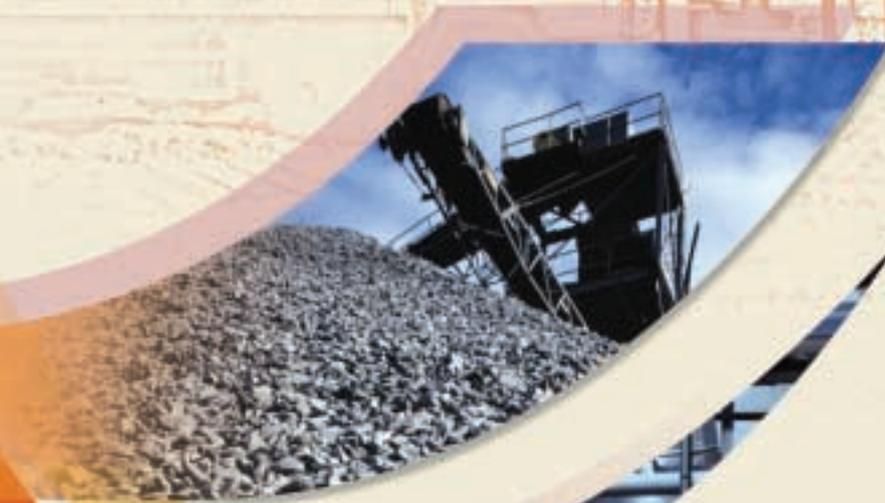




中盈控股有限公司
Sino Prosper Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 766)



ANNUAL REPORT
2006



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Corporate Information

EXECUTIVE DIRECTORS

Mr. LEUNG Ngai Man (*Chairman*)
Mr. TANG Yan Tian (*Chief Executive Officer*)
(*appointed on 19 July 2005*)
Mr. YEUNG Kit
Mr. WONG Wa Tak

NON-EXECUTIVE DIRECTOR

Mr. GAO Shi Kui
(*appointed on 23 June 2006*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CAI Wei Lun
Mr. CHAN Sing Fai
Dr. LEUNG Wai Cheung

QUALIFIED ACCOUNTANT

Ms. CHUAH Meng Meng

COMPANY SECRETARY

Ms. CHIU Ngan Ling Annie
(*appointed on 16 June 2006*)

HONG KONG LEGAL ADVISORS

Chiu & Partners

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units D-E
7th Floor
Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong



Chairman's Statement

On behalf of the board ("Board") of directors (the "Directors") of Sino Prosper Holdings Limited (the "Company"), I present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2006.

BUSINESS REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK\$1,867,000 from the sale of asphaltic rocks. For the year ended 31 March 2005, the Group recorded a turnover of approximately HK\$134,040,000 from the sale of residential and commercial properties. This represents a decrease in turnover of approximately 99% as compared to last year. For the year ended 31 March 2006, the Group's net loss attributable to shareholders was approximately HK\$29,913,000 (year ended 31 March 2005 (restated): net profit of approximately HK\$501,000).

The Group has adopted new applicable accounting standards in the preparation of financial statements under review. Excluding the effect of new applicable accounting standards, the Group's net loss attributable to shareholders for the year would be reduced to approximately HK\$14,529,000. The Group has been transforming to focus its development on energy and resources businesses, which are still at investing and developing stage. The following sets out briefly the progress of these projects, which the Group has been working on.

1. *CNPC SINO PROSPER PETROLEUM AND GAS COMPANY LTD ("CNPC")*

On 15 March 2005, Sino Prosper Gas Limited ("SPGL"), a wholly-owned subsidiary of the Company, and Wuhan Hengsheng Shimao Petroleum Natural Gas Pipeline Engineering Company Limited ("Hengsheng Shimao") agreed to set up a sino-foreign equity joint venture company in the PRC, namely, CNPC. CNPC will be principally engaged in the wholesale, sale, transportation and storage of petroleum gas including liquefied natural gas, liquefied petroleum gas and other petroleum products. Upon the establishment, CNPC will be owned as to 95% by the Group and as to 5% by Hengsheng Shimao. The total investment of CNPC will amount to RMB125 million (equivalent to approximately HK\$117.9 million). The registered capital of CNPC in the sum of RMB50 million will be contributed as to RMB47.5 million in cash (equivalent to approximately HK\$44.8 million) by SPGL and as to RMB2.5 million in cash (equivalent to approximately HK\$2.4 million) by Hengsheng Shimao.

Chairman's Statement (Continued)

2. INDONESIA-BITUMEN JOINT VENTURE EXTRACTION PROJECT

- a) *Establishment of new joint venture in Indonesia, 65% of shares owned by the Company*

The above project has been entrusted to Beijing Petrochemical Design Institute. The responsibility of Beijing Petrochemical Design Institute is to carry out the tasks in relation to technology, equipment and design, and it has completed the final trial program. It is expected to start commercial production in the near future. At the same time, the Company has collaborated with China National Machinery & Equipment Import and Export Corporation for further exploration in the area of north Buton Island in cooperation with Indonesia PT. Sarana Bagja Bumi and BGP, Inc., China National Petroleum Corporation.

