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PROSPERITY INTERNATIONAL HOLDINGS (H.K.) LIMITED

昌興國際控股(香港)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 803)

**MEMORANDUM OF UNDERSTANDING
RELATING TO A POSSIBLE ACQUISITION AND
CONNECTED TRANSACTION**

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

The Board announced that after trading hours on 2 September 2010, the Company entered into the Memorandum of Understanding with the Vendors to acquire the entire interests of the Target Company, which owns 70% equity interests in the Malaysian Iron Ore Joint Venture. The Memorandum of Understanding is non-legally binding save for certain provisions relating to confidentiality and exclusivity.

The Malaysian Iron Ore Joint Venture is engaged in the exploration, mining and processing of iron ore in Malaysia. As set out in the June 24 Circular, the Malaysian Iron Ore Joint Venture has a projected iron ore production capacity of 1.5 million metric tonnes, 2.5 million metric tonnes and 4 million metric tonnes for the financial years ending 31 March 2011, 31 March 2012 and 31 March 2013 respectively. Further information about the Malaysian Iron Ore Joint Venture is set out in the June 24 Circular.

The Memorandum of Understanding may or may not lead to the entering into of the Legally Binding Agreement and the Proposed Acquisition contemplated thereunder may or may not proceed. In the event that the Legally Binding Agreement materialises, the Proposed Acquisition contemplated thereunder may constitute a notifiable and connected transaction for the Company under the Listing Rules.

Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

As the Proposed Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when trading in the Shares.

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INFORMATION ON THE TARGET COMPANY AND THE MALAYSIAN IRON ORE JOINT VENTURE

The Target Company owns 70% of the interests in the Malaysian Iron Ore Joint Venture, the remaining 30% of which is owned by Mr. Tan.

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Prosperity Macao, a non-wholly owned subsidiary of the Company, has entered into the Master Off-take Agreement with Grace Wise (one of the entities of the Malaysian Iron Ore Joint Venture) pursuant to which Prosperity Macao would get the first right of refusal to purchase all the iron ore produced by the Malaysian Iron Ore Joint Venture during the effective period of the Master Off-take Agreement, being from 1 May 2010 to 31 March 2013.

The Target Company is 72.86% owned by Elite Force, which is wholly-owned by Mr. Wong a connected person of the Company by virtue of being an executive Director and chairman of the Company and, together with his associates, being the Controlling Shareholders.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the Vendors (other than Elite Force), Mr. Tan and their respective associates are Independent Third Parties.

PRINCIPAL TERMS OF THE MEMORANDUM OF UNDERSTANDING

The parties expect to enter into further discussion in respect of the Proposed Acquisition during the Exclusivity Period. It is expected that consummation of the Proposed Acquisition will only take place if the following conditions are met:-

Consideration

Under the Memorandum of Understanding, the parties shall negotiate in good faith to agree the consideration payable for the Proposed Acquisition, it being agreed that such consideration shall be determined by reference to, among others, the production capacity and reserves of the iron ore mines operated by the Malaysian Iron Ore Joint Venture and such other factors as the parties shall agree following arm's length negotiations.

It is expected that the consideration for the Proposed Acquisition shall be satisfied in part by payment of cash and in part by the issue of consideration Shares. The proportion of cash/equity and the issue price of the consideration Shares will be determined between the parties at the time of the finalization of the Legally Binding Agreement.

Conditions Precedent

Subject to the entering of the Legally Binding Agreement, completion of the Proposed Acquisition shall be conditional upon, among other things:-

- (a) the Company having conducted and completed business, technical, legal and financial due diligence on the Target Company and being satisfied with the results of the due diligence;
- (b) the parties having agreed on the appointment of an international technical adviser to prepare a technical report on the iron ore reserves of the iron ore mines operated by the Malaysians Iron Ore Joint Venture, which (i) complies with Chapter 18 of the Listing Rules, and (ii) is satisfactory to the Company in its absolute discretion;
- (c) the parties having obtained all requisite consents and approvals under applicable laws, regulations and the Listing Rules in relation to the Proposed Acquisition. In particular, the Legally Binding Agreement will be conditional upon the approval of the independent Shareholders; and

(d) the Company being satisfied that the Proposed Acquisition complies with all relevant Malaysian laws and regulations.

During the Exclusivity Period, the Company shall have the sole and exclusive right to negotiate with the Vendors with a view to agreeing and executing the Legally Binding Agreement in relation to the Proposed Acquisition. The Vendors have undertaken that, during the Exclusivity Period, the Vendors and their associates and related entities will not enter into any agreement or conduct any discussion or negotiation with any third party entity in relation to the Proposed Acquisition.

The Memorandum of Understanding is not legally binding save for the exclusivity right set out above and certain confidentiality provisions set out in the Memorandum of Understanding.

REASONS FOR THE PROPOSED ACQUISITION

The Company is an investment holding company and the Group is principally engaged in the trading of cement and, through Prosperity Minerals, the trading of iron ore and property development and investments.

As stated in the annual report of the Company for the year ended 31 March 2010, the Company is actively expanding its core businesses of iron ore and this business segment has become the Group's major income sources in the financial year of 2010. Given the increased iron ore price over the last year and the rising demand of steel and iron related products for the infrastructure development, in particular PRC, one of the largest consumers and the largest importers of the iron ore products, the Company believes this business will generate fruitful returns to the shareholders and the iron ore business will be the core strategic focus of the Company while continuing to identify more promising opportunities in the mineral resources industry.

