</u>	<u>163,465</u>
<b>Accumulated Depreciation:</b>							
At 1 April 2005	–	–	–	–	4	–	4
Charge for the year	–	–	–	–	21	–	21
At 31 March and 1 April 2006	–	–	–	–	25	–	25
Charge for the year	1,232	–	5,763	4	81	42	7,122
Additions: –through acquisition of subsidiary	1,149	–	6,469	–	73	123	7,814
Exchange adjustments	41	–	231	–	2	4	278
At 31 March 2007	<u>2,422</u>	<u>–</u>	<u>12,463</u>	<u>4</u>	<u>181</u>	<u>169</u>	<u>15,239</u>
Net book value:							
At 31 March 2006	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>41</u>	<u>–</u>	<u>41</u>
At 31 March 2007	<u>51,133</u>	<u>9,980</u>	<u>86,611</u>	<u>103</u>	<u>138</u>	<u>261</u>	<u>148,226</u>

## Notes to the Consolidated Financial Statements

### 11 PROPERTY, PLANT AND EQUIPMENT (Continued)

- (b) Certain property, plant and equipment were pledged to secure bank loans and borrowings (see note 22). The carrying amounts of the pledged assets at the respective dates are as follows:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Plant and machinery	22,062	–
	<u>22,062</u>	<u>–</u>

### 12 INVESTMENTS IN SUBSIDIARIES

	The Company At 31 March	
	2007 US\$'000	2006 US\$'000
Unlisted shares, at cost	1	–
	<u>1</u>	<u>–</u>

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 2(d) and have been consolidated into the Group's financial statements.

## Notes to the Consolidated Financial Statements

### 12 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Attributable equity interest %		Principal activity
			direct	indirect	
Pro-Rise Business Limited	British Virgin Islands/ Hong Kong	US\$1,000	100%	–	Investment holding
Prosperity Cement Investment Limited	Hong Kong	HK\$10,000	–	100%	Investment holding of cement business
Prosperity Materials Macao Commercial Offshore Limited	Macao	MOP100,000	–	100%	Trading of iron ores business
Prosperity Minerals Limited	Hong Kong	HK\$2	–	100%	Advisory, planning and administrative
Prosperity Minerals Finance Limited	British Virgin Islands/ Hong Kong	US\$10,000	–	100%	Treasury management
Prosperity Minerals (International) Limited	Hong Kong	HK\$2	–	100%	Investment holding of cement business
Prosperity Minerals International Investment Limited	British Virgin Islands/ Hong Kong	US\$10,000	–	100%	Investment holding
Prosperity Minerals Investment Limited	British Virgin Islands/ Hong Kong	US\$10,000	–	100%	Investment holding of cement business
Prosperity Minerals Management Limited	Hong Kong	HK\$100,000	–	100%	Human resources and administrative
Super Data Limited	British Virgin Islands/ Hong Kong	US\$1,000	–	100%	Freight chartering
Yingde Dragon Mountain Cement Company Limited	The PRC	RMB428,110,000	–	100%	Manufacture and sale of cement and clinker

## Notes to the Consolidated Financial Statements

## 13. MINING RIGHTS

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
<b>Cost:</b>		
<b>At 1 April</b>	–	–
Acquisition of subsidiary	17,536	–
Exchange adjustments	606	–
<b>At 31 March</b>	<b>18,142</b>	–
<b>Accumulated amortisation:</b>		
<b>At 1 April</b>	–	–
Amortisation for the year	812	–
<b>At 31 March</b>	<b>812</b>	–
<b>Net book value:</b>		
<b>At 31 March</b>	<b>17,330</b>	–

The mining rights represent the fair value of the right for mining limestone at a site located in Yingde City, Guangdong Province of the PRC. The amortisation charge for the year is included in “cost of sales” in the consolidated income statement.

## Notes to the Consolidated Financial Statements

### 14 LEASE PREPAYMENTS

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Medium-term leasehold land in the PRC	<u>15,045</u>	<u>–</u>

The Group has received a land use right certificate issued by the relevant government authorities for use of the land in Yingde City, Guangdong Province of the PRC for a period of 50 years to 6 January 2056.

### 15 INTEREST IN AN ASSOCIATE

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Share of net assets	<u>22,455</u>	<u>–</u>

Set out below are the particulars of the associate, which is an unlisted corporate entity and principally affected the results or assets of the Group.

