

27 August 2009

The Board of Directors  
Prosperity International Holdings (H.K.) Limited

Dear Sirs,

## **INTRODUCTION**

We set out below our report on the financial information relating to Prosperity Minerals Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the three years ended 31 March 2007, 2008 and 2009 (the “Relevant Period”), the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2007, 2008 and 2009, together with explanatory notes thereto (the “Financial Information”) for inclusion in the circular of the Prosperity International Holdings (H.K.) Limited (“PIHL”) dated 27 August 2009 (the “Circular”) in connection with the proposed acquisition of the equity interests of the Company (the “Proposed Acquisition”).

The Company was incorporated in Jersey on 26 January 2006 and registered as a limited liability company with registered number 92284 under the Companies (Jersey) Law 1991. Its shares were admitted to trading on Alternative Investment Market of the London Stock Exchange on 24 May 2006.

The statutory financial statements of the following companies comprising of the Group for each of the three years ended 31 March 2007, 2008 and 2009, or since their respective dates of acquisition/establishment, where this is a shorter period, were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) or the relevant requirements of the Accounting Standards for Business

Enterprises and the Accounting Regulations for Business Enterprises (“PRC GAAP”) issued by the Ministry of Finance of the People’s Republic of China (the “PRC”) and were audited during the Relevant Period by the respective statutory auditors as indicated below:

<b>Name of subsidiaries</b>	<b>Financial period</b>	<b>Statutory auditors</b>
Yingde Dragon Mountain Cement Co., Ltd. <sup>1</sup>	Years ended 31 December 2006, 2007, and 2008	Sichuan Junhe Certified Public Accountants Co., Ltd. <sup>1</sup> (四川君和會計師事務所)
Liaoning Prosperity Cement Company Limited <sup>1</sup> (遼寧昌慶水泥有限公司)	For the period from 14 December 2007 (date of incorporation) to 31 December 2008	Liao Yang Zhi Cheng Lian He CPA <sup>1</sup> (遼陽志誠聯合會計師事務所)
Prosperity Cement Investment Limited	For the period from 24 January 2006 (date of incorporation) to 31 March 2008 and year ended 31 March 2009	Lau & Lei CPA Limited
Prosperity Minerals (International) Limited	Years ended 31 March 2007, 2008 and 2009	Lau & Lei CPA Limited
Star Home Limited (星園有限公司)	Years ended 31 March 2007, 2008 and 2009	Deloitte Touche Tohmatsu CPA Ltd

As at the date of this report, no audited financial statements have been prepared for Pro-Rise Business Limited, Upper Value Investments Limited, Prosperity Minerals Investment Limited, Super Data Limited, Prosperity Minerals International Investment Limited, Crown Wise Limited, Carpetwise Investments Holding Limited, Atlantic Wise Limited, Win Cross Limited, Prosperity Minerals Finance Limited, Prosperity Minerals ( China ) Limited, and Mega East Limited (巨東有限公司) as these companies have not carried on any business other than acting as investment holding companies and they are incorporated in country where there is no statutory audit requirements. In addition, no statutory audited financial statements have been prepared for Guizhou Anshun Changxing Cement Company Limited<sup>1</sup> (貴州安順昌興水泥有限責任公司) and Chongqing Changxing Cement Company Limited<sup>1</sup> (重慶昌興水泥有限公司) since their dates of establishment as they have not yet commenced business. We have, however, reviewed all significant transactions of these companies from their respective dates of establishment/incorporation to 31 March 2009 for the purpose of this report.

We acted as the auditors of Prosperity Materials Macao Commercial Offshore Limited (昌盛物料澳門離岸商業服務有限公司), Prosperity Minerals Management Limited (昌興礦業管理有限公司), Prosperity Minerals Limited (昌興礦業有限公司), Way Zone Limited (匯松有限公司), Kiton Limited (杰安有限公司), Hensford Limited (瀚福有限公司), Sure Kit Limited (瑞傑有限公司) and Prime York Limited (栢佑有限公司) for the years ended 31 March 2007, 2008 and 2009 or since their dates of incorporation.

Yingde Dragon Mountain Cement Co., Ltd, Liaoning Prosperity Cement Company Limited (遼寧昌慶水泥有限公司), Chongqing Changxing Cement Company Limited<sup>1</sup> (重慶昌興水泥有限公司) and Guizhou Anshun Changxing Cement Company Limited<sup>1</sup> (貴州安順昌興水泥有限責任公司) have adopted 31 December as their financial year end for statutory reporting purposes.

<sup>1</sup> The English translation of the company and auditor names is for reference only. The official names of the companies and auditors established in the PRC are in Chinese.

## **BASIS OF PREPARATION**

The Financial Information has been prepared by the directors of the Company based on the audited financial statements, after making adjustments as are appropriate. Adjustments have been made for the purpose of this report to restate these financial statements to conform with the accounting policies referred to in Section B, which are in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). IFRSs include International Accounting Standards (“IASs”) and related Interpretations.

No adjustments were necessary, for the purpose of this report, to restate these financial statements to conform with the accounting policies of PIHL as described in Note 3 of the Notes to the Financial Information for the financial information of PIHL as appended in Appendix I

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS**

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures. KPMG has consented to the inclusion of this Accountants’ Report in the Circular in the form and context in which it is so included, but has not authorised the issue of the Circular. Accordingly, KPMG makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Circular.

## **BASIS OF OPINION**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institution of Certified Public Accountants (the “HKICPA”) and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the reporting accountant” (“Statement 3.340”) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation and true and fair presentation of the Financial Information 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 Information.

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

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 31 March 2009.

## **OPINION**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2(b) of Section B below, the Financial Information, gives a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007, 2008 and 2009 and of the consolidated results and cash flows for the Relevant Period then ended.

## A FINANCIAL INFORMATION

### 1 CONSOLIDATED INCOME STATEMENTS

	<i>Note</i>	<b>Years ended 31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Revenue</b>	3 & 13	331,339	507,532	647,714
Cost of sales		<u>(281,918)</u>	<u>(437,904)</u>	<u>(598,169)</u>
<b>Gross profit</b>		49,421	69,628	49,545
Other operating income	4	5,337	4,072	5,554
Distribution expenses		(3,733)	(6,666)	(8,406)
Administrative expenses		<u>(10,100)</u>	<u>(19,913)</u>	<u>(25,085)</u>
<b>Profit from operations</b>		40,925	47,121	21,608
Finance income	5(b)	3,510	1,508	565
Finance expenses	5(c)	(5,746)	(8,769)	(23,961)
Gain on re-measurement of derivative financial instruments to fair value	28	—	—	4,987
Non-operating income	6	3,944	—	—
Negative goodwill arising from acquisition of a subsidiary	33(b)	—	—	2,195
Negative goodwill arising from acquisition of an associate	19(b)	—	1,200	—
Share of loss of a jointly controlled entity	18(b)	—	—	(2,693)
Share of profits less losses of associates	19(h)	<u>3,236</u>	<u>18,224</u>	<u>5,002</u>
<b>Profit before taxation</b>	5	45,869	59,284	7,703
Income tax	7(a)	<u>(1,793)</u>	<u>(5,316)</u>	<u>(3,205)</u>
<b>Profit for the year</b>		<u><u>44,076</u></u>	<u><u>53,968</u></u>	<u><u>4,498</u></u>

		<b>Years ended 31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Attributable to:</b>				
Equity shareholders of the Company		44,076	53,968	4,832
Minority interests		<u>—</u>	<u>—</u>	<u>(334)</u>
<b>Profit for the year</b>		<u>44,076</u>	<u>53,968</u>	<u>4,498</u>
<b>Dividends payable to equity shareholders of the Company attributable to the years:</b>				
	8			
Interim dividend declared during the year		7,743	7,743	—
Final dividend proposed after the balance sheet date		<u>—</u>	<u>15,486</u>	<u>2,253</u>
		<u>7,743</u>	<u>23,229</u>	<u>2,253</u>
<b>Earnings per share (cent)</b>				
	9			
Basic and diluted		<u>0.37</u>	<u>0.42</u>	<u>0.04</u>

The accompanying notes form part of the Financial Information.

## 2 CONSOLIDATED BALANCE SHEETS

		<b>31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	14	148,226	173,354	185,407
Mining rights	16	17,330	17,575	17,113
Lease prepayments	17	15,045	15,967	22,208
Interest in a jointly controlled entity	18	—	—	17,220
Interests in associates	19	22,455	74,698	128,312
Other investments	20	—	827	—
Goodwill	21	36,828	41,513	43,353
Non-current prepayments	24	—	2,794	26,235
Deferred tax assets	29(b)	—	—	113
Pledged deposits	25	—	2,139	—
		<u>239,884</u>	<u>328,867</u>	<u>439,961</u>
<b>Current assets</b>				
Inventories	22	10,635	17,312	10,374
Trade and other receivables	23	67,517	50,283	83,858
Pledged deposits	25	2,724	300	6,030
Cash and cash equivalents		<u>51,320</u>	<u>41,698</u>	<u>49,803</u>
		<u>132,196</u>	<u>109,593</u>	<u>150,065</u>
<b>Current liabilities</b>				
Bank loans	26	45,718	41,582	25,118
Trade and other payables	28	71,482	57,885	98,908
Secured note	27	—	—	18,904
Income tax payable	29(a)	1,307	1,575	682
		<u>118,507</u>	<u>101,042</u>	<u>143,612</u>
<b>Net current assets</b>		<u>13,689</u>	<u>8,551</u>	<u>6,453</u>
<b>Total assets less current liabilities</b>		<u>253,573</u>	<u>337,418</u>	<u>446,414</u>

		<b>31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Non-current liabilities</b>				
Bank loans	26	29,712	74,960	80,700
Long term payables	30	13,578	—	—
Secured note	27	—	—	82,664
Deferred tax liabilities	29(b)	<u>2,199</u>	<u>2,723</u>	<u>3,795</u>
		<u>45,489</u>	<u>77,683</u>	<u>167,159</u>
<b>Net assets</b>		<u><u>208,084</u></u>	<u><u>259,735</u></u>	<u><u>279,255</u></u>
<b>Capital and reserves</b>				
Share capital	32(b)	2,351	2,351	2,415
Reserves		171,149	198,451	222,167
Retained earnings		<u>34,584</u>	<u>58,933</u>	<u>45,467</u>
<b>Equity attributable to equity holders of the Company</b>				
		208,084	259,735	270,049
Minority interests		<u>—</u>	<u>—</u>	<u>9,206</u>
<b>Total equity</b>		<u><u>208,084</u></u>	<u><u>259,735</u></u>	<u><u>279,255</u></u>

The accompanying notes form part of the Financial Information.

### 3 BALANCE SHEETS OF THE COMPANY

	<i>Note</i>	<b>31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Non-current assets</b>				
Investments in subsidiaries	15	1	1	1
Amounts due from subsidiaries	15	—	199,358	207,673
Other investments	20	—	827	—
		<u>1</u>	<u>200,186</u>	<u>207,674</u>
		-----	-----	-----
<b>Current assets</b>				
Amounts due from subsidiaries	15	188,306	—	—
Prepayments	23	—	214	1,054
Cash and cash equivalents		<u>9,121</u>	<u>608</u>	<u>50</u>
		<u>197,427</u>	<u>822</u>	<u>1,104</u>
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<b>Current liability</b>				
Accruals and other payables	28	<u>2,077</u>	<u>1,997</u>	<u>1,165</u>
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<b>Net current assets/(liabilities)</b>		<u>195,350</u>	<u>(1,175)</u>	<u>(61)</u>
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<b>Net assets</b>		<u>195,351</u>	<u>199,011</u>	<u>207,613</u>
		=====	=====	=====
<b>Capital and reserves</b>				
	32(a)			
Share capital		2,351	2,351	2,415
Reserves		191,859	193,741	203,245
Retained earnings		<u>1,141</u>	<u>2,919</u>	<u>1,953</u>
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<b>Total equity</b>		<u>195,351</u>	<u>199,011</u>	<u>207,613</u>
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The accompanying notes form part of the Financial Information.