- b) *Co-operation with China National Machinery & Equipment Import and Export Corporation ("CMEC")*

In 2005, Sino Prosper Resources Limited ("SPRL"), a wholly-owned subsidiary of the Company entered into an agreement with CMEC, pursuant to which, CMEC would be responsible for the production and management of the bitumen mine in Buton Island of Indonesia ("Buton Bitumen Mine") extraction project, and would provide financing arrangement including seller's credit.

- c) *Co-operation Agreement with China Huayou Group Corporation ("Huayou")*

On 12 September 2005, SPRL and Huayou, a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), entered into a co-operation agreement. According to the agreement, Huayou undertakes to distribute the marine fuel oil produced or extracted from the Buton Bitumen Mine for a tenure of 10 years from the date of the co-operation agreement and SPRL agreed to supply not less than 1,200,000 metric tons of marine fuel oil to Huayou for the first year after production or extraction of the marine fuel oil from the Buton Bitumen Mine which is estimated to be prior to the year 2007.

Huayou is a wholly-owned subsidiary of CNPC, CNPC is one of the two largest state-owned petroleum corporations in the PRC in 2005. CNPC currently holds two Hong Kong listed subsidiaries, namely PetroChina Company Limited and CNPC (Hong Kong) Limited.

The business of Huayou is well diversified which covers the production and marketing of oil and gas products, development and exploration of natural gas, production and distribution of high grade lubricating oil, development of chemical agents used in oil fields and the refining industry, and production of advanced building materials, etc.



Chairman's Statement (Continued)

d) *Co-operation Agreement with China Everbright Petroleum Exploitation & Investment Co., Ltd. ("China Everbright Petroleum Exploitation & Investment")*

On 14 March 2006, Sino Prosper Asphalt Investment Limited ("SPAI"), a wholly-owned subsidiary of the Company and China Everbright Petroleum Exploitation & Investment, a wholly-owned subsidiary of China Everbright Group, have entered into a co-operation agreement. China Everbright Petroleum Exploitation & Investment undertakes to distribute the asphalt and asphaltic rocks produced or extracted from the Buton Bitumen Mine for a tenure of 10 years from the date of the co-operation agreement and SPAI agreed to supply not less than 1,000,000 metric tons of asphalt and asphaltic rocks to China Everbright Petroleum Exploitation & Investment in the first year after the commencement of the production of asphalt and asphaltic rocks from the Buton Bitumen Mine which is estimated to be prior to the year 2007 and increase the supply thereafter in accordance with the production output of the Buton Bitumen Mine.

China Everbright Petroleum Exploitation & Investment is a subsidiary of China Everbright Group which is a core state-owned enterprise under the jurisdiction of the PRC government. China Everbright Group mainly focuses on the financial sector and its businesses cover banking, securities, insurance and investment management. China Everbright Group controls over sixty directly affiliated enterprises and it currently holds two Hong Kong listed subsidiaries, namely China Everbright Limited and China Everbright International Limited.

China Everbright Petroleum Exploitation & Investment invests in and operates a well-developed, vertically integrated petroleum and natural gas system. In addition to petroleum and natural gas development, storage, distribution and sales, China Everbright Petroleum Exploitation & Investment is active in petroleum related high-tech services.

3. *COAL MINING DEVELOPMENT IN XINJIANG, PRC*

On 28 March 2006, Sino Prosper Coal Mining Investment Limited ("SPCL"), a wholly-owned subsidiary of the Company, entered into a conditional acquisition agreement with Ample Pacific Group Limited and On Faith Group Limited (collectively, the "Vendors") to acquire (i) the entire issued share capital of Sky Gain Development Limited ("Sky Gain"), at a consideration of HK\$479,968,600; and (ii) such amount equivalent to 100% of the face value of the loans made by or on behalf of the Vendors to Sky Gain and remain outstanding as at the date of completion of the acquisition agreement at the consideration of HK\$1.00. Upon completion, SPCL will be legally and beneficially interested in the entire issued share capital of Sky Gain which is the legal and beneficial owner of 51% of the registered capital in Xinjiang Jingxin Mineral Development Company Limited ("Xinjiang Jingxin Mineral"). Completion of the acquisition agreement is conditional upon satisfaction of various conditions precedent, and therefore may or may not proceed.

Chairman's Statement (Continued)

4. ETHANOL PROJECT IN THAILAND

On 30 May 2006, Sino Prosper Ethanol Development Limited ("SPE"), a wholly-owned subsidiary of the Company, entered into a conditional agreement ("Heads of Agreement") with Picnic Corporation Public Company Limited ("Picnic Public") and Picnic Ethanol Company Limited ("Picnic Ethanol"), pursuant to which SPE and Picnic Public agree to jointly develop the Ethanol Project Phase 1 to be executed by Picnic Ethanol. Picnic Ethanol plans to start constructions of the Ethanol Project in the second half of 2006 and expects to complete the construction by mid 2007 with the estimated production capacity of 250,000 litres ethanol per day. Completion of the Heads of Agreement and the transactions contemplated thereunder is conditional upon satisfaction of various conditions precedent, and therefore may or may not proceed.

OUTLOOK AND NEW DEVELOPMENTS

DIRECT FOCUS ON ENERGY RESOURCES

Leveraging on the Group's establishment of the joint venture in Indonesia and its close collaboration with CMEC, it will be beneficial for the Company to complete the bitumen extraction project smoothly. The Group expects the said project will commence trial production in 2007 and generate significant profit to the Group.