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	Attributable equity interest % indirect	Principal activity
Prosperity Conch Cement Company Limited	The PRC	RMB580,000,000	25%	Manufacture and sale of cement and clinker

#### Summary financial information on associate

	Assets US\$'000	Liabilities US\$'000	Equity US\$'000	Revenues US\$'000	Profit after taxation US\$'000
2007					
100 percent	<u>254,414</u>	<u>(164,592)</u>	<u>89,822</u>	<u>135,427</u>	<u>12,946</u>
Group's effective share	<u>63,603</u>	<u>(41,148)</u>	<u>22,455</u>	<u>33,857</u>	<u>3,236</u>

On 13 April 2006, the Group acquired a 25% equity interest of the associate, Prosperity Conch Cement Company Limited ("PCC") at a consideration of US\$18,500,000 (RMB148,800,000).

## Notes to the Consolidated Financial Statements

### 16 GOODWILL

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Goodwill	<b>36,828</b>	–

Goodwill is allocated to the Group's cement and clinker cash-generating unit ("CGU").

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the one-year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations:

–Average gross margin	26%
–Average growth rate	5%
–Discount rate	6%

Management determined the budgeted gross margin and the growth rate based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

### 17 INVENTORIES

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Raw materials and consumables	<b>4,854</b>	–
Work in progress	<b>5,064</b>	–
Finished goods	<b>717</b>	–
	<b>10,635</b>	–

## Notes to the Consolidated Financial Statements

### 18 TRADE AND OTHER RECEIVABLES

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Trade receivables	9,826	4,067
Bills receivable	21,390	14,602
Prepayment	26,655	–
Other receivables	9,646	2,554
	<u>67,517</u>	<u>21,223</u>

Included in prepayment is US\$26,133,000 (2006: US\$Nil) made to iron ore suppliers in order to secure the goods.

### 19 OTHER FINANCIAL ASSETS

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Prepaid deposits	–	1,000
	<u>–</u>	<u>1,000</u>

### 20 AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The amounts are expected to be recovered within one year.

### 21 PLEDGED DEPOSITS

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

## Notes to the Consolidated Financial Statements

### 22 INTEREST BEARING LOANS AND BORROWINGS

Interest bearing loans and borrowings are repayable as follows:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
<b>Bank loans</b>		
Within 1 year or on demand	45,718	16,055
Over 1 year but less than 3 years	29,712	–
	<u>75,430</u>	<u>16,055</u>

At 31 March 2007, the bank loans bore interest at rates ranging from 3% to 7% (2006: 2% to 7%) per annum.

### 23 TRADE AND OTHER PAYABLES

	The Group At 31 March		The Company At 31 March	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Trade payables	33,395	5,379	–	–
Receipt in advance	7,300	–	–	–
Retention monies	4,378	–	–	–
Accruals	6,623	500	2,077	–
Payable for plant and equipment	5,852	–	–	–
Other payables	13,934	6	–	–
	<u>71,482</u>	<u>5,885</u>	<u>2,077</u>	<u>–</u>

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group At 31 March		The Company At 31 March	
	2007 '000	2006 '000	2007 '000	2006 '000
Renminbi	RMB 3,784	RMB 15	RMB –	RMB –
Great British Pounds	GBP 183	GBP –	GBP 178	GBP –
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## Notes to the Consolidated Financial Statements

### 24 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Provision for PRC Income Tax for the year	1,289	–
Balance of profits tax provision relating to prior year	18	18
	<u>1,307</u>	<u>18</u>

(b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation US\$'000	Revaluation of properties US\$'000	Others US\$'000	Total US\$'000
At 1 April 2005	(6)	–	–	(6)
Credited to profit or loss	1	–	–	1
At 31 March and 1 April 2006	(5)	–	–	(5)
Acquisition of subsidiary	–	(1,420)	(210)	(1,630)
Charged to profit or loss	–	–	(504)	(504)
Exchange adjustments	–	(52)	(8)	(60)
At 31 March 2007	<u>(5)</u>	<u>(1,472)</u>	<u>(722)</u>	<u>(2,199)</u>

## Notes to the Consolidated Financial Statements

## 25 LONG-TERM PAYABLES

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Loans from former shareholders of YDM	13,222	-
Others	356	-
	<u>13,578</u>	<u>-</u>

The loans from former shareholders of YDM are unsecured, interest-free and repayable on 31 March 2009.