#### 4 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserves	Merger reserve	Exchange reserve	Capital reserve	Retained earnings	Total	Minority interests	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	Note 32(b)	Note 32(c)	Note 32(d)	Note 32(e)	Note 32(f)	Note 32(g)				
At 1 April 2006	13	—	—	—	—	—	4,921	4,934	—	4,934
Issue of shares net of expenses — note 32(b)(ii)	1,415	189,624	—	—	—	—	—	191,039	—	191,039
Profit for the year	—	—	—	—	—	—	44,076	44,076	—	44,076
Removal of share capital of Pro-Rise Business Limited (“Pro-Rise”) from aggregation — note 32(b)(i)	(13)	—	—	—	—	—	—	(13)	—	(13)
Acquisition of subsidiaries	936	—	—	(26,918)	—	—	—	(25,982)	—	(25,982)
Exchange difference arising on translation of financial statements of foreign operations	—	—	—	—	3,526	—	—	3,526	—	3,526
Dividend paid to ex-equity shareholder	—	—	—	—	—	—	(4,921)	(4,921)	—	(4,921)
Transfer to statutory reserves	—	—	1,749	—	—	—	(1,749)	—	—	—
Dividend paid	—	—	—	—	—	3,168	(7,743)	(4,575)	—	(4,575)
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>	<u>—</u>	<u>208,084</u>
At 1 April 2007	2,351	189,624	1,749	(26,918)	3,526	3,168	34,584	208,084	—	208,084
Profit for the year	—	—	—	—	—	—	53,968	53,968	—	53,968
Exchange difference arising on translation of financial statements of foreign operations	—	—	—	—	19,030	—	—	19,030	—	19,030
Transfer to statutory reserves	—	—	6,390	—	—	—	(6,390)	—	—	—
Equity settled share-based transactions	—	—	—	—	—	1,882	—	1,882	—	1,882
Dividend paid	—	—	—	—	—	—	(23,229)	(23,229)	—	(23,229)
At 31 March 2008	<u>2,351</u>	<u>189,624</u>	<u>8,139</u>	<u>(26,918)</u>	<u>22,556</u>	<u>5,050</u>	<u>58,933</u>	<u>259,735</u>	<u>—</u>	<u>259,735</u>

	Share capital	Share premium	Statutory reserves	Merger reserve	Exchange reserve	Capital reserve	Retained earnings	Total	Minority interests	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	Note 32(b)	Note 32(c)	Note 32(d)	Note 32(e)	Note 32(f)	Note 32(g)				
At 1 April 2008	2,351	189,624	8,139	(26,918)	22,556	5,050	58,933	259,735	—	259,735
Shares issued in lieu of dividends	64	6,260	—	—	—	—	—	6,324	—	6,324
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	9,301	9,301
Profit for the year	—	—	—	—	—	—	4,832	4,832	(334)	4,498
Exchange difference arising on translation of financial statements of foreign operations	—	—	—	—	11,354	—	—	11,354	239	11,593
Transfer to statutory reserves	—	—	2,858	—	—	—	(2,858)	—	—	—
Equity settled share-based transactions										
- Amount recognised during the year	—	—	—	—	—	3,290	—	3,290	—	3,290
- Forfeiture of share options	—	—	—	—	—	(46)	46	—	—	—
Dividend paid	—	—	—	—	—	—	(15,486)	(15,486)	—	(15,486)
At 31 March 2009	<u>2,415</u>	<u>195,884</u>	<u>10,997</u>	<u>(26,918)</u>	<u>33,910</u>	<u>8,294</u>	<u>45,467</u>	<u>270,049</u>	<u>9,206</u>	<u>279,255</u>

The accompanying notes form part of the Financial Information.

## 5 CONSOLIDATED CASH FLOW STATEMENTS

	<i>Note</i>	<b>31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Operating activities</b>				
Profit before taxation		45,869	59,284	7,703
Adjustments for:				
- Depreciation		7,122	9,520	11,478
- Amortisation		1,051	1,616	1,683
- Equity settled share-based transactions		—	1,882	3,290
- Gain on disposal of property, plant and equipment		—	—	(45)
- Impairment loss on other receivables		—	1,000	—
- Foreign exchange loss		1,947	940	145
- Finance income	5(b)	(3,510)	(1,508)	(565)
- Finance expenses	5(c)	5,746	8,769	23,961
- Gain on re-measurement of derivative financial instruments to fair value		—	—	(4,987)
- Non-operating income	6	(3,944)	—	—
- Negative goodwill arising from acquisition of a subsidiary	33(b)	—	—	(2,195)
- Negative goodwill arising from acquisition of an associate	19(b)	—	(1,200)	—
- Share of loss in a jointly controlled entity	18(b)	—	—	2,693
- Share of profits less losses of associates	19(h)	(3,236)	(18,224)	(5,002)
<b>Operating profit before changes in working capital</b>		51,045	62,079	38,159
(Increase)/decrease in inventories		(1,173)	(5,735)	7,335
(Increase)/decrease in trade and other receivables		(35,197)	17,846	(44,276)
Decrease in other financial assets		1,000	—	—
Increase in amounts due from associates		—	—	(7,699)
Increase/(decrease) in trade and other payables		2,992	(18,688)	28,884
<b>Cash generated from operations</b>		18,667	55,502	22,403
Receipt of government grant	6	3,944	—	—
Tax paid		(18)	(5,000)	(3,115)
<b>Net cash generated from operating activities</b>		22,593	50,502	19,288

		<b>31 March</b>		
		<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Investing activities</b>				
Interest received		1,562	568	320
Payment for purchase of property, plant and equipment		(19,316)	(22,034)	(16,130)
Proceeds from disposal of property, plant and equipment		—	—	878
Dividend received from an associate		—	—	14,557
Payment for other investments		—	(827)	—
Net cash outflow from acquisition of minority interests		(45,550)	—	—
Net cash outflow from acquisition of associates	19(b), (c) & (d)	(18,088)	(27,744)	(57,466)
Net cash outflow from acquisition of subsidiaries		<u>(75,287)</u>	<u>—</u>	<u>(9,701)</u>
<b>Net cash used in investing activities</b>		<u>(156,679)</u>	<u>(50,037)</u>	<u>(67,542)</u>
<b>Financing activities</b>				
Decrease/(increase) in pledged deposits		13,697	285	(3,402)
Proceeds from new bank loans		70,365	265,402	168,371
Repayment of bank loans		(80,501)	(230,524)	(88,029)
Repayment of long-term payables		—	(16,098)	—
Interest paid		(4,227)	(7,147)	(12,531)
Proceeds from issue of new shares	32(b)(ii)	191,039	—	—
Dividend paid to ex-equity shareholders	8(a)	(4,922)	—	—
Dividends paid to equity shareholders of the Company	8(a)	<u>(4,575)</u>	<u>(23,229)</u>	<u>(9,162)</u>
Net cash generated from/(used in) financing activities		<u>180,876</u>	<u>(11,311)</u>	<u>55,247</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		46,790	(10,846)	6,993
Cash and cash equivalents at 1 April		4,633	51,320	41,698
Effect of foreign exchange rates changes		<u>(103)</u>	<u>1,224</u>	<u>1,112</u>
<b>Cash and cash equivalents at 31 March</b>		<u>51,320</u>	<u>41,698</u>	<u>49,803</u>

The accompanying notes form part of the Financial Information.

## **B NOTES TO THE FINANCIAL INFORMATION**

### **1 Background**

Prosperity Minerals Holdings Limited (“the Company” or “the Group”), 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 Heller, Jersey JE4 9WG, Channel Islands.

The Company’s shares were admitted to trading on AIM on 24 May 2006 by way of a placing of shares (“the Placing”) 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 GBP0.01 each. On 12 September 2008, 3,489,000 shares were issued in lieu of dividend and there have been no further issuance of share.

### **2 Significant accounting policies**

#### **(a) Statement of compliance**

The Financial Information have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and related interpretations promulgated by the International Accounting Standards Board (the “IASB”).

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group’s or the Company’s operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

#### **(b) Basis of preparation of the Financial Information**

The Financial Information for the years ended 31 March 2007, 2008 and 2009 comprises the Company and its subsidiaries and the Group’s interests in associates and a jointly controlled entity.

The measurement basis used in the preparation of the Financial Information is the historical cost basis, except for certain derivative financial liabilities, which have been measured at fair values.

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

(c) ***Functional and presentation currency***

The accompanying Financial Information has been expressed in United States dollars (“US\$”). The functional currencies of the Company and its subsidiaries are the British Pounds (“GBP”), US\$ and Renminbi (“RMB”), whereas the functional currency of the Company’s major operating subsidiaries engaged in trading of iron ore is US\$. Accordingly, the Financial Information has been presented in US\$. All Financial Information presented in US\$ has been rounded to the nearest thousand.

(d) ***Subsidiaries and minority interests***

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 Financial Information from the date that control commences until the date that control ceases.

Where losses applicable to the minority exceed the minority’s interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group’s interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group’s interest is allocated all such profits until the minority’s share of losses previously absorbed by the Group has been recovered.

Intra-group balances and transactions and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. 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.

In the Company’s balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(q)(ii)).

(e) ***Associates and jointly controlled entity***

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the Financial Information under equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group’s share of the associate’s net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The Financial Information include the Group’s share of the post-acquisition, post-tax results of the associates and jointly controlled entity for the year, including any impairment loss on goodwill relating to the investments in associates and jointly controlled entity recognised for the year (see note 2(f) and (q)(ii)).

When the Group’s share of losses exceeds its interest in the associate or jointly controlled entity, the Group’s interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group’s interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group’s long-term interests that in substance form part of the Group’s net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group’s interest in associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

(f) **Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in associate or a jointly controlled entity 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(q)(ii)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(q)(ii)).

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 or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

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

(g) **Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the profit or loss.

(h) **Other investments in debt and equity securities**

The Group's and Company's policies for investments in equity securities, other than investments in subsidiaries and associates and jointly controlled entity, are as follows:

- Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.
- Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(q)(i)).
- Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(q)(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.
- Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(i) **Property, plant and equipment**

(i) Recognition and measurement

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

Cost includes 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.

Gain and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in profit or loss.

(ii) **Subsequent cost**

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	3-5 years
Office equipment	3-5 years
Motor vehicles	2-5 years

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

(j) ***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(q)(ii)). 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.

(k) ***Mining rights***

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(q)(ii)). The mining rights are amortised on a straight-line basis over the estimated remaining useful life of 15 years.

(l) ***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(q)(ii)) and are charged to profit or loss on a straight-line basis over the remaining useful lives of 44 years to 47 years.

(m) ***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.

(n) ***Inventories***

Inventories are measured 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 costs of purchase, costs of conversion and other costs incurred in 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.

(o) ***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.

(p) ***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(q)(i)), 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(q)(i)).

(q) ***Impairment of assets***

- (i) Investments in equity securities (other than investments in subsidiaries: see note 2(q)(ii)) and 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. Objective evidence of impairment includes observable data that come to the attention of the Group about one or more of the following loss events:
- significant financial difficulty of the debtors;
  - a breach of contract, such as a default or delinquency in interest or principal payment;
  - it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
  - significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
  - a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in associates and jointly controlled entity recognised using the equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount (determined in accordance note 2(q)(ii)) of the investment as a whole with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(e).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flow for financial assets which are assessed for impairment collectively is based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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;
- construction in progress;
- lease prepayments;
- mining rights;
- non-current prepayments;
- 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.

— 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).

— 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.

— 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.

(r) *Trade and other payables*

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between 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.

(t) ***Employee benefits***

(i) Short term employee benefits and contribution to defined contribution retirement plans

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 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 benefit of employees or retirees other than the payments disclosed above.

(ii) Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(u) ***Financial guarantees issued, provisions and contingent liabilities***

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Company's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(u)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) **Contingent liabilities acquired in business combinations**

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(u)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(u)(iii).

(iii) **Other 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.

(v) ***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.

(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.

(w) ***Repair and maintenance***

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

(x) **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.

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 limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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:

- 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.

(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 of 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 this Financial Information.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

(aa) ***Foreign currencies***

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated to US\$ at the exchange rate ruling at that date. Exchange differences arising on translation are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into US\$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into US\$ at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(ab) ***Borrowing costs***

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs are part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(ac) **Related parties**

For the purposes of this Financial Information, 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;
- (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.

3 **Revenue**

The Group is principally engaged in the manufacture and sale of cement and clinker and the trading of iron ore.

Revenue represents the invoiced sales net of sales discounts, sales returns and value added tax.

	Years ended 31 March		
	2007	2008	2009
	US\$'000	US\$'000	US\$'000
Manufacture and sale of cement and clinker	124,401	167,985	180,691
Trading of iron ore	<u>206,938</u>	<u>339,547</u>	<u>467,023</u>
	<u>331,339</u>	<u>507,532</u>	<u>647,714</u>

4 **Other operating income**

	<b>Years ended 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Demurrage income	2,123	2,919	3,965
Despatch and delivery income	749	476	301
Detention income	—	—	163
Subsidy income - tax refund	1,919	—	—
Sales of scrap materials	—	366	247
Sales of raw materials	—	—	144
Other	<u>546</u>	<u>311</u>	<u>734</u>
	<u><u>5,337</u></u>	<u><u>4,072</u></u>	<u><u>5,554</u></u>

5 **Profit before taxation**

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

	<b>Years ended 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>(a) Staff costs:</b>			
Salaries, wages and other benefits	5,273	11,139	10,279
Contribution to retirement benefit schemes	287	689	1,037
Equity settled share-based payments (note 31)	<u>—</u>	<u>1,082</u>	<u>1,891</u>
	<u><u>5,560</u></u>	<u><u>12,910</u></u>	<u><u>13,207</u></u>
<b>(b) Finance income:</b>			
Interest income on financial assets not at fair value through profit or loss	(1,562)	(567)	(320)
Net exchange gain	(1,948)	(941)	(145)
Financial guarantee issued	<u>—</u>	<u>—</u>	<u>(100)</u>
	<u><u>(3,510)</u></u>	<u><u>(1,508)</u></u>	<u><u>(565)</u></u>

	<b>Years ended 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>(c) Finance expenses:</b>			
Interest on bank advances and other borrowings wholly repayable within five years	6,197	9,391	24,709
Less: borrowing costs capitalised into construction-in-progress*	<u>(451)</u>	<u>(622)</u>	<u>(748)</u>
	<u>5,746</u>	<u>8,769</u>	<u>23,961</u>

\* Borrowing costs were capitalised at the average interest rate of 22.89% (2008:6.38%, 2007 5.03%) per annum

<b>(d) Other items</b>			
Cost of inventories (note (i))	284,901	433,429	591,897
Depreciation (note (ii))	7,122	9,520	11,478
Amortisation on mining rights	812	1,226	1,155
Amortisation on lease prepayments	239	390	528
Impairment loss on other receivables	—	1,000	—
Operating lease charges in respect of:			
- motor vehicles	12	38	151
- property	172	515	571
Auditor's remuneration	<u>192</u>	<u>726</u>	<u>437</u>

*Notes:*

- (i) Cost of inventories includes US\$13,854,000 (2008: US\$11,682,000, 2007: US\$8,435,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(a) for each of these types of expenses.
- (ii) Depreciation charge of US\$147,000 (2008:US\$Nil, 2007:US\$Nil) relating to plant and machinery used in buildings under construction was capitalised under construction-in-progress.