Looking forward, since the PRC economy has sustained rapid growth of its economy and with a huge demand on various kinds of natural resources, the Group will actively explore investment opportunities on the related resources projects.

FINANCIAL REVIEW

NET ASSETS

As at 31 March 2006, the Group recorded total assets of approximately HK\$203,751,000 (as at 31 March 2005: HK\$188,704,000), which were financed by liabilities of approximately HK\$13,078,000 (as at 31 March 2005: HK\$43,974,000). The Group's net asset value as at 31 March 2006 increased by 32% to approximately HK\$190,673,000 as compared to approximately HK\$144,730,000 as at 31 March 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows. For the year ended 31 March 2006,

- (i) 51,500,000 shares were issued upon the exercise of share options at exercise prices ranging from HK\$0.220 to HK\$0.475, giving rise to aggregate net proceeds of approximately HK\$20,950,000; and
- (ii) 183,000,000 shares were issued upon the exercise of the subscription rights attaching to the warrants at the exercise price of HK\$0.19, giving rise to net proceeds of approximately HK\$34,770,000.

Chairman's Statement (Continued)

As at 31 March 2006, the Group had cash and bank balances of approximately HK\$135,064,000 (as at 31 March 2005: approximately HK\$38,642,000). Its gearing ratio calculated as a ratio of interest bearing net debt to shareholders' funds was nil (as at 31 March 2005: Nil). Net current assets totalled approximately HK\$190,184,000 (as at 31 March 2005: approximately HK\$144,626,000) and the current ratio was maintained at a level of approximately 16.12 (2005: approximately 4.34).

TREASURY POLICIES

The Group generally finances its operations with internally generated resources.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group had no contingent liabilities (as at 31 March 2005: Nil).

CAPITAL COMMITMENTS

As at 31 March 2006, the Group had the following commitments which were not provided for in the financial statements:

	2006 HK\$'000	2005 HK\$'000
Authorised and contracted for in respect of investment in a joint venture company	<u>44,811</u>	<u>44,811</u>

The above capital commitments refer to the Group's investment in CNPC, brief details of which have been set out in the paragraph headed "CNPC Sino Prosper Petroleum and Gas Company Ltd. ("CNPC")" under the section headed "Business Review" above.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenues and incurs costs in Renminbi, United States dollars and Hong Kong dollars. The Group's foreign exchange exposure is therefore minimal as long as the policy of the Government of Hong Kong Special Administrative Region to link the Hong Kong dollars to the United States dollars remains in effect.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 March 2006, the Group employed 20 full-time employees in the PRC and Hong Kong. The Group remunerated its employees based on their performance, qualifications, work experience and prevailing market prices. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.



Chairman's Statement *(Continued)*

CONCLUSION

On behalf of the Group, I would like to thank our business partners for their cooperation and support. I would also like to take this opportunity to thank our Board, staff and valued partners in business for their contribution and efforts throughout the year. We will continue to strive for outstanding results for the Group and better returns for our investors.

Leung Ngai Man

Chairman

Hong Kong, 27 July 2006



Management Profile

DIRECTORS

Mr. LEUNG Ngai Man, aged 45, is the founder and Chairman of the Group. He was appointed as an executive Director in 2001. He is also a director of all of the Group's subsidiaries. Mr. Leung has over 19 years' experience in the areas of trading, property development and management in the PRC. Mr. Leung first engaged in the PRC business in 1983, since then he established an extensive network and relationship with numerous PRC companies and authorities. Mr. Leung commenced business in the property development sector in the 1990s. He was previously a vice chairman and general manager of China Land Group Limited (now known as China Velocity Group Limited), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited, and principally engaged in the property development and investment in the PRC.

As at the date of this annual report, Mr. Leung was the beneficial owner of 710,000 Shares and he was deemed to be interested in the 380,330,000 Shares held by Climax Park Limited, the entire issued share capital of which is owned by Mr. Leung, by virtue of the Securities and Futures Ordinance ("SFO"). In addition, Mr. Leung is also interested in share options, carrying rights to subscribe for 8,000,000 Shares at the exercise price of HK\$0.41 per Share during the exercise period from 3 January 2005 to 2 January 2015, pursuant to the share option scheme of the Company.

Mr. TANG Yan Tian, aged 55, joined the Group in 2005, he is an executive Director and the Chief Executive Officer of the Company. He is also a director of Sino Prosper Resources Limited and Sino Prosper Gas Limited, the wholly-owned subsidiaries of the Company. Mr. Tian graduated from the Mechanical Engineering Faculty of Jilin Industrial University and the English Language and Foreign Trade Faculty of The University of International Business & Economics, Beijing, China. He also obtained a Master's degree in Computer Science from The City University of New York, United States of

America. He has 29 years of technical and management experience in project development and feasibility studies, international marketing and system engineering in the infrastructure, environmental protection and energy sectors. Mr. Tang has been involved in projects in oil refinement, energy and auto industries, which include bitumen extraction project in Indonesia. Mr. Tang had worked with China National Machinery & Equipment Import & Export Corporation ("CMEC") for over 6 years before becoming the director of Sino-Overseas Machinery & Tech. Corp., a subsidiary of CMEC in the United States of America.