## 26 SHARE CAPITAL

## (a) The Company

	Share capital US\$'000 Note (b)	Share premium US\$'000 Note (c)	Merger reserve US\$'000 Note (e)	Capital reserve US\$'000 Note (g)	Retained earnings US\$'000	Total US\$'000
At 1 April 2005	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-
At 31 March 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 1 April 2006	-	-	-	-	-	-
Issue of shares	1,415	189,624	-	-	-	191,039
Profit for the year	-	-	-	-	8,884	8,884
Acquisition of Pro-Rise	936	-	(933)	-	-	3
Dividend waived by certain shareholders	-	-	-	3,168	-	3,168
Dividend paid	-	-	-	-	(7,743)	(7,743)
At 31 March 2007	<u>2,351</u>	<u>189,624</u>	<u>(933)</u>	<u>3,168</u>	<u>1,141</u>	<u>195,351</u>

## Notes to the Consolidated Financial Statements

### 26 SHARE CAPITAL (Continued)

#### (b) Share capital

	2007		2006	
	No. of shares '000	'000	No. of shares '000	'000
<b>Authorised:</b>				
Ordinary shares of 1 pence each	<b>185,000</b>	<b>GBP 1,850</b>	–	GBP –
Equivalent to		<b>US\$ 3,349</b>		US\$ –
	2007		2006	
Ordinary shares, issued and fully paid:	No. of shares '000	US\$'000	No. of shares '000	US\$'000
At 1 April	–	–	–	–
Shares issued	<b>129,056</b>	<b>2,351</b>	–	–
At 31 March	<b>129,056</b>	<b>2,351</b>	–	–

- (i) On 18 May 2006, the Company issued 46,191,134 ordinary shares to the controlling shareholder, the sole shareholder of Pro-Rise, 2,581,128 ordinary shares to Max Will Profits Limited and 2,581,128 ordinary shares to Max Start Holdings Limited 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 had a share capital of US\$13,000 as at the acquisition date. The amount is removed upon consolidation.
- (ii) The Company's shares were successfully listed on the AIM market operated by the London Stock Exchange on 24 May 2006. An aggregate of 77,703,000 ordinary shares of a nominal value of 1 pence each were issued at a price £1.48 per share upon listing of the Company's shares on the AIM market. The Group raised US\$191,039,000 (net of related expenses) from the offer.

## Notes to the Consolidated Financial Statements

### 26 SHARE CAPITAL (Continued)

#### (c) Share premium

The application of the share premium account is governed by Article 39 of Companies (Jersey) Law 1991. The amount of expenses netted off against the share premium account was US\$18,450,000 (comprising advisory fees: US\$3,208,000, accountants' fees: US\$1,662,000, legal fees: US\$2,001,000, sponsor fees: US\$11,551,000 and others of US\$28,000).

#### (d) Statutory reserves

Transfer from retained earnings to statutory reserve has been made in accordance with the relevant PRC rules and regulations and the Articles of Association of the Company's subsidiary incorporated in the PRC and was approved by the subsidiary's board of directors.

##### (i) *Statutory surplus reserve*

The subsidiary in the PRC is required to transfer 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

##### (ii) *Enterprise development fund*

The subsidiary in the PRC is required to transfer 5% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the enterprise development fund. This fund can only be utilised on capital items for the collective benefits of the subsidiary's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to equity holders.

## Notes to the Consolidated Financial Statements

### 26 SHARE CAPITAL (Continued)

#### (e) Merger reserve

Merger reserve comprises the following:

- (i) The Company was incorporated on 26 January 2006 and later became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the combination was transferred to merger reserve.
- (ii) The excess of purchase consideration on acquisition of the remaining 25% equity interest in Yingde Dragon Mountain Cement Company Limited.

#### (f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(aa).

#### (g) Capital reserve

The capital reserve represents the dividend declared and waived by certain shareholders.