**6 Non-operating income**

The Group was awarded a government grant of US\$3,944,000 during the year ended 31 March 2007. No grant was awarded to the Group during the current and last year.

7 **Income tax**

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

	<b>Years ended 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Current tax</b>			
Tax provision for the year — PRC income tax	1,289	4,933	2,222
	-----	-----	-----
<b>Deferred tax</b>			
Origination and reversal of temporary differences	504	572	983
Effect of change in tax rate	—	(189)	—
	-----	-----	-----
	504	383	983
	-----	-----	-----
Total income tax expense	<u>1,793</u>	<u>5,316</u>	<u>3,205</u>

- (i) Pursuant to the rules and regulations of Jersey and the BVI, the Group is not subject to any income tax in Jersey and BVI.
- (ii) In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. No provision for Hong Kong Profits Tax was made by Prosperity Minerals Management Limited and Prosperity Minerals Limited for the Relevant Period, as they sustained tax losses for Hong Kong Profits Tax purposes. Further, no provision for Hong Kong Profits Tax was made by the Group's other operations in Hong Kong for the Relevant Period, as they did not earn any income which was subject to Hong Kong Profits Tax.
- (iii) Prosperity Materials Macao Commercial Offshore Limited ("PMMCO") was incorporated in Macao as an offshore limited company and is exempted from income tax in Macao under Decree Law No. 58/991M.
- (iv) Prior to 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Yingde Dragon Mountain Cement Co., Limited ("YDM"), being a production-oriented foreign investment enterprise under the Foreign Enterprise Income Tax law and its implementation rules, was entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year ("2+3 tax holiday"). YDM commenced its 2+3 tax holiday on 1 January 2005.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("the New Tax Law"), which takes effect on 1 January 2008. As a result of the New Tax Law, the statutory income tax rate in the PRC has been reduced adopted from 33% to 25%. Further, on 6 and 26 December 2007, the State Council release the Implementation Rules to the Corporate Income Tax law ("the implementation Rules") and GuoFa [2007] No. 39 Notice on the Implementation of the Transitional Preferential Corporate Income Tax Policies ("Circular 39"), respectively. The New Tax Law, the Implementation Rules and Circular 39 allow entities which were established before 16 March 2007 and which were entitled to the 2+3 tax holidays under the then effective tax laws and regulations continue to enjoy the 2+3 tax holidays until they expire.

Based on the above, YDM was subject to income tax at 0%, 15%, 12.5% and 25% for period from 1 April to 31 December 2006, calendar year 2007, calendar years 2008 and 2009 and calendar years 2010 onwards, respectively. For the Group's other PRC subsidiaries, they are subject to income tax at 33% prior to 1 January 2008 and at 25% from 1 January 2008 onwards.

The New Tax Law and the Implementation Rules also impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Under the Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax under CaiShui [2008] No. 1 Notice on Certain Preferential Corporate Income Tax Policies issued jointly by the Ministry of Finance and the State Administration of Taxation on 22 February 2008.

Accordingly, dividends receivable by the Group's Hong Kong and BVI companies from their PRC subsidiaries, associates and the jointly controlled entity in respect of their profits earned since 1 January 2008 will be subject to 5% and 10% withholding tax, respectively. Deferred tax liabilities should be recognized for undistributed retained earnings of the Group's PRC subsidiaries, associates and the jointly controlled entity for profits earned since 1 January 2008 to the extent that the earnings would be distributed in the foreseeable future.

(b) *Reconciliation between actual income tax and profit before taxation at applicable tax rates:*

	Years ended 31 March		
	2007	2008	2009
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit before taxation	<u>45,869</u>	<u>59,284</u>	<u>7,703</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	9,232	11,219	128
Tax effect of non-deductible expenses	535	2,854	6,978
Tax effect of non-taxable income	(584)	(3,248)	(2,746)
Tax effect of unused tax losses not recognised	123	122	446
Tax effect of tax concession obtained	(7,513)	(5,442)	(1,601)
Effect of change in tax rate	<u>—</u>	<u>(189)</u>	<u>—</u>
Actual income tax	<u>1,793</u>	<u>5,316</u>	<u>3,205</u>

8 **Dividends**

(a) *Dividends payable to equity shareholders of the Company attributable to the year:*

	Years ended 31 March		
	2007	2008	2009
	US\$'000	US\$'000	US\$'000
Interim dividend declared and paid during the years:			
2007: US\$6 cents per share	7,743	—	—
2008: US\$6 cents per share	—	7,743	—
2009: US\$Nil cents per share	—	—	—
Final dividend proposed after the balance sheet date			
2007: US\$Nil per share	—	—	—
2008: US\$12 cents per share	—	15,486	—
2009: US\$1.7 cents per share	—	—	2,253
	<u>7,743</u>	<u>23,229</u>	<u>2,253</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

The interim dividend declared in 2007 included US\$3,168,000 waived by certain shareholders.

(b) *Dividends payable to equity shareholders of the Company attributable to the previous financial years, approved and paid during the year:*

	Years ended 31 March		
	2007	2008	2009
	US\$'000	US\$'000	US\$'000
Final dividend in respect of the previous financial year, approved and paid during the year			
2006: US\$Nil cents per share	—	—	—
2007: US\$Nil cents per share	—	—	—
2008: US\$12 cents per share	—	—	15,486
	<u>—</u>	<u>—</u>	<u>15,486</u>

9 **Earnings per share**

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of US\$4,832,000 (2008: US\$53,968,000, 2007: US\$44,076,000) and the weighted average number of ordinary shares of 130,982,653 (2008: 129,056,392, 2007: 117,773,489) in issue during the year.

(i) Weighted average number of ordinary shares

	<b>Years ended 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Issued ordinary shares at 1 April	—	129,056	129,056
Issue of shares	117,773	—	—
Shares issued in lieu of dividends	—	—	1,927
	<u>—</u>	<u>—</u>	<u>1,927</u>
Weighted average number of ordinary shares at 31 March	<u>117,773</u>	<u>129,056</u>	<u>130,983</u>

(b) **Diluted earnings per share**

The diluted earnings per share for the year ended 31 March 2009 is the same as the basic earnings per share as the outstanding share options and warrants would not have any dilutive effect on the earnings per share for the year.

The diluted earnings per share for the year ended 31 March 2008 was the same as the basic earnings per share as the outstanding share options would not have any dilutive effect on the earnings per share for the year.

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

## 10 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the Listing Rules is as follows:

Year ended 31 March 2007							
	Fees	Basic salaries, allowance and other benefits	Discretionary bonuses	Contributions to retirement benefit schemes	Sub-Total	Share-based payments <i>(note)</i>	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Executive directors</b>							
Ben Koon Wong	—	562	1,288	29	1,879	—	1,879
Patrick Siu Ming Li	—	444	222	31	697	—	697
Michael James Allen	—	183	11	—	194	—	194
Jian Ping Wu	—	63	—	—	63	—	63
<b>Non-executive directors</b>							
John Campbell Robertson	68	—	—	—	68	—	68
Anthony John Williams	68	—	—	—	68	—	68
Sandy Chun Kwan Chim	68	—	51	—	119	—	119
Michael Kim Hung Yuen	42	—	—	—	42	—	42
Ben Ren Liu	34	—	—	—	34	—	34
Yu Lin Zhao	34	—	—	—	34	—	34
Total	<u>314</u>	<u>1,252</u>	<u>1,572</u>	<u>60</u>	<u>3,198</u>	<u>—</u>	<u>3,198</u>

Year ended 31 March 2008

	Fees	Basic salaries, allowance and other benefits	Discretionary bonuses	Contributions to retirement benefit schemes	Sub-Total	Share-based payments <i>(note)</i>	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Executive directors</b>							
Ben Koon Wong	—	708	1,335	35	2,078	—	2,078
Patrick Siu Ming Li	—	543	296	36	875	686	1,561
Johannes Petrus Mulder	—	128	8	—	136	—	136
Jian Ping Wu	—	83	—	—	83	57	140
<b>Non-executive directors</b>							
John Campbell Robertson	89	—	—	—	89	—	89
Anthony John Williams	89	—	—	—	89	—	89
Sandy Chun Kwan Chim	89	—	—	—	89	57	146
Michael Kim Hung Yuen	54	—	—	—	54	—	54
Ben Ren Liu	44	—	—	—	44	—	44
Yu Lin Zhao	44	—	—	—	44	—	44
	<u>409</u>	<u>1,462</u>	<u>1,639</u>	<u>71</u>	<u>3,581</u>	<u>800</u>	<u>4,381</u>
Total	<u>409</u>	<u>1,462</u>	<u>1,639</u>	<u>71</u>	<u>3,581</u>	<u>800</u>	<u>4,381</u>

Year ended 31 March 2009

	Fees	Basic salaries, allowance and other benefits	Discretionary bonuses	Contributions to retirement benefit schemes	Sub-Total	Share-based payments <i>(note)</i>	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Executive directors</b>							
Ben Koon Wong	—	663	—	33	696	—	696
Patrick Siu Ming Li	—	551	—	32	583	1,199	1,782
Johannes Petrus Mulder	—	120	—	—	120	—	120
Jian Ping Wu	—	77	—	—	77	100	177
<b>Non-executive directors</b>							
John Campbell Robertson	83	—	—	—	83	—	83
Anthony John Williams	83	—	—	—	83	—	83
Sandy Chun Kwan Chim	83	—	—	—	83	100	183
Michael Kim Hung Yuen	51	—	—	—	51	—	51
Ben Ren Liu	42	—	—	—	42	—	42
Yu Lin Zhao	42	—	—	—	42	—	42
Total	<u>384</u>	<u>1,411</u>	<u>—</u>	<u>65</u>	<u>1,860</u>	<u>1,399</u>	<u>3,259</u>

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. No director waived or agreed to waive any emoluments during the Relevant Period.

*Note:*

These represent the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the group's accounting policies for share-based payment transactions as set out in note 2(t)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 31.

## 11 Individuals with the highest emoluments

The five highest paid individuals of the Group include, Ben Koon Wong, Patrick Siu Ming Li and Michael James Allen during the year ended 31 March 2007, and Ben Koon Wong and Patrick Siu Ming Li during the years ended 31 March 2008, 2009 respectively, whose emoluments are disclosed in note 10. Details of remuneration paid to remaining highest paid individuals of the Group are as follows:

	Years ended 31 March		
	2007	2008	2009
	US\$'000	US\$'000	US\$'000
Basic salaries, allowances and benefits in kind	459	460	474
Discretionary bonuses	476	693	713
Share-based payments	—	951	1,664
Contributions to retirement benefit schemes	5	2	3
	<u>940</u>	<u>2,106</u>	<u>2,854</u>

The emoluments of these individuals are within the following band:

	Years ended 31 March		
	2007	2008	2009
US\$Nil to US\$500,000	3	1	1
US\$500,001 to US\$1,000,000	—	2	—
US\$1,000,001 to US\$1,500,000	—	—	2
Over US\$1,500,000	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

## 12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company which have been dealt with in the financial statements of the Company is shown as follow:

	Years ended 31 March		
	2007	2008	2009
	US\$'000	US\$'000	US\$'000
Amount of consolidated profit attributable to equity shareholders of the Company dealt with in the Company's Financial Information	(1,116)	(5,993)	(1,526)
Final dividend from subsidiaries attributable to the profits of the previous financial years, approved and paid during years	<u>10,000</u>	<u>31,000</u>	<u>16,000</u>
Company's profit for the years (note 32(a))	<u>8,884</u>	<u>25,007</u>	<u>14,474</u>

## 13 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The Group is principally engaged in the manufacture and sale of cement and the trading of iron ore. The Group's primary format for reporting segment information is business segment because this is more relevant to the Group's internal financial reporting.