Mr. YEUNG Kit, aged 43, joined the Group in 2001. He is an executive Director and a director of Sino Prosper Resources Limited, Sino Prosper Gas Limited, Joint Profit Group Limited, Konrich (Asia) Limited, Sino Prosper Medical Technology Limited, Sino Prosper LNG Limited and Sino Prosper Coal Mining Investment Limited, all being wholly-owned subsidiaries of the Company. Mr. Yeung has over 10 years' experience in the field of banking and finance, and more than 13 years' experience in the area of China trade and investment.

Mr. WONG Wa Tak, aged 43, joined the Group in 2005. He is an executive Director and a director of Sino Prosper Resources Limited, Sino Prosper Gas Limited and P.T. Sino Prosper Indocarbon, all being wholly-owned subsidiaries of the Company. Mr. Wong graduated from The Hong Kong Polytechnic University and has extensive experience in the shipping industry for over 10 years, particularly in bulk cargo transportation for petroleum products, chemicals and gas cargoes. Since 1993, he has concentrated in equity investment and business development in the PRC. For the past 13 years, Mr. Wong has been involved in many merger and acquisition transactions, covering sectors of real estate development, power plants and toll roads. Mr. Wong also has experience in the usage of asphalt for toll road/high way construction and maintenance.

Management Profile *(Continued)*

Mr. GAO Shi Kui, aged 54, joined the Company as a non-executive Director in 2006. Mr. Gao has over 33 years' experience in the areas of exploration, development, production and sales of crude oil and has held various senior positions in companies of these fields. Mr. Gao has been the director and president of China Everbright Petroleum (International) Limited and China Everbright Petroleum Exploration & Investment Co., Ltd. since November 1998. Mr. Gao is also the deputy chairman of executive of the Society of China Petroleum - Guangdong Province Petroleum and the deputy chairman of the Petroleum Society of All-China Federation of Industry and Commerce.

Mr. CAI Wei Lun, aged 51, joined the Company in 2004 as an independent non-executive Director and has over 17 years' experience in the property development sector in the PRC.

Mr. CHAN Sing Fai, aged 50, joined the Company in 2002 as an independent non-executive Director. He is also the chairman of Finnex Development Limited. Mr. Chan has about 24 years' experience in property development and management. He obtained a Master's Degree in Business Administration from The Chinese University of Hong Kong in 1981.

Dr. LEUNG Wai Cheung, aged 41, joined the Company as independent non-executive Director in 2004. He is a qualified accountant and chartered secretary with over 17 years' experience in accounting, auditing and financial management. Dr. Leung holds a Bachelor of Commerce degree in Accounting and subsequently obtained a postgraduate Diploma in Corporate Administration, a Master's degree in Professional Accounting and a Doctoral degree of Philosophy in Management. He is an associate member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Companies Secretaries and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Dr. Leung is the chief financial officer

of FlexSystem Holdings Limited and an independent non-executive director of Mobicon Group Limited and Wing Hing International (Holdings) Limited.

SENIOR MANAGEMENT

Mr. Kingston Lee, aged 47, joined the Group in 2006. Mr. Lee is the Chief Operating Officer of the Company. Mr. Lee has over 20 years' experience in the areas of management of project development, toll road, gold mining, real estate and logistics in the PRC and overseas. Mr. Lee has held various senior positions in companies of these fields in Hong Kong and overseas listed companies.

Ms. CHIU Ngan Ling Annie, aged 38, joined the Group as Company Secretary in 2006. Ms. Chiu holds a Bachelor's degree in Arts majoring in Accountancy from the Hong Kong Polytechnic University. She has worked in an international accounting firm and has over 15 years' experience in the field of auditing, accounting, finance and company secretarial administration. She is a fellow member of The Association of Chartered Certified Accountants, an associate member of Hong Kong Institute of Certified Public Accountants and a member of Hong Kong Securities Institute.

Ms. CHUAH Meng Meng, aged 36, joined the Group in October 2004 as its Financial Controller and was appointed as Qualified Accountant of the Group in July 2006. Ms. Chuah is a member of the Hong Kong Institute of Certified Public Accountants, CPA Australia and a Chartered Accountant with the Malaysian Institute of Accountants. Ms. Chuah holds a Bachelor's degree in Accountancy and has more than 14 years' experience in auditing, accounting and financial management in multinational companies and listed companies in Hong Kong and the PRC.

Ms. WU Wei Hua, aged 35, joined the Group in 1996. Ms. Wu is the Finance Manager of the Group in Dalian. Ms. Wu has more than 10 years' experience in the accounting field.



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Sino Prosper Holdings Limited ("Company") is committed to maintaining high standards of corporate governance practices required of publicly listed companies in Hong Kong. The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The board ("Board") of directors ("Directors") of the Company periodically reviews the corporate governance practices of the Company to ensure its continuous compliance with the Code. Save and except as hereinafter mentioned, the Company has complied with the Code for the year ended 31 March 2006 and has taken the following actions in order to achieve compliance with the Code:

(I) *CODE PROVISION A.2.1*

Pursuant to code provision A.2.1 of the Code, the roles of chairman and chief executive officer of listed issuers should be separate and should not be performed by the same individual. Prior to 19 July 2005, the Company has not appointed any individual to the post of chief executive officer and the responsibilities of the chief executive officer have been performed by the executive Directors, including the Chairman. To ensure compliance with the Code and an effective operation of the Board, Mr. Tang Yan Tian has been appointed as the Chief Executive Officer ("CEO") of the Group on 19 July 2005

while the respective written terms of scope and responsibilities of each of the Chairman and CEO have been adopted.