## Notes to the Consolidated Financial Statements

### 27 ACQUISITION OF SUBSIDIARY

On 13 April 2006, the Group acquired 75% equity interest, in Yingde Dragon Mountain Cement Company Limited ("YDM") at a total consideration of US\$95,519,000. YDM manufactures cement and clinker. From 13 April 2006 to 31 December 2006, YDM contributed profit of US\$26,906,000 to the consolidated profit for the year. The effect on the revenue and profit or loss of the acquired entity as if the acquisition had occurred at the beginning of the period is not material to the Group. The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values US\$'000	Fair value adjustments US\$'000	Carrying amounts US\$'000
Property, plant and equipment	131,314	(278)	131,592
Lease prepayments	14,763	2,679	12,084
Intangible assets	17,536	2,725	14,811
Inventories	9,463	419	9,044
Trade and other receivables	11,105	-	11,105
Pledged bank deposits	16,421	-	16,421
Cash and cash equivalents	4,818	-	4,818
Trade and other payables	(46,770)	-	(46,770)
Interest bearing loans and borrowings	(62,475)	-	(62,475)
Deferred tax liabilities	(1,630)	(1,630)	-
Other borrowings	(16,290)	-	(16,290)
Net identifiable assets and liabilities	78,255		74,340
Minority shares – Note (a)	(19,564)		
Goodwill on acquisition – Note (b)	36,828		
	95,519		
Satisfied by:			
Cash	80,105		
Other payables	15,414		
	95,519		
Cash and cash equivalents acquired	(4,818)		
Cash consideration paid	80,105		
Net cash outflow	75,287		

- a) The amount of cash consideration paid on the acquisition of minority shares is US\$45,550,000 (see note 31). This transaction took place on the same day as the acquisition of the 75% equity interest in YDM.
- b) Goodwill has arisen on the acquisition of YDM because of its well established market and strong customer network in the Guangdong region.

## Notes to the Consolidated Financial Statements

### 28 COMMITMENTS

#### (a) Acquisition of Anhui Chaodong Cement Company Limited

In 2006, the Company and Chaodong Group entered into a Share Transfer Agreement pursuant to which the Company agreed to acquire 80 million shares of Anhui Chaodong Cement Company Limited (“Chaodong Company”) (approximately 33% of the total number of shares of Chaodong Company) held by Chaodong Group at a price of RMB2.48 per share for a total cash consideration of approximately RMB198 million. The share transfer has been completed on 1 June 2007 and has become, legally, the largest shareholder of Anhui Chaodong.

In addition, the Company has committed to invest a total of RMB37,500,000 (equity contribution) in two joint venture companies with Anhui Chaodong Cement Company Limited.

#### (b) Capital commitments

At 31 March 2007, the Group had the following capital commitments in relation to the purchase of plant and equipment not provided for in the financial statements:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Contracted for	11,038	–

#### (c) Purchase commitments

At 31 March 2007, the Group had the following purchase commitments in relation to the purchase of iron ore not provided for in the financial statements:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Contracted for	358,864	430,637

## Notes to the Consolidated Financial Statements

### 29 OPERATING LEASES

At 31 March 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Less than one year	214	22
Between one and five years	347	–
	<u>561</u>	<u>22</u>

The Group leases office premises 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.

### 30 BANKING FACILITIES

At 31 March 2006 and 2007 the Group had aggregate banking facilities as follows:

	The Group At 31 March	
	2007 US\$'000	2006 US\$'000
Loan facilities	96,267	–
Letters of credit	128,000	138,000
	<u>224,267</u>	<u>138,000</u>
Amount utilised at 31 March	<u>97,478</u>	<u>33,033</u>

## Notes to the Consolidated Financial Statements

### 31 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group has the following related party transaction during the year:

On 13 April 2006, a wholly owned subsidiary of the Company acquired a 25% of the equity interest of YDM from a company controlled by the major shareholder of the Company for a consideration of US\$45,550,000 (GBP25,000,000).

### 32 CONTINGENT LIABILITIES

At 31 March 2006, the Group had contingent liabilities in respect of guarantees of US\$103,000,000 given to banks to secure facilities granted to a related party of the Group. The guarantees have been released during the year and the Group had no other contingent liabilities at 31 March 2007.

The directors do not consider it probable that claim will be made against the Company under any of the guarantees.

## Notes to the Consolidated Financial Statements

### 33 FINANCIAL INSTRUMENTS

Exposure to interest rate, credit, foreign currency and business risk arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

#### (a) Interest rate risk

Bank deposits, cash at bank, bank loans and loans from ex-shareholders of YDM are the major types of the Group's financial instruments subject to interest rate risk. The interest rates and terms of repayment of interest-bearing bank loans of the Group are disclosed in note 22.

