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27 August 2009

The Board of Directors  
Prosperity International Holdings (H.K.) Limited  
Suites 1801-6, 18/F.  
Tower 2, The Gateway  
25 Canton Road  
Tsim Sha Tsui  
Kowloon

Dear Sirs,

In accordance with your instructions, we have undertaken a valuation exercise to express an independent opinion of the fair value of 100% equity interest in Prosperity Minerals Holdings Limited ("PMHL" or the "Target Company") as at 30 June 2009 (the "Valuation Date"). This letter summarizes the principal conclusions stated in our valuation report dated 6 July 2009.

The purpose of this valuation is to express an independent opinion of the fair value of the 100% equity interest as at 30 June 2009 for circular reference. We confirm that we have made relevant enquiries and obtained such further information as we considered necessary for the purpose of our valuation.

Our valuation was carried out on a fair value basis. Fair value is defined as "*the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction*".



## **BASIS OF OPINION**

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Committee. The valuation procedures employed include a review of physical and economic condition of the subject asset, an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the subject asset. All matters we consider essential to the proper understanding of the valuation are disclosed in the valuation report.

The following factors form an integral part of our basis of opinion:

- Assumptions on the market and the assets that are considered to be fair and reasonable;
- Financial performance that shows a consistent trend of the operation;
- Consideration and analysis on the micro and macro economy affecting the subject asset;
- Analysis on tactical planning, management standard and synergy of the subject asset;
- Analytical review of the subject asset; and
- Assessment of the leverage and liquidity of the subject asset.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.



## INTRODUCTION

Prosperity Minerals Holdings Limited has two business units, cement manufacturing and iron ore trading in the People's Republic of China ("PRC"), which is one of the largest and fastest growing economies in the world.

PMHL is a leading cement manufacturer in the PRC with production facilities located in key strategic markets regionally with access to efficient transportation network. Six investments in the companies include Yingde Dragon Mountain Cement Co., Ltd. (100%), Prosperity Conch Cement Co., Ltd. (25%), Anhui Chaodong Cement Co., Ltd. (33.06%), Guangzhou K. Wah Nanfang Cement Ltd. (40%), Yunnan Kungang K. Wah Construction Materials Ltd. (30%) and Baoshan Kungang K. Wah Cement Construction Materials Ltd. (30%). It is equipped with the state-of-the-art technology, New Dry Process ("NDP") cement production technology, which eliminates obsolete capacities. The Target Company is a highly efficient and low cost cement producer with easy access to large limestone deposit with favourable transportation infrastructure, and modern and large scale production lines with efficient power consumption. The gross cement and clinker capacity is 22.0 million tonnes per annum and the attributable saleable tonnage is 10.6 million tonnes per year. PMHL has also secured the following highly attractive Greenfield projects with significant growth potential: Liaoning Prosperity Cement Co., Ltd., Chongqing Changxing Cement Co., Ltd. and Guizhou Anshun Changxing Cement Co., Ltd., to further expand to new cities for regional diversification.

PMHL has also engaged in iron ore trading for the past 18 years with back-to-back transactional model to eliminate exposure to inventory or price risks. Reliable long-term supply of iron ore from reputable producers make iron ore trading business a significant revenue and profit contributor to the Target Company.



## VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three accepted approaches. They are market approach, cost approach and income approach. In this valuation, the income approach and cost approach are inappropriate for valuing the subject asset. Firstly, the income approach requires assumptions to which the valuation is highly sensitive. Moreover, detailed projections are needed to arrive at an indication of value. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject asset. We have therefore relied solely on the market approach in determining our opinion of value.

We are of opinion that the market approach is the most appropriate in the present circumstances. In this study, the fair value of the 100% equity interest in Prosperity Minerals Holdings Limited was developed through the application of the market approach technique known as the market multiple analysis method. This method requires the research of comparable companies' benchmark multiples and proper selection of suitable multiples to derive the fair value of the Target Company.

The price multiples of the selected comparable companies including enterprise value to EBITDA ("EV/EBITDA"), price to earnings ("P/E") and price to book value ("P/B" ratio) were then determined. Since the forecast of EBITDA and profit of PMHL involves subjective assumptions when compared to its book value, we considered P/B ratio to be the most objective and appropriate market multiple to estimate our concluded value of PMHL.



## ASSUMPTION

### General Assumptions

- In order to realise the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For the valuation exercise, we have assumed that all proposed facilities and systems will work properly and will be sufficient for future expansion.
- We have been provided with copies of the operating licences and incorporating documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information in arriving at our opinion of value.
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect the business of the Target Company.
- Operational and contractual terms bound by the contracts and agreements entered into by the Target Company will be honoured.
- Its competitive advantages and disadvantages do not change significantly during the period under consideration.