### Business segments

The Group comprises the following main business segments:

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

There are no sales between the business segments.

	<b>Year ended 31 March 2007</b>		
	<b>Trading of iron ore</b>	<b>Manufacturing and sale of cement</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customer	206,938	124,401	331,339
Other revenue from external customers	<u>2,587</u>	<u>2,750</u>	<u>5,337</u>
<b>Total</b>	<b><u>209,525</u></b>	<b><u>127,151</u></b>	<b><u>336,676</u></b>
Segment results	16,656	28,142	44,798
Unallocated operating income and expenses			<u>(3,873)</u>
Profit from operations			40,925
Finance income			3,510
Finance expenses			(5,746)
Gain on re-measurement of derivative financial instruments to fair value			—
Non-operating income			3,944
Negative goodwill arising on acquisition of a subsidiary			—
Negative goodwill arising on acquisition of an associate			—
Share of loss of a jointly controlled entity			—
Share of profits less losses of associates	—	3,236	3,236
Income tax			<u>(1,793)</u>
Profit for the year			<b><u>44,076</u></b>
Depreciation and amortisation	40	8,133	8,173
Impairment loss on other receivables	—	—	—
Segment assets	54,360	275,282	329,642
Interest in a jointly controlled entity	—	—	—
Interest in associates	—	22,455	22,455
Unallocated assets			<u>19,983</u>
Total assets			<b><u>372,080</u></b>
Segment liabilities	10,172	75,726	85,898
Unallocated liabilities			<u>78,098</u>
Total liabilities			<b><u>163,996</u></b>
Capital expenditure incurred during the year	227	19,089	

	<b>Year ended 31 March 2008</b>		
	<b>Trading of iron ore</b>	<b>Manufacturing and sale of cement</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customer	339,547	167,985	507,532
Other revenue from external customers	<u>3,423</u>	<u>649</u>	<u>4,072</u>
<b>Total</b>	<b><u>342,970</u></b>	<b><u>168,634</u></b>	<b><u>511,604</u></b>
Segment results	17,252	35,442	52,694
Unallocated operating income and expenses			<u>(5,573)</u>
Profit from operations			47,121
Finance income			1,508
Finance expenses			(8,769)
Gain on re-measurement of derivative financial instruments to fair value			—
Non-operating income			—
Negative goodwill arising on acquisition of a subsidiary			—
Negative goodwill arising on acquisition of an associate	—	1,200	1,200
Share of loss of a jointly controlled entity			—
Share of profits less losses of associates	—	18,224	18,224
Income tax			<u>(5,316)</u>
Profit for the year			<b><u>53,968</u></b>
Depreciation and amortisation	190	10,946	11,136
Impairment loss on other receivables	1,000	—	1,000
Segment assets	37,749	322,918	360,667
Interest in a jointly controlled entity	—	—	—
Interest in associates	—	74,698	74,698
Unallocated assets			<u>3,095</u>
Total assets			<b><u>438,460</u></b>
Segment liabilities	5,670	54,011	59,681
Unallocated liabilities			<u>119,044</u>
Total liabilities			<b><u>178,725</u></b>
Capital expenditure incurred during the year	1,412	20,622	

**Year ended 31 March 2009**

	<b>Trading of iron ore</b>	<b>Manufacturing and sale of cement</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customer	467,023	180,691	647,714
Other revenue from external customers	<u>4,637</u>	<u>917</u>	<u>5,554</u>
<b>Total</b>	<b><u>471,660</u></b>	<b><u>181,608</u></b>	<b><u>653,268</u></b>
Segment results	15,513	12,670	28,183
Unallocated operating income and expenses			<u>(6,575)</u>
Profit from operations			21,608
Finance income			565
Finance expenses			(23,961)
Gain on re-measurement of derivative financial instruments to fair value			4,987
Non-operating income			—
Negative goodwill arising on acquisition of a subsidiary	—	2,195	2,195
Negative goodwill arising on acquisition of an associate			—
Share of loss of a jointly controlled entity	—	(2,693)	(2,693)
Share of profits less losses of associates	—	5,002	5,002
Income tax			<u>(3,205)</u>
Profit for the year			<b><u>4,498</u></b>
Depreciation and amortisation	97	13,064	13,161
Impairment loss on other receivables	—	—	—
Segment assets	41,826	394,067	435,893
Interest in a jointly controlled entity	—	17,220	17,220
Interest in associates	—	128,312	128,312
Unallocated assets			<u>8,601</u>
Total assets			<b><u>590,026</u></b>
Segment liabilities	33,627	275,692	309,319
Unallocated liabilities			<u>1,452</u>
Total liabilities			<b><u>310,771</u></b>
Capital expenditure incurred during the year	47	22,980	

## Geographical segments

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

### 14 Property, plant and equipment

#### The Group

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Construction- in-progress ("CIP")</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Cost:</b>							
At 1 April 2006	—	—	—	66	—	—	66
Additions:							
- Through acquisition of a subsidiary	35,118	78,663	—	91	250	25,007	139,129
- Others	—	—	107	98	112	18,999	19,316
Transfer from CIP	17,187	17,609	—	61	59	(34,916)	—
Exchange adjustments	<u>1,250</u>	<u>2,802</u>	<u>—</u>	<u>3</u>	<u>9</u>	<u>890</u>	<u>4,954</u>
At 31 March 2007	<u>53,555</u>	<u>99,074</u>	<u>107</u>	<u>319</u>	<u>430</u>	<u>9,980</u>	<u>163,465</u>
At 1 April 2007	53,555	99,074	107	319	430	9,980	163,465
Additions	1,124	—	134	71	394	20,311	22,034
Transfer from CIP	4,877	26,115	—	70	—	(31,062)	—
Exchange adjustments	<u>4,741</u>	<u>8,770</u>	<u>—</u>	<u>16</u>	<u>28</u>	<u>883</u>	<u>14,438</u>
At 31 March 2008	<u>64,297</u>	<u>133,959</u>	<u>241</u>	<u>476</u>	<u>852</u>	<u>112</u>	<u>199,937</u>
At 1 April 2008	64,297	133,959	241	476	852	112	199,937
Additions:							
- Through acquisition of a subsidiary	—	—	—	1	21	672	694
- Others	3,091	3,456	2	79	1,811	8,586	17,025
Transfer from CIP	237	—	—	—	—	(237)	—
Disposals	(824)	—	—	(1)	(53)	—	(878)
Exchange adjustments	<u>2,522</u>	<u>5,322</u>	<u>—</u>	<u>11</u>	<u>14</u>	<u>19</u>	<u>7,888</u>
At 31 March 2009	<u>69,323</u>	<u>142,737</u>	<u>243</u>	<u>566</u>	<u>2,645</u>	<u>9,152</u>	<u>224,666</u>

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Construction-in-progress</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Accumulated depreciation:</b>							
At 1 April 2006	—	—	—	25	—	—	25
Charge for the year	1,232	5,763	4	81	42	—	7,122
Additions through acquisition of a subsidiary	1,149	6,469	—	73	123	—	7,814
Exchange differences	41	231	—	2	4	—	278
At 31 March 2007	2,422	12,463	4	181	169	—	15,239
At 1 April 2007	2,422	12,463	4	181	169	—	15,239
Charge for the year	1,708	7,525	58	104	125	—	9,520
Exchange differences	301	1,492	—	14	17	—	1,824
At 31 March 2008	4,431	21,480	62	299	311	—	26,583
At 1 April 2008	4,431	21,480	62	299	311	—	26,583
Charge for the year	1,958	9,097	74	136	360	—	11,625
Additions through acquisition of a subsidiary	—	—	—	—	—	—	—
Disposals	(23)	—	—	(1)	(21)	—	(45)
Exchange differences	184	894	—	8	10	—	1,096
At 31 March 2009	6,550	31,471	136	442	660	—	39,259
<b>Net book value:</b>							
At 31 March 2007	<u>51,133</u>	<u>86,611</u>	<u>103</u>	<u>138</u>	<u>261</u>	<u>9,980</u>	<u>148,226</u>
At 31 March 2008	<u>59,866</u>	<u>112,479</u>	<u>179</u>	<u>177</u>	<u>541</u>	<u>112</u>	<u>173,354</u>
At 31 March 2009	<u>62,773</u>	<u>111,266</u>	<u>107</u>	<u>124</u>	<u>1,985</u>	<u>9,152</u>	<u>185,407</u>

Certain buildings and plant and machinery were pledged to secure bank loans of the Group (see note 26). The carrying amounts of the pledged assets at the balance sheet date are as follows:

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Buildings	—	—	2,058
Plant and machinery	<u>22,062</u>	<u>—</u>	<u>55,663</u>
	<u>22,062</u>	<u>—</u>	<u>57,721</u>

The application for property ownership certificates of certain buildings located in Hangzhou, the PRC, with net book value totaling US\$3,060,000 (equivalent to RMB20,932,000) are still in progress and these ownership certificates have not yet been issued to the Group by the relevant local government authority as at 31 March 2009. Notwithstanding this, the Directors are of the opinion that the Group has acquired the beneficial title to these buildings as at 31 March 2009, and the property ownership certificates have been obtained in May 2009.

#### 15 Investments in subsidiaries

	<b>The Company</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Unlisted shares, at cost	1	1	1
Amounts due from subsidiaries	<u>188,306</u>	<u>199,358</u>	<u>207,673</u>
	<u>188,307</u>	<u>199,359</u>	<u>207,674</u>

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The amounts due from subsidiaries as at 31 March 2008 and 2009 are not expected to be recovered within one year.

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:

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Attributable equity interest %		Principal activity
			Directly	Indirectly	
Chongqing Prosperity Cement Company Limited <sup>1</sup> (重慶昌興水泥有限公司)	The PRC	RMB108,279,080	—	100%	Manufacture and sale of cement and clinker
Liaoning Prosperity Cement Company Limited <sup>1</sup> (“LPCC”) (遼寧昌慶水泥有限公司)	The PRC	RMB125,204,912	—	55%	Manufacture and sale of cement and clinker
Pro-Rise Business Limited	British Virgin Islands (“BVI”)	US\$1,000	100%	—	Investment holding
Prosperity Materials Macao Commercial Offshore Limited	Macau	MOP100,000	—	100%	Trading of iron ores
Prosperity Minerals Management Limited	Hong Kong	HKD100,000	—	100%	Provision of human resources and administrative services
Prosperity Minerals Limited	Hong Kong	HKD2	—	100%	Provision of advisory, planning and administrative services
Super Data Limited	BVI/Macau	US\$1,000	—	100%	Provision of freight chartering services
Yingde Dragon Mountain Cement Co., Ltd. <sup>1</sup> (“YDM”) (英德龍山水泥有限責任公司)	The PRC	RMB428,110,000	—	100%	Manufacture and sale of cement and clinker

<sup>1</sup> The English translation of the company is for reference only. The official names of the companies established in the PRC are in Chinese.

16 Mining rights

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Cost:</b>			
At 1 April	—	18,142	19,767
Additions through acquisition of a subsidiary	17,536	—	—
Exchange adjustments	<u>606</u>	<u>1,625</u>	<u>786</u>
At 31 March	----- 18,142	----- 19,767	----- 20,553
<b>Accumulated amortisation:</b>			
At 1 April	—	812	2,192
Amortisation for the year	812	1,226	1,155
Exchange adjustments	<u>—</u>	<u>154</u>	<u>93</u>
At 31 March	----- 812	----- 2,192	----- 3,440
<b>Carrying amount:</b>			
At 31 March	<u>17,330</u>	<u>17,575</u>	<u>17,113</u>

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 mining rights are valid for a period of 20 years until 31 December 2023. The amortisation charge for the year is included in “cost of sales” in the consolidated income statements. For the year ended 31 March 2009, the mining rights were pledged to secure the bank loans (2008: US\$Nil, 2007:US\$Nil) (see note 26).

17 Lease prepayments

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Medium-term leasehold land in the PRC	<u>15,045</u>	<u>15,967</u>	<u>22,208</u>

The Group has received certain land use right certificates issued by the relevant government authorities for use of the land in the PRC with remaining useful lives of 44 to 47 years. For the year ended 31 March 2009, the land use right certificates with carrying amount of US\$12,907,000 were pledged to secure the bank loans (2008: US\$Nil, 2007:US\$Nil) (see note 26).

18 Interest in a jointly controlled entity

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Share of net assets	—	—	5,974
Amount due from a jointly controlled entity	—	—	11,246
	<u>—</u>	<u>—</u>	<u>17,220</u>

The amount due from a jointly controlled entity is unsecured, interest free and has no fixed terms of repayment. The balance was not expected to be settled within one year.