	2007					2006		
	Effective interest rate %	Effective interest rate				Effective interest rate %	Effective interest rate	
		Total US\$'000	1 year or less US\$'000	1-2 years US\$'000	2-3 years US\$'000		Total US\$'000	1 year or less US\$'000
Repricing dates for assets/(liabilities) which reprice before maturity								
Cash at bank	2.21%	51,317	51,317	-	-	2.50%	4,633	4,633
Pledged deposits	2.21%	2,724	759	-	1,965	-	-	-
Bank loan	5.94%	(29,712)	(29,712)	-	-	-	-	-
		<u>24,329</u>	<u>22,364</u>	<u>-</u>	<u>1,965</u>		<u>4,633</u>	<u>4,633</u>
Maturity dates for assets/(liabilities) which do not reprice before maturity								
Bank loans	4.87%	(45,718)	(40,551)	-	(5,167)	6.15%	(16,055)	(16,055)
Loan from ex-shareholder of YDM	5.76%	(13,222)	-	(13,222)	-	-	-	-
		<u>(58,940)</u>	<u>(40,551)</u>	<u>(13,222)</u>	<u>(5,167)</u>		<u>(16,055)</u>	<u>(16,055)</u>

## Notes to the Consolidated Financial Statements

### 33 FINANCIAL INSTRUMENTS (Continued)

#### (b) Credit risk

The Group sold iron ore to companies engaged in the manufacturing of steel and trading of building materials and iron ore in PRC. As a result, the Group has significant concentration of receivables with these companies. At 31 March 2006 and 2007, the three largest receivable balances represent 96% and 96% of the total trade receivable balance relating to the iron ore business. However, the Group considers that credit risk relating to these sales is limited as the corresponding trade receivables is supported by letters of credit issued by reputable banks in PRC.

The Group sold cement and clinker mainly on cash against delivery or request deposits from customers. Credit terms are granted to reputable companies and government on individual contract basis. In order to further minimise the credit risk for these sales, the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Group considers that the credit risk in these sales is significantly reduced.

#### (c) Foreign currency risk

The Group's cement and clinker business is located in the PRC and represents a significant portion of the Group's turnover. The operating currency of these PRC customers is mainly Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange quoted by the People's Bank of China ("PBOC"). However, the unification of the exchange rate does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

The Group's other assets, liabilities and transactions were primarily denominated in United States dollars.

#### (d) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values at 31 March 2006 and 2007 due to the nature or short-term maturity of these instruments.

The carrying values of the Group's non-current financial liabilities approximate to their fair values based on a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

## Notes to the Consolidated Financial Statements

### 33 FINANCIAL INSTRUMENTS (Continued)

#### (e) Business risk

During the years ended 31 March 2006 and 2007, the Group signed purchase agreements with its suppliers for a period of one to five years. Purchases of iron ore from the three largest suppliers amounted to US\$120 million (2006: US\$112 million), representing 87% (2006: 81%) of the total iron ore purchases for the year ended 31 March 2007. Although the Group believes that it maintains good relationships with its suppliers, there can be no assurance that its suppliers will continue to sell to the Group on normal commercial terms as and when needed. In the event that these suppliers ceased to sell to the Group and the Group could not secure other sources of supply, the Group's turnover and profitability will be adversely affected.

### 34 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. Apart from the information about the assumptions and risk factors related to goodwill impairment as set out in note 16, the Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

## Notes to the Consolidated Financial Statements

### 34 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (a) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36 "Impairment of assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales volume, tariff and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, tariff and amount of operating costs.

#### (b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

## Notes to the Consolidated Financial Statements

### 34 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (c) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines production plants whether operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material.

The Group paid normal waste disposal fee of US\$173,000 for the year ended 31 March 2007 (2006: US\$Nil).

### 35 SHARE OPTION SCHEME

The Group has established a discretionary share option scheme. At 31 March 2007, no share options have been awarded under the scheme.

## Notes to the Consolidated Financial Statements

### 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2007

Up to the date of issue of these financial statements, the International Accounting Standards Board has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	<b>Effective for accounting periods beginning on or after 1 January 2007</b>
IFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007

## Information for Shareholders

The ordinary shares of Prosperity Minerals Holdings Limited are admitted to trading on AIM of the London Stock Exchange.