Under the market approach, in determining the fair value of the Target Company, a list of comparable companies was identified. The selection criteria include the following:

1. The operations of these companies are principally in the cement industry in the PRC
2. Listed in Hong Kong market

The exhaustive list of comparable companies satisfying the above criteria is listed below:

1. Anhui Conch Cement Company Limited (the “Anhui Conch”)
2. China National Building Material Company Ltd. (the “CNBM”)
3. China Shanshui Cement Group Limited (the “China Shanshui”)
4. Asia Cement China Holdings Corporation (the “Asia Cement”)
5. TCC International Holdings Limited (the “TCC International”)
6. Shanghai Allied Cement Limited (the “Shanghai Allied”)

Market multiples of companies listed in Hong Kong market are applied in this valuation exercise instead of the corresponding data in the AIM market in the United Kingdom (“UK”) because there are more PRC companies listed on the Stock Exchange of Hong Kong compared to the AIM market in UK. Furthermore, investors in Hong Kong generally have better knowledge and are generally more familiar with the PRC companies and the business environment in the PRC. Therefore market multiples of these companies in Hong Kong market could be applied to determine the fair value of the Target Company.

The data in the PRC stock markets has also not been considered in the valuation exercise because PRC stock markets are generally regarded as immature and without an efficient supply and demand mechanism that allows the participation of global capital. The unlisted PRC cement manufacturers are also not considered because there is insufficient pricing information on these companies.



As iron ore trading business only constitutes less than 5% of the Target Company, and the major growth driver of Prosperity Minerals Holdings Limited is derived from its cement business, listed companies of iron ore trading are not considered as comparable companies.

Production capacities of the comparable companies are considered as one of the key factors in determining the weightings of the market multiples of comparable companies in this valuation exercise. Since the production capacities of China Shanshui (21.4 mtpa)\* and Asia Cement (8.8 mtpa)\* are most comparable to that of PMHL (10.6 mtpa), higher weightings of their “P/B” ratio are applied (35% for China Shanshui and 45% for Asia Cement. Higher weighting is assigned with Asia Cement as it has the closest production capacity as compared with that of PMHL). The remaining 20% is evenly allocated to the remaining four comparable companies to capture their attributes to the cement market in China. However, smaller weighting of 5% is assigned to each of them for the following reasons. For Anhui Conch and CNBM, they are much bigger in size and have a production capacity of 93.5 mtpa\* and 80.2 mtpa\*, respectively, and they are strong market leaders. Therefore Anhui Conch and CNBM probably enjoy a premium in their valuations in the market and as a result, their P/B ratios are much higher (3.06 times and 3.72 times respectively) than other comparable companies. For TCC International, whose production capacity is 19.5 mtpa, it has been making losses in recent years and has only a P/B ratio of 1. This indicates that TCC International’s business is not in a stable condition and it has no excess return other than book value. As such, its situation is not in line with that of other comparable companies in the market. For Shanghai Allied, whose production capacity is 2.4 mtpa, as it is disposing of its cement manufacturing business and changing its business nature to the media industry, its market multiples might not reflect the value of its cement business. As such, the market multiples of Shanghai Allied would not be representative of the

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\* Production capacity, according to Merrill Lynch Research, is the attributable capacity of the company and its subsidiaries based on their equity interests.



cement companies in the PRC and therefore a small weighting is assigned to Shanghai Allied to capture some of its contribution to the cement market in the PRC.

Comparable Companies	Market Cap (US\$ mm)	Book Value (US\$ mm)	Weight	P/B
Asia Cement	1,136.5	947.8	45%	1.20
China Shanshui	1,942.4	668.0	35%	2.91
CNBM	4,808.7	1,293.3	5%	3.72
Anhui Conch	10,936.2	3,576.8	5%	3.06
TCC International Holdings Limited	485.3	476.2	5%	1.02
Shanghai Allied Cement Limited	91.4	40.4	5%	2.26
Weighted Average				2.06

#### VALUATION COMMENTS

The conclusion of value is based on accepted valuation procedures and practices promulgated in the International Valuation Standards that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company and Jones Lang LaSalle Sallmanns Limited.

Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.



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## OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that as at 30 June 2009, the fair value of 100% equity interest in Prosperity Minerals Holdings Limited is reasonably stated at the amount of **USD 557 million (UNITED STATES DOLLARS FIVE HUNDRED AND FIFTY SEVEN MILLION)**.

Yours faithfully,

For and on behalf of

**Jones Lang LaSalle Sallmanns Limited**

**Simon M.K. Chan**

CPA

Director

Note:

*Simon M.K. Chan is a CPA member of the Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation services to numerous listed and private companies in different industries in Mainland China, Hong Kong, Singapore and the United States. He has experience in valuation of companies engaged in similar business activities as those of PMHL.*