(a) *Set out below are the particulars of the jointly controlled entity:*

Name of the jointly controlled entity	Place of incorporation/ operation	Particulars of registered and paid up capital	Proportion of ownership interest			Principal activity
			Group's Effective interest	Held by the Company	Held by a subsidiary	
Guangzhou K Wah Nanfang Cement Ltd <sup>1</sup> (“K Wah Nanfang”) (廣州市嘉華南方水泥有限公司)	The PRC	RMB100,000,000	40%	—	50%	Manufacture and sale of cement and clinker

<sup>1</sup> The English translation of the company name is for reference only. The official name of the company established in the PRC is in Chinese.

(b) *Summary financial information on a jointly controlled entity — Group's effective interest:*

	<b>The Group At 31 March 2009</b>
	<i>US\$'000</i>
Non-current assets	13,978
Current assets	8,326
Current liabilities	<u>(16,330)</u>
	<u>5,974</u>
Income	10,578
Expenses	<u>(13,271)</u>
Loss for the year	<u>(2,693)</u>

- (c) In respect of the year ended 31 March 2009, K Wah Nanfang was included in the Financial Information based on the most recent available financial statements drawn up to 31 December 2008, but taking into account the effects of significant transactions or events that occurred in the subsequent period from 1 January 2009 to 31 March 2009. The Group has taken advantage of the provision contained in IAS 31, “Interests in joint ventures” whereby it is permitted to include the attributable share of jointly ventures’ results based on financial statements drawn up to a non-coterminous period end where the difference must be no greater than three months.

## 19 Interests in associates

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Share of net assets	22,455	74,698	120,771
Goodwill	—	—	6,002
Financial guarantee issued	—	—	1,306
Amount due from an associate	—	—	233
	<u>22,455</u>	<u>74,698</u>	<u>128,312</u>

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

Name of associate	Place of incorporation/operation	Particulars of registered and paid up capital	<b>Proportion of ownership interest</b>			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Anhui Chaodong Cement Co., Ltd. (“ACC”) <sup>1</sup> (安徽巢東水泥股份有限公司)	The PRC	RMB242,000,000	33.06%	—	33.06%	Manufacture and sale of cement and clinker
Prosperity Conch Cement Co., Ltd. <sup>1</sup> (英德海螺水泥有限責任公司)	The PRC	RMB580,000,000	25%	—	25%	Manufacture and sale of cement and clinker
Yunnan Kungang K. Wah Construction Materials Co., Ltd. <sup>1</sup> (“Anning”) (雲南昆鋼嘉華水泥建材有限公司)	The PRC	RMB825,000,000	30%	—	30%	Manufacture and sale of cement and clinker
Baoshan Kungang K. Wah Cement Construction Materials Co., Ltd. <sup>1</sup> (“Baoshan”) (保山昆鋼嘉華水泥建材有限公司)	The PRC	RMB316,250,000	30%	—	30%	Manufacture and sale of cement and clinker

<sup>1</sup> The English translation of the company is for reference only. The official names of the companies established in the PRC are in Chinese.

(a) *Acquisition of Prosperity Conch Cement Co., Ltd.*

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

(b) *Acquisition of ACC*

On 1 June 2007, the Group acquired 80,000,000 non-tradable ordinary shares representing the 40% equity interest in ACC, a company listed on the Shanghai Stock Exchange of the PRC, at a consideration of RMB198,400,000 (equivalent to US\$25,436,000).

On 4 July 2007, the Ministry of Commerce approved the Share Reform of ACC. Pursuant to the Share Reform, the non-tradable shares held by the Group were converted into tradable shares and an additional 42,000,000 ordinary shares were issued to existing tradable shareholders on 16 July 2007. As a result, the Group's interest in ACC was diluted from 40% to 33.06%.

The Group has accounted for the acquisition of the equity interest in ACC under the purchase method. The fair value of underlying net assets representing the Group's 33.06% equity interest acquired in ACC exceeded the Group's purchase price, giving rise to negative goodwill. Negative goodwill of US\$1,200,000 has been recognised as a gain in the consolidated income statements for the year ended 31 March 2008.

The market value of the Group's interest in the listed associate, ACC at 31 March 2009 amounted to US\$75,675,000 (2008: US\$108,226,000).

Negative goodwill has arisen on the acquisition of ACC as a result of a bargain purchase. Details are shown as follow:

	<b>Carrying amount</b>	<b>Fair value adjustment</b>	<b>Recognised value</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	77,289	16,502	93,791
Lease prepayments	3,659	13,010	16,669
Intangible assets	1,472	2,239	3,711
Other investments	392	—	392
Inventories	7,740	88	7,828
Trade and other receivables	8,781	—	8,781
Cash and cash equivalents	39,238	—	39,238
Trade and other payables	(29,583)	—	(29,583)
Bank loans	(45,318)	—	(45,318)
Deferred tax liabilities	—	(7,960)	(7,960)
	<u>63,670</u>	<u>23,879</u>	<u>87,549</u>
Net identified assets and liabilities			<u>87,549</u>
Share of net assets			28,944
Negative goodwill arising on acquisition			<u>(1,200)</u>
			<u>27,744</u>
Satisfied by:			
Cash			25,929
Costs directly attributable to the purchase			<u>1,815</u>
Net cash outflow			<u>27,744</u>

(c) *Acquisition of Anning*

On 4 May 2008, Prime York Limited (“PYL”), a wholly-owned subsidiary of the Company acquired and invested in a 30% equity interest of an associate, Anning, for a consideration of US\$42,385,000 (equivalent to RMB295,840,000). The principal activity of Anning is the manufacture and sale of cement and clinker. The Group has accounted for the acquisition of the equity interest in Anning under the purchase method.

Details are shown as follow:

	<b>Carrying amount</b>	<b>Fair value adjustment</b>	<b>Recognised value</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	142,955	5,149	148,104
Lease prepayments	2,834	1,310	4,144
Intangible assets	5,083	4,187	9,270
Deferred tax assets	—	377	377
Inventories	10,310	(147)	10,163
Trade and other receivables	14,057	(4,835)	9,222
Cash and cash equivalents	6,739	—	6,739
Trade and other payables	(55,920)	—	(55,920)
Bank loans	<u>(37,792)</u>	<u>—</u>	<u>(37,792)</u>
Net identified assets and liabilities	<u>88,266</u>	<u>6,041</u>	94,307
Capital injection by the Group			<u>28,260</u>
			<u>122,567</u>
Share of net assets			36,770
Goodwill arising on acquisition			<u>5,851</u>
			<u>42,621</u>
Satisfied by:			
Cash paid			14,125
Capital injection			28,260
Costs directly attributable to the purchase			<u>236</u>
Net cash outflow			<u>42,621</u>

(d) *Acquisition of Baoshan*

On 20 June 2008, PYL acquired and invested in a 30% equity interest of an associate, Baoshan, for a consideration of US\$14,762,000 (equivalent to RMB102,446,000). The principal activity of Baoshan is the manufacture and sale of cement and clinker. The Group has accounted for the acquisition of the equity interest in Baoshan under the purchase method. The carrying amounts and fair value of underlying net assets of the Group's interest in Baoshan and the goodwill arising are as follow:

	<b>Carrying amount</b>	<b>Fair value adjustment</b>	<b>Recognised value</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	55,771	(1,285)	54,486
Lease prepayments	—	1,850	1,850
Customer base	—	1,177	1,177
Inventories	4,404	(325)	4,079
Trade and other receivables	2,716	—	2,716
Cash and cash equivalents	10,912	—	10,912
Trade and other payables	(20,886)	—	(20,886)
Bank loans	(14,409)	—	(14,409)
Deferred tax liabilities	—	(354)	(354)
Net identified assets and liabilities	<u>38,508</u>	<u>1,063</u>	39,571
Capital injection by the Group			<u>9,898</u>
			<u>49,469</u>
Share of net assets			14,841
Goodwill arising on acquisition			<u>4</u>
			<u>14,845</u>
Satisfied by:			
Cash paid			4,864
Capital injection			9,898
Costs directly attributable to the purchase			<u>83</u>
Net cash outflow			<u>14,845</u>

(e) Goodwill arising from acquisition of associates is allocated to the Group's share of net assets in the respective associates. The management has determined the recoverable amounts of interests in associates based on value-in-use calculations. The recoverable amounts of the interests in associates are higher than their carrying amounts. Accordingly, no impairment loss on interests in associates is recognised in the consolidated income statements.

(f) In respect of the year ended 31 March 2009, ACC, Anning and Baoshan were included in the Financial Information based on the most recent available financial statements drawn up to 31 December 2008, but taking into account the effects of significant transactions or events that occurred in the subsequent period from 1 January 2009 to 31 March 2009.

In respect of the year ended 31 March 2008 and 2007, ACC was included in the Financial Information based on the most recent available financial statements drawn up to 31 December 2007 and 2006, but taking into account the effects of significant transactions or events that occurred in the subsequent period from 1 January 2008 to 31 March 2008 and 1 January 2007 to 31 March 2007.

The Group has taken advantage of the provision contained in IAS 28, "Investments in Associates" whereby it is permitted to include the attributable share of associates' results based on financial statements drawn up to a non-coterminous period end where the difference must be no greater than three months.

(g) The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. The balance was not expected to be settled within one year.

(h) Summary financial information on associates:

	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Revenue</b>	<b>Profit for the year</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>At 31 March 2007</b>					
100 per cent	254,414	(164,592)	89,822	135,427	12,946
Group's effective interest	<u>63,603</u>	<u>(41,148)</u>	<u>22,455</u>	<u>33,857</u>	<u>3,236</u>
<b>At 31 March 2008</b>					
100 per cent	481,045	(213,843)	267,202	277,269	71,535
Group's effective interest	<u>132,158</u>	<u>(57,460)</u>	<u>74,698</u>	<u>73,304</u>	<u>18,224</u>
<b>At 31 March 2009</b>					
100 per cent	795,594	(376,986)	418,608	396,727	23,481
Group's effective interest	<u>229,022</u>	<u>(108,251)</u>	<u>120,771</u>	<u>108,481</u>	<u>5,002</u>

## 20 Other investments

	<b>The Group and the Company</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Unlisted available-for-sale equity securities, at cost	<u>—</u>	<u>827</u>	<u>—</u>

Unlisted available-for-sale equity securities represent the Group's 12% equity interest in a PRC domiciled enterprise which is engaged in the manufacture and sale of cement and clinker. There is no quoted market price for such equity securities and a reasonable estimate of the fair value could not be made without incurring excessive costs.

21 **Goodwill**

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 April	—	36,828	41,513
Additions through acquisition of a subsidiary (note 30(a), 30(c))	36,828	—	186
Exchange adjustments	—	4,685	1,654
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 March	<u>36,828</u>	<u>41,513</u>	<u>43,353</u>

Goodwill is allocated to the Group's manufacture and sale of 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 two to five years period. Cash flows beyond the budgeted period are extrapolated using the estimate rates stated below.

Key assumptions used for value-in-use calculations:

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
- Average gross margin	26%	26%	27%
- Average growth rate	5%	5%	2%
- Discount rate	6%	6%	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.

22 **Inventories**

(a) *Inventories in the balance sheet comprise:*

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials and consumables	4,854	7,538	4,683
Work in progress	5,064	7,582	4,119
Finished goods	717	2,192	1,572
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>10,635</u>	<u>17,312</u>	<u>10,374</u>

(b) *The analysis of the amount of inventories recognised as an expense is as follows:*

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Carrying amount of inventories sold	<u>284,901</u>	<u>433,429</u>	<u>591,897</u>

23 **Trade and other receivables**

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables	9,826	4,328	18,829
Bills receivable	21,390	25,097	35,007
Prepayments	26,655	14,519	15,086
Other receivables	9,646	6,339	7,438
Amount due from an associate	<u>—</u>	<u>—</u>	<u>7,498</u>
	<u>67,517</u>	<u>50,283</u>	<u>83,858</u>

	<b>The Company At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Prepayments	<u>—</u>	<u>214</u>	<u>1,054</u>

All of the other trade and other receivables of the Group and the Company are expected to be recovered or recognised as expenses within one year.

(a) *Impairment of trade and bill receivables*

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly (see note 2(q)(i)). For the Relevant Period, none of the Group's trade and bill receivables is individually determined to be impaired.

(b) *Trade and bill receivables that are not impaired*

The ageing analysis of trade and bill receivables that are neither individually nor collectively considered to be impaired are as follows:

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Neither past due nor impaired	31,087	29,319	53,816
Less than 1 month past due	31	85	20
1 to 3 months past due	98	21	—
Amounts past due	129	106	20
	<u>31,216</u>	<u>29,425</u>	<u>53,836</u>

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

For the year ended 31 March 2009, none of the Group's trade and bill receivables is pledged to secure the bank loans (2008: US\$1,671,000, 2007:US\$Nil) (see note 26).

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment. The amount is expected to be recovered within one year.

24 **Non-current prepayments**

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Deposits for purchase of property, plant and machinery	—	2,794	18,098
Deposits for acquisition of land use rights	—	—	7,808
Deposits for acquisition of mining rights	—	—	329
	<u>—</u>	<u>2,794</u>	<u>26,235</u>

25 **Pledged deposits**

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Non-current portion	—	2,139	—
Current portion	<u>2,724</u>	<u>300</u>	<u>6,030</u>
	<u><u>2,724</u></u>	<u><u>2,439</u></u>	<u><u>6,030</u></u>

Pledged bank balances mainly represent the amounts pledged to the banks to secure letters of credit facilities of the Group and as performance guarantee in relation to certain sales contracts.