(II) *CODE PROVISION B.1.1*

Pursuant to code provision B.1.1 of the Code, listed issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. To ensure compliance with the Code, the remuneration committee has been established by the Board on 18 July 2005 and its terms of reference have been prepared in accordance with the requirements of the Code.

(III) *CODE PROVISION A.4.1*

Pursuant to code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. However, the non-executive and independent non-executive Directors are not appointed for specific terms as required, but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association ("Articles") of the Company. In order to ensure compliance with the Code, the Company will arrange to fix the terms of offices of each of the non-executive and independent non-executive Directors, subject to earlier determination and the re-election and rotational requirements in accordance with the Articles.

Corporate Governance Report *(continued)*

(IV) *CODE PROVISION A.4.2*

Pursuant to code provision A.4.2 of the Code, all directors of a listed company appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their respective appointments. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Nevertheless, the existing article 108(A) of the Articles, which provides for the rotational requirements of the Directors, stipulate that, among other matters, the Chairman is not subject to retirement by rotation at annual general meetings of the Company. As such, Mr. Leung Ngai Man, the Chairman of the Company, has not retired from his office as a Director since his appointment in 2001. To ensure compliance with the Code, a special resolution will be proposed to amend the relevant provisions of the Articles at the forthcoming annual general meeting of the Company so that the Articles will be consistent with code provision A.4.2 of the Code. Mr. Leung will also voluntarily retire from his office as a Director at the forthcoming annual general meeting and, being eligible, will offer himself for re-election as a Director at the forthcoming annual general meeting.

(V) *CODE PROVISION B.1.3(b)*

Pursuant to code provision B.1.3(b) of the Code, the Remuneration Committee should have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior

management and make recommendations to the Board of the remuneration of non-executive directors. However, for the year ended 31 March 2006, a salaried executive Director was appointed and his remuneration was mutually agreed between the Chairman of the Board and that executive Director. To ensure compliance with the Code, Remuneration Committee meeting will be held to determine remuneration packages of that executive Director and any newly appointed Directors in the future.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Company confirmed that all the Directors had complied with the required standard set out in the Model Code for the year ended 31 March 2006.



Corporate Governance Report *(continued)*

BOARD OF DIRECTORS

The composition of the Board for the year ended 31 March 2006 and up to the date of this annual report was as follows:

Executive Directors

Mr. Leung Ngai Man (*Chairman*)
Mr. Tang Yan Tian (*Chief Executive Officer*)
(appointed on 19 July 2005)
Mr. Yeung Kit
Mr. Wong Wa Tak

Non-executive Director

Mr. Gao Shi Kui (appointed on 23 June 2006)

Independent Non-executive Directors

Mr. Cai Wei Lun
Mr. Chan Sing Fai
Dr. Leung Wai Cheung

The biographical details of the Directors are set out on pages 9 to 10 of this Annual Report. The Board possesses a balance of skill and experience which is appropriate for the requirements of the business of the Company. The opinions raised by the independent non-executive Directors in the Board meetings facilitate the maintenance of good corporate governance practices. A balanced composition of executive, non-executive and independent non-executive Directors also generates a strong independent element on the Board, which allows independent and objective decision making process for the best interests of the Company. The Company will review the composition of the Board

regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers the three independent non-executive Directors to be independent.

As at the date of this annual report, there is no financial relationship between any of the Directors, nor is there any business, family or other material or relevant relationships among the members of the Board.

BOARD MEETINGS

Regular Board meetings are held at least four times a year, at approximately quarterly intervals to discuss and formulate the overall strategies of the Group, to approve annual and interim results, as well as to review the business operation and the internal control system of the Group. The meeting schedule will be fixed at the beginning of each year. Apart from these regular Board meetings, the Board will meet on other occasions when a board-level decision on a particular matter is required, such as material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the power to oversee the daily management of the Group's business to senior management under the supervision of the Board.

Corporate Governance Report *(continued)*

For the year ended 31 March 2006, six Board meetings were held and the individual attendance of Directors is set out below:-

Executive Directors	Attendance
Mr. Leung Ngai Man	6/6
Mr. Tang Yan Tian	1/6
Mr. Yeung Kit	6/6
Mr. Wong Wa Tak	4/6

Independent Non-executive Directors	
Mr. Cai Wei Lun	2/6
Mr. Chan Sing Fai	3/6
Dr. Leung Wai Cheung	3/6

The Directors attended Board meetings in person or through electronic means in accordance with the Articles.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The segregation of roles of the Chairman and the CEO has been in place. The Chairman is Mr. Leung Ngai Man while the CEO is Mr. Tang Yan Tian. There is a clear division of responsibilities between the Chairman and the CEO, in that the Chairman is primarily responsible for overseeing the operation of the Board, while the CEO is mainly responsible for managing the day-to-day operations of the Company.

NON-EXECUTIVE DIRECTORS

Under code provision A.4.1 of the Code, the non-executive directors of the listed issuers should be appointed for a specific term, subject to re-election.

Currently, the non-executive Director and three independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles, and their appointment will be reviewed when they are due for re-election. To ensure compliance with the Code, the Company will fix the terms of office of each of the non-executive and independent non-executive Directors as aforesaid.