The Company's Nominated Advisor (NOMAD) and broker is Evolution Securities Limited.

Prosperity Minerals Holdings Limited has a website ([www.pmhl.co.uk](http://www.pmhl.co.uk)) on which press releases and background information on the Company and its operations can be found.

The share price is quoted on a daily basis in the Financial Times. Shares may be bought or sold through a stockbroker who is a member of the London Stock Exchange.

Market makers in the shares of the Company are Evolution Securities Limited, Shore Capital Group plc and Winterflood Securities Limited.

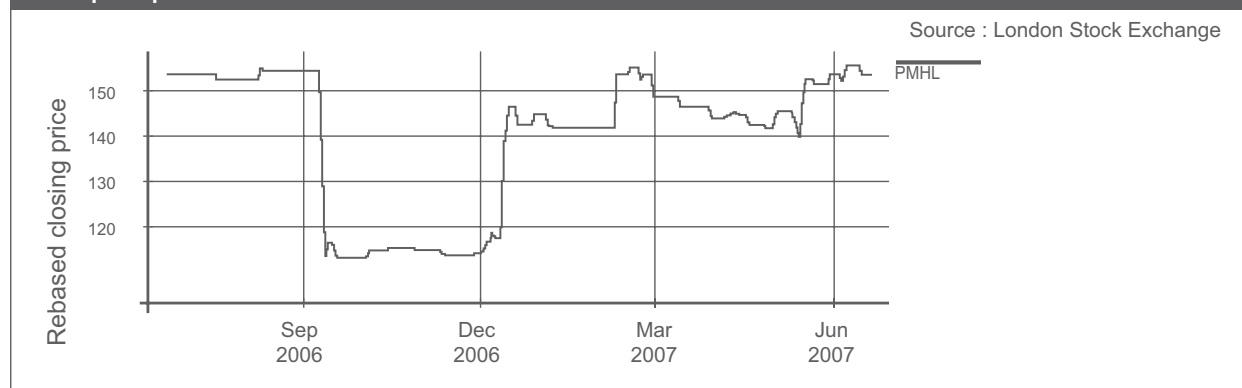
### Historical share prices

Quarter ending:	High, pence	Low, pence
30 June 2006	155	148
30 September 2006	154.5	113
31 December 2006	146.5	113
31 March 2007	155	141.5
Closing price:		Pence
31 March 2007		144

There are currently 129,056,392 ordinary shares in issue.

### Charting

#### Share price performance



## Definitions

AGM	annual general meeting in 2007
AIM	Alternative Investment Market
AIM Rules	the rules for AIM companies and their nominated advisers published by the London Stock Exchange governing admission to and the operation of AIM
Anhui Conch	Anhui Conch Cement Company Limited
Articles of Association	the articles of association of the Company
Chaodong	Anhui Chaodong Cement Company Limited
Companies Law	the Companies (Jersey) Law 1991
Company or Prosperity	Prosperity Minerals Holdings Limited
Directors or Board	the directors of the Company from time to time
Dividend cover (including proposed final dividend)	Earning per share/Dividend per share (including proposed final dividend)
Dividend cover (excluding proposed final dividend)	Earning per share/Dividend per share (excluding proposed final dividend)
Dividend per share	Dividend for the year/Weighted average number of ordinary shares during the year
EBITDA	Profit before tax + Depreciation during the year + Amortization during the year + Finance cost - Finance income
EBITDA interest cover	EBITDA/Interest expense
EBIT interest cover	(Profit before tax + Interest expense - Interest income)/Interest expense
Group	the Company and its subsidiaries
kW	kilowatt
kWh	Kilowatt-hour
London Stock Exchange	London Stock Exchange plc
NAV per share	(Total assets - total liabilities)/Weighted average number of ordinary shares during the year
Operating margin (%)	Profit from operation/Net sales x 100%
PCC	Prosperity Conch Cement Company Limited
PRC	The People's Republic of China
Quick ratio	(Current assets – Inventories)/Current Liabilities
ROCE	Return on Capital Employed
ROCE (%)	EBIT/(Total assets – Current Liabilities) x 100%
YDM	Yingde Dragon Mountain Cement Company Limited