26 **Bank loans**

Bank loans were repayable as follows:

	<b>The Group At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year or on demand	45,718 -----	41,582 -----	25,118 -----
Over 1 year but less than 2 years	29,712	25,346	42,687
Over 2 years but less than 5 years	<u>—</u>	<u>49,614</u>	<u>38,013</u>
	<u><u>29,712</u></u>	<u><u>74,960</u></u>	<u><u>80,700</u></u>
	<u><u>75,430</u></u>	<u><u>116,542</u></u>	<u><u>105,818</u></u>

All bank loans are carried at amortised cost.

The Group had aggregate banking facilities as follows:

	<b>The Group At 31 March</b>		
	<b>2007</b> <i>US\$'000</i>	<b>2008</b> <i>US\$'000</i>	<b>2009</b> <i>US\$'000</i>
Loan facilities	96,267	113,875	94,796
Letters of credit	<u>128,000</u>	<u>141,000</u>	<u>160,000</u>
	<u>224,267</u>	<u>254,875</u>	<u>254,796</u>
Amount utilised at 31 March	<u>97,478</u>	<u>149,423</u>	<u>186,821</u>

The Group's bank loans and banking facilities were secured as follows:

	<b>The Group At 31 March</b>		
	<b>2007</b> <i>US\$'000</i>	<b>2008</b> <i>US\$'000</i>	<b>2009</b> <i>US\$'000</i>
Bank loans			
- Unsecured	5,000	27,688	28,330
- Secured by bills receivable	3,255	1,671	—
- Secured by pledged assets	—	—	59,944
- Secured by pledged assets and corporate guaranteed by a third party	5,167	—	—
- Corporate guaranteed by a third party (Note)	<u>62,008</u>	<u>87,183</u>	<u>17,544</u>
	<u>75,430</u>	<u>116,542</u>	<u>105,818</u>

*Note:* The corporate guarantee provided by a third party was released in May 2009 upon the early settlement of the outstanding loan. Thereafter, there has been no corporate guarantee provided by a third party.

Certain of the Group's banking facilities are subject to the fulfilment of covenants which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 36(b). For the year ended 31 March 2009, the Group has complied with the revised covenants imposed by these financial institutions dated 30 June 2009, 2 July 2009 and 7 July 2009 respectively.

## 27 Secured note

On 9 May 2008 (the "Issue Date"), Upper Value Investments Limited, a wholly-owned subsidiary of the Company, issued US\$100,000,000 redeemable notes (the "Note") to certain institutional investors for the acquisition of cement and clinker plants in the PRC ("Acquired Assets"). The Note is guaranteed by the Company and the Company's subsidiaries, Prosperity Cement Investment Limited and PMMCO and is secured by charges over the shares in, and fixed and floating charges over the assets of the Company's wholly-owned subsidiaries which will hold the Acquired Assets.

The Note carries interest at a rate of 10% per annum payable semi-annually and repayable by four instalments. According to the Note repayment schedule, the first instalment of US\$10,923,000 will be settled within one year.

Detail of the ageing of the Note is shown as follows:

	<b>The Group</b> <b>At 31 March 2009</b> <i>US\$'000</i>
Within 1 year	18,904 -----
Over 1 year but less than 2 years	41,027
Over 2 years but less than 5 years	41,637 -----
	82,664 -----
	<u>101,568</u>

28 **Trade and other payables**

	<b>The Group</b> <b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and bills payables	33,395	33,442	61,884
Receipt in advance	7,300	5,759	5,492
Retention monies	4,378	1,302	1,068
Accruals	6,623	5,181	11,430
Payable for plant and equipment	5,852	1,017	1,169
Other payables	13,934	11,184	4,622
Amount due to minority shareholder	—	—	11,885
	-----	-----	-----
Financial liabilities measured at amortised cost	71,482	57,885	97,550
Derivative financial instruments	—	—	153
Financial guarantee issued	—	—	1,205
	-----	-----	-----
	<u>71,482</u>	<u>57,885</u>	<u>98,908</u>

	<b>The Company</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Accruals	2,077	1,997	1,004
Other payables	<u>—</u>	<u>—</u>	<u>8</u>
Financial liabilities measured at amortised cost	2,077	1,997	1,012
Derivative financial instruments	<u>—</u>	<u>—</u>	<u>153</u>
	<u><u>2,077</u></u>	<u><u>1,997</u></u>	<u><u>1,165</u></u>

Financial guarantees issued by the Group of US\$821,000 (2008: US\$Nil, 2007: US\$Nil) are expected to be recognised as income after more than one year. All of the other trade and other payables are expected to be settled or recognised as income within one year.

The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

In conjunction with the issuance of the Note (see note 27), the Company granted 1,000 warrants to these institutional investors to subscribe for 12,905,639 ordinary shares in the Company at an exercise price, representing a 10% premium to the volume weighted average price per share, over the five trading days immediately preceding the Issue Date, subject to anti-dilution adjustments and strike price resets under certain circumstances. The warrants are exercisable at any time up to five years after the Issue Date.

During the year, gain on re-measurement of derivative financial instruments to fair value amounted to US\$4,987,000 (2008: US\$Nil, 2007: US\$Nil) was recognised as a result of the decrease in share price of the Group.

(a) *An ageing analysis of trade payables of the Group is as follows:*

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within 30 days	32,847	32,740	61,523
31 days to 90 days	383	403	269
91 days to 180 days	50	299	92
Over 180 days	<u>115</u>	<u>—</u>	<u>—</u>
	<u><u>33,395</u></u>	<u><u>33,442</u></u>	<u><u>61,884</u></u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 36.

29 **Taxation in the consolidated balance sheets**

(a) **Income tax payable in the consolidated balance sheets represents:**

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
At beginning of the year	18	1,307	1,575
Provision for PRC income tax for the year	1,289	4,933	2,222
Tax paid - PRC income tax	<u>(18)</u>	<u>(5,000)</u>	<u>(3,115)</u>
	1,289	1,240	682
Exchange differences	<u>18</u>	<u>335</u>	<u>—</u>
At end of the year	<u><u>1,307</u></u>	<u><u>1,575</u></u>	<u><u>682</u></u>

(b) **Deferred tax (assets)/ liabilities recognised:**

Deferred tax (assets)/ liabilities are attributable to the items set out below:

**The Group**

	<b>Depreciation allowances in excess of related depreciation</b>	<b>Withholding tax on distributable profits of the PRC subsidiary/ associates</b>	<b>Others</b>	<b>Total</b>
At 1 April 2006	5	—	—	5
Addition through aquisition of a subsidiary	1,420	—	210	1,630
Charged to consolidated income statements	—	—	504	504
Exchange adjustments	<u>52</u>	<u>—</u>	<u>8</u>	<u>60</u>
At 31 March and 1 April 2007	1,477	—	722	2,199
Charged to consolidated income statements	(276)	551	297	572
Effect of change in tax rate on deferred tax liabilities	—	—	(189)	(189)
Exchange adjustments	<u>115</u>	<u>—</u>	<u>26</u>	<u>141</u>
At 31 March and 1 April 2008	1,316	551	856	2,723
Addition through acquisition of a subsidiary	(111)	—	—	(111)
Charged to consolidated income statements	(65)	1,201	(153)	983
Exchange adjustments	<u>51</u>	<u>22</u>	<u>14</u>	<u>87</u>
At 31 March 2009	<u><u>1,191</u></u>	<u><u>1,774</u></u>	<u><u>717</u></u>	<u><u>3,682</u></u>

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Net deferred tax assets recognised on the consolidated balance sheets	—	—	(113)
Net deferred tax liabilities recognised on the consolidated balance sheets	<u>2,199</u>	<u>2,723</u>	<u>3,795</u>
	<u><u>2,199</u></u>	<u><u>2,723</u></u>	<u><u>3,682</u></u>

- (c) The Group did not recognise deferred tax assets of US\$123,000, US\$245,000 and US\$691,000 as at 31 March 2007, 2008 and 2009, respectively, which attributable to future tax benefits of tax losses sustained by certain subsidiaries, as the availability of future taxable profits against which the tax losses could be utilised was uncertain. As at 31 March 2009, tax losses of US\$2,802,000 (2008: US\$1,402,000, 2007: US\$704,000) do not expire under the current tax legislation and tax losses of US\$860,000 (2008: US\$Nil, 2007:US\$Nil) will expire within 5 years.

### 30 Long term payables

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Loans from former shareholders of YDM	13,222	—	—
Others	<u>356</u>	<u>—</u>	<u>—</u>
	<u><u>13,578</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

The loans from former shareholders of YDM were unsecured, interest-free and repayable on 31 March 2009. The Group has early settled the balance in April 2007.

### 31 Equity settled share-based transactions

The Company has a Share Option Scheme whereby the Directors of the Company are authorised, at their discretion, to invite employees of the Group, to take up options at nil consideration to subscribe for the shares of the Company.

On 9 October 2007, certain Directors and employees of the Company have been granted options over ordinary shares of GBP0.01 each. In total, 8,230,000 options were granted for nil consideration with an exercise price of GBP1.60. All these options are exercisable from 9 October 2009 to 9 October 2017 and are subject to the fulfilment of performance conditions set by the Company's remuneration committee.

- (a) *The terms and conditions of the grants that existed during the Relevant Period are as follows, whereby all options are settled by physical delivery of shares:*

	Number of instrument	Vesting conditions	Contractual life of option
Options granted to Directors on 9 October 2007	3,500,000	Two years from the date of grant	10 years
Options granted to employees on 9 October 2007	<u>4,730,000</u>	Two years from the date of grant	10 years
Total share options	<u><u>8,230,000</u></u>		

- (b) *The number and weighted average exercise prices of share options is as follows:*

	At 31 March					
	2007		2008		2009	
	Weighted average exercise price	Number of exercise '000	Weighted average exercise price	Number of exercise '000	Weighted average exercise price	Number of exercise '000
Outstanding at 1 April	N/A	—	N/A	—	GBP1.60	8,230
Granted during the year	N/A	—	GBP1.60	8,230	N/A	—
Forfeited during the year	N/A	<u>—</u>	N/A	<u>—</u>	GBP1.60	<u>(70)</u>
Outstanding at the end of the year	N/A	<u>—</u>	GBP1.60	<u>8,230</u>	GBP1.60	<u>8,160</u>
Exercisable at 31 March	N/A	<u>—</u>	N/A	<u>—</u>	N/A	<u>—</u>
Weighted average remaining contractual life		<u>—</u>		<u>9.5</u>		<u>8.5</u>

(c) *Fair value of share options and assumptions:*

The fair value of services received in return for share options granted on 9 October 2007 was measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on a binomial lattice model. The contractual life of the share option was used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions:

Fair value at measurement date	GBP0.483
Share price	GBP1.60
Exercise price	GBP1.60
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	40%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	7.6 years
Expected dividends	6.5%
Risk-free interest rate (based on UK Government Bond)	4.95%

The expected volatility was based on the historic volatility (calculated based on the weighted average remaining life of the share options) of five comparators whose major business is production and trading of building cement or cement products or other building supplies and have been listed for more than eight years, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

32 **Share capital**

(a) **The Company**

	<b>Share capital</b>	<b>Share premium</b>	<b>Merger reserve</b>	<b>Capital reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	<i>Note (b)</i>	<i>Note (c)</i>	<i>Note (e)</i>	<i>Note (g)</i>		
At 1 April 2006	—	—	—	—	—	—
Issue of shares (note (b)(ii))	1,415	189,624	—	—	—	191,039
Profit for the year	—	—	—	—	8,884	8,884
Acquisition of a subsidiary (note (b)(ii))	936	—	(933)	—	—	3
Dividend paid	—	—	—	3,168	(7,743)	(4,575)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,168</u>	<u>(7,743)</u>	<u>(4,575)</u>
At 31 March 2007	2,351	189,624	(933)	3,168	1,141	195,351
	-----	-----	-----	-----	-----	-----
At 1 April 2007	2,351	189,624	(933)	3,168	1,141	195,351
Profit for the year	—	—	—	—	25,007	25,007
Equity settled share-based transactions	—	—	—	1,882	—	1,882
Dividend paid	—	—	—	—	(23,229)	(23,229)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(23,229)</u>	<u>(23,229)</u>
At 31 March 2008	2,351	189,624	(933)	5,050	2,919	199,011
	-----	-----	-----	-----	-----	-----
At 1 April 2008	2,351	189,624	(933)	5,050	2,919	199,011
Shares issued in lieu of dividends	64	6,260	—	—	—	6,324
Profit for the year	—	—	—	—	14,474	14,474
Equity settled share-based transactions	—	—	—	—	—	—
-Amount recognised during the year	—	—	—	3,290	—	3,290
-Forfeiture of share options	—	—	—	(46)	46	—
Dividend paid	—	—	—	—	(15,486)	(15,486)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(15,486)</u>	<u>(15,486)</u>
At 31 March 2009	2,415	195,884	(933)	8,294	1,953	207,613
	<u>2,415</u>	<u>195,884</u>	<u>(933)</u>	<u>8,294</u>	<u>1,953</u>	<u>207,613</u>

(b) *The movements in the authorised and issued share capital of the Company are set out as follows:*

	<b>The Company</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Authorised:</b>			
185,000,000 ordinary shares of GBP0.01 each	<u>GBP1,850</u>	<u>GBP1,850</u>	<u>GBP1,850</u>
Equivalent to	<u>US\$3,349</u>	<u>US\$3,349</u>	<u>US\$3,349</u>
<b>Issued and fully paid:</b>			
At 1 April	—	2,351	2,351
129,056,000 ordinary shares of GBP0.01 each	2,351	—	—
3,498,000 ordinary shares of GBP0.01 each issued in lieu of dividends	<u>—</u>	<u>—</u>	<u>64</u>
At 31 March	<u>2,351</u>	<u>2,351</u>	<u>2,415</u>

- (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 GBP0.01 each were issued at a price GBP1.48 per share upon listing of the Company's shares on the AIM market. The Group raised US\$191,039,000 (net of related expenses of US\$18,491,000) from the offer.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(c) **Share premium**

The application of the share premium account and the capital redemption reserve is governed by Section 39 of Companies (Jersey) Law 1991.