The amendments to the Articles will also be proposed at the forthcoming annual general meeting so as to ensure the Articles are up to date and in line with, among other matters, the rotational and re-election requirements of the Code.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee.

The Board is empowered under the Articles to appoint any person as a Director either to fill a casual vacancy or as an additional member of the Board. The selection criteria are mainly based on the professional qualification and experience of the candidate for directorship. A newly appointed Director appointed by the Board must retire and be re-elected at the first general meeting after his appointment.

The Chairman of the Board is responsible for nominating any suitable person to join the Board if considered necessary, such nomination will have to be approved by the Board.

Corporate Governance Report *(continued)*

REMUNERATION COMMITTEE

The Board set up the Remuneration Committee on 18 July 2005. Its terms of reference were prepared in accordance with the provisions set out in the Code. The roles and functions of the Remuneration Committee is to make recommendation to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director or any of his/her associates should be involved in any decisions as to his/her own remuneration.

The members of the Remuneration Committee are as follows:-

Chan Sing Fai	Chairman (<i>Independent non-executive Director</i>)
Cai Wei Lun	Member (<i>Independent non-executive Director</i>)
Dr. Leung Wai Cheung	Member (<i>Independent non-executive Director</i>)
Mr. Leung Ngai Man	Member (<i>Chairman and Executive Director</i>)
Mr. Yeung Kit	Member (<i>Executive Director</i>)

For the year ended 31 March 2006, no Remuneration Committee meeting was held.

AUDIT COMMITTEE

The Audit Committee was established with specific written terms of reference which are not less than the code provisions set out in the Code. The Audit Committee is responsible for reviewing and supervising the financial reporting processes and internal control system of the Group and providing advice on the financial and accounting policies and practices of the Group and ensuring the Group's financial statements and auditors' reports present a true and balanced assessment of the Group's financial position.

During the year ended 31 March 2006, two audit committee meetings were held and the individual attendance of its members is set out below:-

Independent non-executive Directors

Mr. Chan Sing Fai (<i>Chairman</i>)	2/2
Mr. Cai Wei Lun	2/2
Dr. Leung Wai Cheung	2/2

During the aforesaid meetings, members of the audit committee reviewed the financial results and reports of the Company, the audit committee had also held a meeting with the auditors during the year.

AUDITORS' REMUNERATION

During the year, the Group has not engaged any non-audit services from the auditors ("Auditors") to the Group and the auditing services provided by the Auditors were charged at about HK\$400,000.



Corporate Governance Report *(continued)*

ACCOUNTABILITY

The Directors acknowledge their responsibility for preparing the accounts for the year ended 31 March 2006 which were prepared in accordance with statutory requirements and applicable accounting standards. The Auditors acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 March 2006.

There were no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for the year ended 31 March 2006.

INTERNAL CONTROLS

The Board has conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.



Directors' Report

The directors ("Directors") of Sino Prosper Holdings Limited ("Company") present their annual report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are property development and management in the People's Republic of China ("PRC"), investment in energy and natural resources related projects and investment in production of raw materials for power generation and construction of highways in the PRC and other countries. Details of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries during the year.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 March 2006 and the state of affairs of the Group at that date are set out in the annual report on pages 27 to 75 of this annual report.

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 March 2006.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year are set out in notes 27, 29 and 28, respectively, to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out on page 30 and in note 31 to the financial statements, respectively.

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. As at 31 March 2006, the reserves of the Company available for distribution to shareholders comprising the share premium account and accumulated losses amounted to approximately HK\$1,330,000 (2005 as restated: HK\$6,618,000).

Directors' Report *(Continued)*

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sale to the Group's five largest customers accounted for 100% of the total sale for the year and sale to the largest customer included therein amounted to 100%. Purchase from the Group's five largest suppliers accounted for 100% of the total purchase for the year and purchase from the largest suppliers included therein amounted to 100%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

EXECUTIVE DIRECTORS:

Mr. LEUNG Ngai Man (*Chairman*)

Mr. TANG Yan Tian (*Chief Executive Officer*)
(appointed on 19 July 2005)

Mr. YEUNG Kit

Mr. WONG Wa Tak

NON-EXECUTIVE DIRECTOR:

Mr. GAO Shi Kui (appointed on 23 June 2006)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. CAI Wei Lun

Mr. CHAN Sing Fai

Dr. LEUNG Wai Cheung

In accordance with Article 108(A) of the articles of association ("Articles") of the Company, Mr. Leung Ngai Man, an executive Director and Chairman of the Company, and Mr. Cai Wei Lun, an independent non-executive Director, will retire as Directors by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting ("Annual General Meeting") of the Company.

In accordance with article 112 of the Articles, Mr. Gao Shi Kui who was appointed as a non-executive Director with effect from 23 June 2006 by the Board, shall hold office only until the Annual General Meeting and being eligible, offer himself for re-election at the Annual General Meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Leung Ngai Man has entered into a service contract with the Company which is automatically renewable for the successive terms of one year each commencing from 1 April 2004 but shall not be longer than three years, unless terminated by either party giving not less than three months' notice in writing to the other party.