It has been the Group's strategy to vertically expand its business. The Directors are of the view that the Proposed Acquisition represents a good opportunity for the Group to expand its business scope to the exploration and exploitation of iron ore.

At the same time, the Proposed Acquisition will also secure supply of iron ore for the Group's iron ore trading business. The Directors believe that with a secured supply of iron ore, the Group is in a better position to expand its trading business and to face any competition in the iron ore industry due to its cost advantage.

GENERAL

The Memorandum of Understanding may or may not lead to the entering into of the Legally Binding Agreement and the Proposed Acquisition contemplated thereunder

may or may not proceed. In the event that the Legally Binding Agreement materialises, the Proposed Acquisition contemplated thereunder may constitute a notifiable and connected transaction for the Company under the Listing Rules.

Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate.

As the Proposed Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when trading in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“associates”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Prosperity International Holdings (H.K.) Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of HKSE
“connected persons”	shall have the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	the controlling shareholder of the Company which, in this case, is Mr. Wong and his associates who together are interested in 3,630,206,324 Shares (representing approximately 65.3% of the issued share capital of the Company as at the date of this announcement)
“Director(s)”	the director(s) of the Company
“Elite Force”	Elite Force (Asia) Limited, a limited liability company incorporated under the laws of the British Virgin Islands and which is presently wholly-owned by Mr. Wong
“Exclusivity Period”	the period commencing from the date of the Memorandum of Understanding until six months thereafter or such longer period as parties may agree

“Grace Wise”	Grace Wise Pte Limited, a company incorporated under the laws of Singapore with limited liability and which is an entity of the Malaysian Iron Ore Joint Venture
“Group”	the Company and its subsidiaries
“HKSE”	The Stock Exchange of Hong Kong Limited
“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“June 24 Circular”	the circular dated 24 June 2010 relating to the Master Off-take Agreement issued by the Company
“Independent Third Party(ies)”	third party(ies) independent of the Company and any of its connected persons
“Legally Binding Agreement”	the formal sale and purchase agreement to be entered into between the Company (or its nominated entity) and the Vendors in the event that the Company proceeds with the Proposed Acquisition
“Listing Rules”	The Rules Governing the Listing of Securities on the HKSE
“Malaysian Iron Ore Joint Venture”	the joint venture arrangements between Mr. Wong and Mr. Tan as constituted by a framework agreement dated 7 May 2010 pursuant to which the parties established a group of companies in the British Virgin Islands, Malaysia and Singapore for the purposes of mining and processing of iron ore in Malaysia and the sale of such iron ore to customers within and outside Malaysia
“Master Off-take Agreement”	the iron ore master off-take agreement dated 31 May 2010 and entered into among Grace Wise and Prosperity Macao, as supplemented by an agreement dated 23 June 2010;
“Memorandum of Understanding”	the non-legally binding (save for certain provisions relating to confidentiality and exclusivity) memorandum of understanding dated 2 September 2010 entered into between the Company and the Vendors in relation to the Proposed Acquisition
“Mr. Tan”	Dato’ Hoe Beng Tan, a Singaporean individual;

“Mr. Wong”	Mr. Wong Ben Koon, executive Director and the chairman of the Company
“New Peak”	New Peak (Asia) Limited, a limited liability company incorporated under the laws of the British Virgin Islands and which is presently wholly-owned by Dr. Chow Pok Yu, Augustine, an Independent Third Party
“PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of China and Taiwan
“Proposed Acquisition”	the proposed acquisition of the Target Company by the Company
“Prosperity Macao”	Prosperity Materials Macao Commercial Offshore Limited, a limited liability company incorporated in Macau wholly owned by Prosperity Minerals
“Prosperity Minerals”	Prosperity Minerals Holdings Limited, a company incorporated in Jersey and whose shares are admitted to trading on the AIM Market of the London Stock Exchange plc.. As at the date of this announcement, Prosperity Minerals is owned as to 52.86% by the Company and is considered to be a subsidiary of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holders of Shares
“Target Company”	All Wealthy Capital Limited, a limited liability company incorporated under the laws of the British Virgin Islands and which is presently owned by Elite Force, New Peak and Zenor Investments in the proportions 72.86%, 20% and 7.14%
“Vendors”	the Vendors of the Target Company being Elite Force, New Peak and Zenor Investments

“Zenor Investments” Zenor Investments Limited, a limited liability company incorporated under the laws of the British Virgin Islands and which is presently wholly-owned by Mr. Yu Sai Ho, Gilbert, an Independent Third Party

“%” per cent.

By order of the Board
Prosperity International Holdings (H.K.) Limited
Wong Ben Koon
Chairman

Hong Kong, 2 September 2010

** For identification purpose only*

As at the date of this announcement, the executive Directors are Mr. Wong Ben Koon (Chairman), Mr. Sun Yong Sen (Deputy Chairman), Dr. Mao Shuzhong (Chief Executive Officer), Mr. Johannes Petrus Mulder, Ms. Gloria Wong and Mr. Kong Siu Keung, the non-executive Director is Mr. Liu Benren (Deputy Chairman) and the independent non-executive Directors are Mr. Yuen Kim Hung, Michael, Mr. Yung Ho, Mr. Chan Kai Nang, Mr. Ma Jianwu and Dr. Liang Dunshi.