(d) **Statutory reserves**

Transfers from retained earnings to statutory reserves have been made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and are approved by the respective boards of Directors.

(i) *Statutory surplus reserve*

The subsidiary in the PRC are 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 transfers to this reserve must be made before distribution of dividend to shareholders.

(ii) *Enterprise development fund*

The subsidiary in the PRC are 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 benefit of the subsidiary's employees such as for the construction of dormitories, canteens 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 dividend to equity holders.

(e) *Merger reserve*

The excess of the consolidated net assets represented by the shares in subsidiaries acquired over the nominal value of the shares issued by the Company in exchange under the combination was transferred to the merger reserve.

(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 comprises the following:

- (i) the dividend declared and waived by certain shareholders; and
- (ii) the fair value of the actual or estimated number of unexercised share options granted to certain Directors and employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 2(t)(ii).

(h) *Capital management*

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as interest-bearing loans and borrowings less cash and cash equivalents. Capital comprises all components of equity.

During the Relevant Period, the Group's strategy was to maintain the net debt-to-adjusted capital ratio at the lower end of the range of 50% to 95%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

There has been no change in the Group's capital management practices during the Relevant Period.

The net debt-to-adjusted capital ratios during the Relevant Period were as follows:

	<b>The Group</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Current liabilities</b>			
Trade and other payables	71,482	57,885	98,908
Bank loans	45,718	41,582	25,118
Secured note	<u>—</u>	<u>—</u>	<u>18,904</u>
	117,200	99,467	142,930
<b>Non-current liabilities</b>			
Bank loans	29,712	74,960	80,700
Long-term payables	13,578	—	—
Secured note	<u>—</u>	<u>—</u>	<u>82,664</u>
Total debt	160,490	174,427	306,294
Add: Proposed dividend	—	15,486	2,253
Less: Cash and cash equivalents	<u>(51,320)</u>	<u>(41,698)</u>	<u>(49,803)</u>
<b>Net debt</b>	<u>109,170</u>	<u>148,215</u>	<u>258,744</u>
Total equity	208,084	259,735	279,255
Less: proposed dividend	<u>—</u>	<u>(15,486)</u>	<u>(2,253)</u>
<b>Adjusted capital</b>	<u>208,084</u>	<u>244,249</u>	<u>277,002</u>
<b>Net debt to adjusted capital ratio</b>	<u>52%</u>	<u>61%</u>	<u>93%</u>

	<b>The Company</b>		
	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Current liabilities</b>			
Trade and other payables	<u>2,077</u>	<u>1,997</u>	<u>1,165</u>
Total debt	2,077	1,997	1,165
Add: Proposed dividend	—	15,486	2,253
Less: Cash and cash equivalents	<u>(9,121)</u>	<u>(608)</u>	<u>(50)</u>
<b>Net (cash)/ debt</b>	<u><u>(7,044)</u></u>	<u><u>16,875</u></u>	<u><u>3,368</u></u>
Total equity	195,351	199,011	207,613
Less: proposed dividend	<u>—</u>	<u>(15,486)</u>	<u>(2,253)</u>
<b>Adjusted capital</b>	<u><u>195,351</u></u>	<u><u>183,525</u></u>	<u><u>205,360</u></u>
<b>Net debt to capital ratio</b>	<u><u>N/A</u></u>	<u><u>9%</u></u>	<u><u>2%</u></u>

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

### 33 Acquisition of subsidiaries

#### (a) Acquisition of YDM

On 13 April 2006, the Group acquired a 75% equity interest in YDM at a total consideration of US\$95,519,000. YDM is engaged in the manufacturing and sale of cement and clinker. Following the acquisition, from 13 April 2006 to 31 March 2007 YDM contributed turnover and profit before taxation of US\$124,401,000 and US\$26,906,000 for the period ended 31 March 2007. The acquisition had the following effect on the Group's asset and liabilities.

	<b>Carrying amount</b>	<b>Fair value adjustment</b>	<b>Recognised value</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	131,592	(278)	131,314
Lease prepayments	12,084	2,679	14,763
Intangible assets	14,811	2,725	17,536
Inventories	9,044	419	9,463
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)
Bank loans	(62,475)	—	(62,475)
Deferred tax liabilities	—	(1,630)	(1,630)
Other borrowings	<u>(16,290)</u>	<u>—</u>	<u>(16,290)</u>
Net identified assets and liabilities	<u>74,340</u>	<u>3,915</u>	78,255
Minority shares			(19,564)
Goodwill arising on acquisition			<u>36,828</u>
			<u>95,519</u>
Satisfied by:			
Cash			80,105
Other payables			<u>15,414</u>
			<u>95,519</u>
Cash and cash equivalents acquired			(4,818)
Cash consideration paid			<u>80,105</u>
Net cash outflow			<u>75,287</u>

Goodwill has arisen on the acquisition of YDM because of its well established market in the Guangdong region.

On 13 April 2006, a wholly owned subsidiary of the Company acquired the remaining 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 (equivalent to GBP25,000,000). This transaction took place on the same day as the acquisition of the 75% equity interest in YDM.

(b) *Acquisition of Star Home Limited*

On 28 April 2008, Way Zone Limited, a wholly-owned subsidiary of the Company, acquired an 80% equity interest in Star Home Limited (“SHL”) for a consideration of US\$12,122,000 (equivalent to RMB85,000,000).

SHL is an investment holding company and holds a jointly controlled entity which manufactures and sales cement. SHL contributed loss of US\$2,693,000 to the consolidated profit of the group since the date of acquisition.

Negative goodwill has arisen on the acquisition of SHL as a result of a bargain purchase. Details of net assets acquired and negative goodwill are shown as follow:

	<b>Carrying amount</b>	<b>Fair value adjustments</b>	<b>Recognised value</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest in a jointly controlled entity	8,690	(225)	8,465
Other receivables	11,246	—	11,246
Shareholder loan	<u>(25,912)</u>	<u>—</u>	<u>(25,912)</u>
Net identifiable assets and liabilities	<u>(5,976)</u>	<u>(225)</u>	(6,201)
Share of net liabilities (Note)			(6,201)
Shareholder loan acquired			20,730
Negative goodwill arising on acquisition			<u>(2,195)</u>
			<u>12,334</u>
Satisfied by:			
Cash			12,122
Costs directly attributable to the acquisition			<u>212</u>
			<u>12,334</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			5,420
Costs directly attributable to the acquisition			<u>212</u>
			<u>5,632</u>

*Note:* The minority shareholder of SHL had no binding obligation to make additional investment to cover excess of losses applicable to it. As a result, the entire net liabilities of US\$6,201,000, was attributable to the Group at acquisition date.

(c) **Acquisition of LPCC**

On 22 May 2008, Kiton Limited, a wholly-owned subsidiary of the Company acquired an additional 43% equity interest in LPCC. The total equity interest in LPCC was increased to 55%.

The aggregate acquisition consideration was US\$11,550,000 satisfied in cash of which US\$827,000 was paid before 31 March 2008. LPCC has not yet commenced business as at 31 March 2009. LPCC contributed loss of US\$745,000 to the consolidated profit of the Group since the date of acquisition.

Details of net assets acquired and goodwill are shown as follow:

	<b>Carrying amount</b>	<b>Fair value adjustment</b>	<b>Recognised value</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Property, plant and equipment	698	(4)	694
Lease prepayments	6,440	(438)	6,002
Trade and other receivables	3,367	—	3,367
Cash and cash equivalents	1,761	—	1,761
Amounts due from ex-shareholders	8,734	—	8,734
Deferred tax assets	<u>—</u>	<u>111</u>	<u>111</u>
Net identified assets and liabilities	<u>21,000</u>	<u>(331)</u>	20,669
Share of net liabilities			11,368
Goodwill arising on acquisition			<u>186</u>
			<u>11,554</u>
Satisfied by:			
Cash			11,550
Costs directly attributable to the acquisition			<u>4</u>
			<u>11,554</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			6,653
Costs directly attributable to the acquisition			4
Cash and cash equivalents acquired			(1,761)
Cash consideration paid in prior period			<u>(827)</u>
Net cash outflow			<u>4,069</u>

- (d) If all of the above acquisitions had occurred at the beginning of the year, the Group revenue and profit after taxation would have been US\$647,714,000 and US\$4,963,000 respectively for the year ended 31 March 2009 (2008: US\$Nil and US\$Nil, 2007: US\$336,617,000 and US\$44,560,000).

34 **Commitments**

(a) **Capital commitments**

At 31 March 2007, 2008 and 2009, the Group had the following capital commitments in relation to the purchase of plant and equipment not provided for in the Financial Information:

	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Contracted for	11,038	110,054	133,415
Authorised but not contracted for	<u>—</u>	<u>77,031</u>	<u>—</u>
	<u>11,038</u>	<u>187,085</u>	<u>133,415</u>

(b) **Purchase commitments**

The Group entered into a raw materials supply contract with an iron ore supplier, with duration of seven years. Pursuant to the contract, the purchase prices are re-negotiated periodically. At 31 March 2007, 2008 and 2009, the Group had the following purchase commitments in relation to the purchase of iron ores of 4,380,000 tonnes (2008: 5,840,000 tonnes, 2007: 7,300,000 tonnes) not provided for in the Financial Information:

	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Contracted for	<u>358,864</u>	<u>490,931</u>	<u>262,319</u>

(c) **Operating lease commitments**

At 31 March 2007, 2008 and 2009, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	<b>At 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year	214	527	281
After 1 year but within 5 years	<u>347</u>	<u>273</u>	<u>29</u>
	<u>561</u>	<u>800</u>	<u>310</u>

The Group leases office premises and motor vehicles under operating leases. The leases typically run for an initial period of 1 to 2 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

### 35 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in this Financial Information, the Group entered into the following material related party transactions during the Relevant Period.

#### Key management personnel remuneration

Key management personnel receive compensation in the form of salaries, wages, housing and other allowances, benefits in kind and contributions to defined contribution plan. Details of key management personnel emoluments are disclosed in notes 10 and 11. Total remuneration is included in “staff costs” as disclosed in note 5(a).

### 36 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, 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) 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. However, the Group considers that credit risk relating to these sales is limited as the corresponding trade receivables are supported by letters of credit issued by carefully vetted banks in the PRC. Normally, the Group does not obtain collateral from its customers.

Details of the Group’s concentration of credit risk are as follow:

	The Group At 31 March		
	2007	2008	2009
From the Group’s largest customer	0%	21%	53%
From the Group’s five largest customers	<u>9%</u>	<u>100%</u>	<u>98%</u>

The Group sold clinker and cement mainly on cash against delivery or advance deposits from customers. Credit terms are granted to reputable construction companies and state-owned companies on an 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. In the circumstances, the Group considers that the credit risk in these sales is significantly reduced to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group considers that the credit risk in these sales is significantly reduced.

#### (b) Liquidity risk

The Group’s policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company’s subsidiaries are required to obtain the Company’s approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers’ invoices beyond certain limits.

Currently, the Group is supported by the financial institutions through different financing programs, but these supports are not guaranteed by the financial institutions. In the event that these supports are not obtained, the Group’s liquid may be adversely affected.