Tang Yan Tian has entered into a service contract with the Company for an initial term of two years commencing from 22 July 2005, which will be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Yeung Kit has entered into a service contract with the Company for an initial term of two years commencing from 1 January 2005, which will be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Wong Wa Tak has entered into a service contract with the Company for an initial term of two years commencing from 15 January 2005, which will be renewed thereafter on terms to be mutually agreed, unless terminated by either party giving not less than one month's notice in writing to the other party.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the related party transactions are set out in note 34 to the financial statements. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:-

(I) INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY

	Number of ordinary shares (Note 1)	Approximate percentage of total issued shares
<i>Executive Directors:</i>		
Leung Ngai Man	380,830,000 (L) 80,000,000 (S) (Note 2)	33.13 6.96
Wong Wa Tak	1,600,000 (L) (Note 3)	0.14

Directors' Report (Continued)

Notes:

1. The letters "L" and "S" represent the entity's long and short positions in the shares of the Company, respectively.
2. Out of these 380,830,000 shares, 380,330,000 shares were held and beneficially owned by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Leung Ngai Man. Climax Park Limited also has a short position for 80,000,000 shares. Under the SFO, Leung Ngai Man was deemed to be interested in these 380,830,000 shares and deemed to have a short position of 80,000,000 shares.
3. These 1,600,000 shares were held and beneficially owned by Master Hill Development Ltd., a company incorporated in Hong Kong with 50% of its shareholdings held and beneficially owned by Wong Wa Tak.

(II) INTEREST IN OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY OUTSTANDING UNDER THE SHARE OPTION SCHEME OF THE COMPANY ADOPTED ON 25 APRIL 2002

Name	Capacity	Total number of underlying shares	Approximate percentage of shareholding (Note 1)
Leung Ngai Man	Beneficial owner	8,000,000 (Note 2)	0.70%
Yeung Kit	Beneficial owner	6,400,000 (Note 3)	0.56%
Chan Sing Fai	Beneficial owner	800,000 (Note 4)	0.07%
Wong Wa Tak	Interest of a controlled corporation	3,000,000 (Note 5)	0.26%

Notes:

1. This percentage is calculated on basis of 1,149,500,000 shares of the Company in issue as at 31 March 2006 but does not take into account of any shares which may fall to be allotted and issued upon the exercise of any options or warrants which remained outstanding as at 31 March 2006.
2. Share options carrying rights to subscribe for 8,000,000 shares were granted to Leung Ngai Man on 3 January 2005 pursuant to the share option scheme.
3. Share options carrying rights to subscribe for 1,400,000 and 6,600,000 shares were granted to Yeung Kit on 1 November 2004 and 12 January 2005 respectively pursuant to the share option scheme. Yeung Kit exercised 1,600,000 share options on 7 February 2006 and as at 31 March 2006, he has 6,400,000 share options outstanding.
4. Share options carrying rights to subscribe for 800,000 shares were granted to Chan Sing Fai on 1 November 2004 pursuant to the share option scheme.
5. Share options carrying rights to subscribe for 7,000,000 shares were granted to Master Hill Development Ltd. on 29 November 2004 pursuant to the share option scheme. 50% of the shareholdings of Master Hill Development Ltd. was held and beneficially owned by Wong Wa Tak. Master Hill Development Ltd. exercised 4,000,000 share options on 8 February 2006 and as at 31 March 2006, it has 3,000,000 share options outstanding.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain Directors in trust for the Group, as at 31 March 2006, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year and up to the date of this annual report, no Director and his associates is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses of which the Directors were nominated and appointed as directors to represent the interests of the Company and/or the Group.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

Directors' Report (Continued)

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the interests or short positions of persons, other than a Director or chief executive of the Company, in the shares or underlyings shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO are as follows:

Name of Shareholder	Number of ordinary share/ underlying share (Note 1)	Capacity and nature of interest	Approximate percentage of interests (Note 2)
Climax Park Limited	380,330,000 (L) 80,000,000 (S)	Beneficial owner (Notes 3 and 4)	33.09
Chance Partner Investments Limited	380,000,000 (L)	Person having a security interest in shares	33.06
CMEC International Trading Import & Export Co., Ltd.	80,000,000 (L)	Beneficial owner (Note 3)	6.96
China National Machinery & Equipment Import & Export Corporation	80,000,000 (L)	Interest of a controlled corporation (Note 3)	6.96
Kan Che Kin, Billy Albert	533,000,000 (L)	Interest of a controlled corporation and beneficial owner (Note 5)	46.37
Kan Kung Chuen Lai	533,000,000 (L)	Interest of spouse (Note 6)	46.37
Deutsche Bank Aktiengesellschaft	153,000,000 (L) 183,000,000 (S)	Beneficial owner	13.31



Directors' Report (Continued)

Notes:

1. The letters "L" and "S" represent the entity's long and short positions in the shares and underlying shares of the Company respectively.
2. This percentage is calculated on the basis of 1,149,500,000 shares of the Company in issue as at 31 March 2006 but does not take into account of any shares which may fall to be allotted and issued upon the exercise of any options or warrants which remained outstanding as at 31 March 2006.
3. Climax Park Limited granted a call option to CMEC International Trading Import & Export Co., Ltd. on 19 July 2005, pursuant to which CMEC International Trading Import & Export Co., Ltd. may require Climax Park Limited to sell to it up to 80,000,000 shares. CMEC International Trading Import & Export Co., Ltd. is a company incorporated in the People's Republic of China and wholly owned by China National Machinery & Equipment Import & Export Corporation. Under the SFO, China National Machinery & Equipment Import & Export Corporation was deemed to be interested in the underlying shares of the Company under the call option.
4. Climax Park Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Leung Ngai Man.
5. Chance Partner Investments Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Kan Che Kin, Billy Albert, under the SFO, Mr. Kan Che Kin, Billy Albert was deemed to be interested in the these 380,000,000 shares in which Chance Partner Investments Limited is interested.
6. Kan Kung Chuen Lai is the spouse of Kan Che Kin, Billy Albert, she was deemed to be interested in these 533,000,000 shares in which Mr. Kan Che Kin, Billy Albert is interested under the SFO.