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, if floating, based on rates current at the balance sheet date) and the earliest date that the Group can be required to pay:

**The Group**

	<b>At 31 March 2007</b>				
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Repayable within 1 year or on demand</b>	<b>Repayable more than 1 year but less than 2 years</b>	<b>Repayable more than 2 years but less than 5 years</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Bank loans	75,430	79,034	48,695	30,339	—
Secured note	—	—	—	—	—
Trade and other payables	71,482	71,482	71,482	—	—
Long-term payables	13,578	13,578	—	13,578	—
	<u>160,490</u>	<u>164,094</u>	<u>120,177</u>	<u>43,917</u>	<u>—</u>

	<b>At 31 March 2008</b>				
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Repayable within 1 year or on demand</b>	<b>Repayable more than 1 year but less than 2 years</b>	<b>Repayable more than 2 years but less than 5 years</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Bank loans	116,542	129,637	47,443	29,317	52,877
Secured note	—	—	—	—	—
Trade and other payables	57,885	57,885	57,885	—	—
Long-term payables	—	—	—	—	—
	<u>174,427</u>	<u>187,522</u>	<u>105,328</u>	<u>29,317</u>	<u>52,877</u>

	<b>At 31 March 2009</b>				
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Repayable within 1 year or on demand</b>	<b>Repayable more than 1 year but less than 2 years</b>	<b>Repayable more than 2 years but less than 5 years</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Bank loans	105,818	115,120	29,968	39,442	45,710
Secured note	101,568	140,010	20,923	54,422	64,665
Trade and other payables	97,550	97,550	97,550	—	—
Long-term payables	—	—	—	—	—
	<u>304,936</u>	<u>352,680</u>	<u>148,441</u>	<u>93,864</u>	<u>110,375</u>

#### **The Company**

	<b>At 31 March 2007</b>				
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Repayable within 1 year or on demand</b>	<b>Repayable more than 1 year but less than 2 years</b>	<b>Repayable more than 2 years but less than 5 years</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Accruals and other payables	<u>2,077</u>	<u>2,077</u>	<u>2,077</u>	<u>—</u>	<u>—</u>

	<b>At 31 March 2008</b>				
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Repayable within 1 year or on demand</b>	<b>Repayable more than 1 year but less than 2 years</b>	<b>Repayable more than 2 years but less than 5 years</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Accruals and other payables	<u>1,997</u>	<u>1,997</u>	<u>1,997</u>	<u>—</u>	<u>—</u>

	<b>At 31 March 2009</b>				
	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Repayable within 1 year or on demand</b>	<b>Repayable more than 1 year but less than 2 years</b>	<b>Repayable more than 2 years but less than 5 years</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Accruals and other payables	<u>1,012</u>	<u>1,012</u>	<u>1,012</u>	<u>—</u>	<u>—</u>

(c) *Interest rate risk*

Bank deposits, cash at bank, bank loans and secured note are the major types of the Group's financial instruments subject to interest rate risk. The terms of repayment of bank loans and secured note of the Group are disclosed in note 26 and 27 respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's borrowing as at 31 March 2007, 2008 and 2009:

	At 31 March					
	2007		2008		2009	
	Effective interest rate %	Total US\$'000	Effective interest rate %	Total US\$'000	Effective interest rate %	Total US\$'000
<b>Fixed rate borrowings:</b>						
Bank loans	4.87%	45,718	6.59%	22,354	2.64%	11,022
Long-term payables	5.76%	13,578	—	—	—	—
Secured note	—	—	—	—	22.89%	101,568
		59,296		22,354		112,590
		-----		-----		-----
<b>Variable rate borrowings:</b>						
Bank loans	5.94%	29,712	6.10%	94,188	5.34%	94,796
Less: Cash and cash equivalents	0.72%	(51,312)	0.72%	(34,039)	0.36%	(40,788)
Less: Pledged deposits	0.72%	(2,724)	0.72%	(2,439)	0.36%	(6,030)
		(24,324)		57,710		47,978
		-----		-----		-----
Total borrowings		<u>34,972</u>		<u>80,064</u>		<u>160,568</u>
Fixed rate borrowings as a percentage of total borrowings		<u>169.6%</u>		<u>27.9%</u>		<u>70.1%</u>

(ii) *Sensitivity analysis*

The table below analyses the effect on the Group's profit for the year and retained earnings should the interest rate changed, with all other variables held constant.

	<b>Change of interest rate by 0.5%</b> <i>US\$'000</i>
For the year ended 31 March 2007	69
For the year ended 31 March 2008	326
For the year ended 31 March 2009	<u>195</u>

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonable change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the years ended 31 March 2007, 2008 and 2009.

(d) *Currency risk*

(i) *Exposure to currency risk*

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

**The Group**

	<b>At 31 March 2007</b>				
	<b>Renminbi</b>	<b>Hong Kong Dollars</b>	<b>British Pounds</b>	<b>Macao Pataca</b>	<b>United States Dollars</b>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Trade and other receivables	1,200	1,680	98	—	—
Cash and cash equivalents	—	874	148	45	8,891
Bank loans	—	—	—	—	—
Secured note	—	—	—	—	—
Trade and other payables	<u>(3,784)</u>	<u>—</u>	<u>(5)</u>	<u>—</u>	<u>—</u>
Net exposure	<u>(2,584)</u>	<u>2,554</u>	<u>241</u>	<u>45</u>	<u>8,891</u>

<b>At 31 March 2008</b>					
	<b>Renminbi</b>	<b>Hong Kong Dollars</b>	<b>British Pounds</b>	<b>Macao Pataca</b>	<b>United States Dollars</b>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Trade and other receivables	21,064	1,266	5	—	1,196
Cash and cash equivalents	—	1,217	32	111	483
Bank loans	—	(60,000)	—	—	—
Secured note	—	—	—	—	—
Trade and other payables	<u>(4,280)</u>	<u>(16,207)</u>	<u>(84)</u>	<u>—</u>	<u>—</u>
Net exposure	<u>16,784</u>	<u>(73,724)</u>	<u>(47)</u>	<u>111</u>	<u>1,679</u>

<b>At 31 March 2009</b>					
	<b>Renminbi</b>	<b>Hong Kong Dollars</b>	<b>British Pounds</b>	<b>Macao Pataca</b>	<b>United States Dollars</b>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Trade and other receivables	1,553	7,899	163	—	131
Cash and cash equivalents	52,071	532	33	201	2,233
Bank loans	—	(37,500)	—	—	—
Secured note	—	—	—	—	(101,568)
Trade and other payables	<u>(51,572)</u>	<u>(12,390)</u>	<u>(85)</u>	<u>—</u>	<u>(7)</u>
Net exposure	<u>2,052</u>	<u>(41,459)</u>	<u>111</u>	<u>201</u>	<u>(99,211)</u>

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.

(ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit for the year (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

**The Group**

	Years ended 31 March					
	2007		2008		2009	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit for the year and retained profits US\$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit for the year and retained profits US\$'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit for the year and retained profits US\$'000
Renminbi	5%	(17)	5%	118	1%	3
	(5%)	17	(5%)	(118)	(1%)	(3)
British Pounds	1%	5	1%	(1)	2%	3
	(1%)	(5)	(1%)	1	(2%)	(3)
Macao Pataca	1%	1	1%	1	1%	1
	(1%)	<u>(1)</u>	(1%)	<u>(1)</u>	(1%)	<u>(1)</u>

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong Dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2008 and 2007. As the Hong Kong Dollars is pegged to the US\$, the Group considers that the pegged rate would be unaffected by any changes in movement in value of the Hong Kong dollars against other currencies.

(e) *Business risk*

The Group signed purchase agreements with its suppliers for a period of one to five years. 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.

Details of the purchases of iron ore during the Relevant Period are as follow:

	Years ended 31 March		
	2007	2008	2009
From the Group's largest supplier	65%	45%	70%
From the Group's five largest suppliers	<u>94%</u>	<u>97%</u>	<u>96%</u>

Details of the purchases of cement during the Relevant Period are as follow:

	<b>Years ended 31 March</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
From the Group's largest supplier	34%	63%	45%
From the Group's five largest suppliers	<u>77%</u>	<u>76%</u>	<u>78%</u>

(f) ***Fair values***

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods as set out below.

(i) *Property, plant and equipment*

The fair value of property, plant and equipment recognised as a result of a business combination is determined by using the Depreciated Replacement Cost method. The Depreciated Replacement Cost is the estimated current cost of replacement or reproduction less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

(ii) *Lease prepayments*

The fair value of property, plant and equipment recognised as a result of a business combination is based on the average offering price of the granted land use rights within a particular land zone and for a particular purpose.

(iii) *Intangible assets*

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iv) *Inventories*

The fair value of inventories acquired in a business combination is determined based on the estimated selling prices in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(v) *Financial guarantees issued*

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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.

The carrying amounts of other significant financial assets and liabilities approximate to their respective fair values at 31 March 2007, 2008 and 2009 due to the nature or short-term maturity of these instruments.

### 37 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 Information. 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 Information. 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 21, the Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

#### (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 the recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to precisely estimate selling prices 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 the level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume 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.

#### (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 totalling US\$173,000, US\$285,000 and US\$242,000 for the year ended 31 March 2007, 2008 and 2009 respectively.

For the business combinations undertaken by the Group, the Group allocates the costs of the acquired entities to the assets acquired and the liabilities assumed based on their estimated fair value on the date of acquisition. This process is commonly referred to as the purchase price allocation. As part of the purchase price allocation, the Group is required to determine the fair value of any identifiable intangible assets acquired. The determination of the fair value of the intangible assets acquired involves certain judgement and estimates. These judgements can include, but are not limited to, the cash flows that an asset is expected to generate in the future.

The fair values of the identifiable intangible assets were determined by the Group with inputs from the independent appraisers using mainly the income approach. Future cash flows are predominantly based on the historical pricing and expense levels, taking into consideration the relevant market size and growth factors. The resulting cash flows are then discounted at a rate approximating the Group's weighted average cost of capital.

A change in the amount allocated to identifiable intangible assets would have an offsetting effect on the amount of goodwill recognised from the acquisition and would change the amount of amortisation expense recognised related to those identifiable intangible assets.

### 38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 March 2009

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended on 31 March 2009 and which have not been adopted in the Financial Information:

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 while the adoption of the Revised IAS 1 and IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

At the date of authorisation of the Financial Information, the following new/revised standards, amendments to standards and interpretations to existing standards have been issued but are not effective for the year ended 31 March 2009:

IAS 1 (Revised) <sup>(2)</sup>	Presentation of financial statements
IAS 23 (Revised) <sup>(2)</sup>	Borrowing costs
IAS 27 (Revised) <sup>(3)</sup>	Consolidated and separate financial statements
IFRS 1 and IAS 27 (Amendments) <sup>(2)</sup>	Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRS 2 (Amendment) <sup>(2)</sup>	Share based payment - vesting conditions and cancellations
IFRS 3 and IAS 27 (Revised) <sup>(3)</sup>	Business combinations and consolidated and separate financial statements
Amendment to IFRS 7 <sup>(2)</sup>	Improving disclosures about financial instruments
IFRS 8 <sup>(2)</sup>	Operating segments
IFRIC 15 <sup>(2)</sup>	Agreements for the construction of real estate
IFRIC 16 <sup>(2)</sup>	Hedges of a net investment in a foreign operation
Improvement to IFRSs 2008 <sup>(1)</sup>	
Improvement to IFRSs 2009 <sup>(1)</sup>	
IFRIC 17 <sup>(3)</sup>	Distributions of non-cash assets to owners
IFRIC 18 <sup>(3)</sup>	Transfers of assets from customers

- (1) Effective for the Group for annual periods beginning 1 January 2009 unless otherwise stated in the specific IFRSs
- (2) Effective for the Group for annual periods beginning 1 January 2009
- (3) Effective for the Group for annual periods beginning 1 July 2010

The Group did not early adopt any of these new/revised standards, amendments to standards and interpretations to existing standards. The impact of adoption of these new/revised standards, amendments to standards and interpretations to existing standards in future periods is not currently known or reasonably estimable.

## **C SUBSEQUENT EVENTS**

The following significant transactions took place subsequent to 31 March 2009 and up to the date of this report:

- (a) Pursuant to the Directors' meeting of LPCC on 18 March 2009, the registered capital of LPCC would be increased from US\$22,004,000 (equivalent to RMB150,500,000) to US\$34,943,000 (equivalent to RMB239,000,000) and the Group has to make further capital injection of US\$14,105,000 (equivalent to RMB96,475,000). On 9 June 2009, the application of the further capital injection was approved by the local authority and, as a result, the Group's equity interest in LPCC will be increased from 55% to 75%. The Group is in the process of making an assessment of the fair value of the net assets acquired.
- (b) After the balance sheet date, the Directors proposed a final dividend for the year. Further details are disclosed in the note 8(a) to the Financial Information.
- (c) In order to re-introduce the incentive and retention value to the options granted to certain Directors and employees of the Company, under the Company's Share Option Scheme, the Board has authorised the exercise price of the subsisting options to be adjusted to GBP0.62 (equivalent to US\$1.06), effective 9 July 2009. The subsisting options were granted on 9 October 2007 with an exercise price of GBP1.60 (equivalent to US\$2.75) over a total of 8,160,000 ordinary shares in the Company.

## **D SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 March 2009.

Yours faithfully

*Certified Public Accountants*  
Hong Kong