Save as disclosed above, as at 31 March 2006, no person, other than Directors whose interests are set out in the section headed "Directors' interests and short positions in shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

EMOLUMENT POLICY

The Group's emolument policy, including salaries and bonuses, are in line with the local practices where the Company and its subsidiaries operate, and is reviewed and determined by the Directors regularly with reference to the duties, responsibility and performance of individual employees, the legal framework and the market conditions.

The emolument of the Directors will be reviewed by the Remuneration Committee of the Board regularly, such fee was determined with reference to their roles and responsibilities in the Group and the prevailing market conditions.

Details of Directors' and employees' emoluments are set out in note 13 to the financial statements.

A share option scheme was adopted by the Company on 25 April 2002 to grant share options to eligible participants for the purpose of providing incentives and rewards to those who contribute to the success of the Group's operations. Details of the share option scheme are set out in note 29 to the financial statements.

Directors' Report *(Continued)*

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 29 to the financial statements.

As at 31 March 2006, the Company had 28,100,000 share options outstanding under the share option scheme, which represented 2.44% of the Company's shares in issue as at 31 March 2006. The share options exercised during the year resulted in the issue of 51,500,000 ordinary shares of the Company.

CONTRACT OF SIGNIFICANCE

During the year, the Group did not enter into any contract of significance with the controlling Shareholder or any of its subsidiaries, nor was there any contract of significance for the provision of services to the Group by the controlling Shareholder or any of its subsidiaries.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

TAXATION RELIEF

The Company is not aware of any tax relief and exemption available to Shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float for the year ended 31 March 2006.

Based on the information that is publicly available to the Company and within the knowledge of the Directors, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

POST BALANCE SHEET EVENT

Details of the significant events after the balance sheet date are set out in note 35 to the financial statements.

AUDITORS

The accompanying accounts were audited by Messrs. HLB Hodgson Impey Cheng. Deloitte Touche Tohmatsu resigned as the auditors of the Company with effect from 13 June 2003 and HLB Hodgson Impey Cheng was appointed on 13 June 2003 by the Shareholders to fill the casual vacancy so arisen. There had been no other changes of auditors in the preceding three financial years.

A resolution for their reappointment as auditors of the Company will be proposed at the Annual General Meeting.

On behalf of the Board
Tang Yan Tian
Chief Executive Officer

Hong Kong, 27 July 2006

Auditors' Report



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Chartered Accountants
Certified Public Accountants

TO THE SHAREHOLDERS OF SINO PROSPER HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



Auditors' Report *(Continued)*

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 27 July 2006

Consolidated Income Statement

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	Notes	2006 HK\$'000	2005 HK\$'000 (As restated)
Turnover	6	1,867	134,040
Cost of sales		<u>(1,400)</u>	<u>(120,084)</u>
Gross profit		467	13,956
Other operating income	7	1,229	328
Administrative expenses		<u>(32,009)</u>	<u>(13,770)</u>
Finance costs	9	<u>(40)</u>	<u>(13)</u>
(Loss)/Profit before taxation	8	<u>(30,353)</u>	501
Taxation	12	<u>-</u>	<u>-</u>
(Loss)/Profit for the year		<u><u>(30,353)</u></u>	<u><u>501</u></u>
Attributable to:			
Equity holders of the Company	11	<u>(29,913)</u>	501
Minority interests		<u>(440)</u>	-
		<u><u>(30,353)</u></u>	<u><u>501</u></u>
Dividends		<u><u>-</u></u>	<u><u>-</u></u>
(Loss)/Earnings per share for (loss)/profit attributable to equity holders of the Company for the year			
Basic and diluted	10	<u><u>HK (3.13 cents)</u></u>	<u><u>HK 0.06 cents</u></u>

Consolidated Balance Sheet

As at 31 March 2006
(Expressed in Hong Kong dollars)

	Notes	2006 HK\$'000	2005 HK\$'000 (As restated)
Non-current assets			
Property, plant and equipment	16	986	787
Current assets			
Trade receivables	19	-	129,651
Prepayments, deposits and other receivables	20	64,118	16,008
Secured promissory note	21	-	3,592
Amount due from the Controlling Shareholder	22	-	24
Amounts due from minority shareholders	23	3,583	-
Bank balances and cash	24	135,064	38,642
		202,765	187,917
Current liabilities			
Other payables and accruals	25	12,395	43,105
Obligation under a hire-purchase contract	26	186	186
		12,581	43,291
Net current assets		190,184	144,626
Total assets less current liabilities		191,170	145,413
Non-current liabilities			
Obligation under a hire-purchase contract	26	497	683
Net assets		190,673	144,730
Capital and reserves			
Share capital	27	11,495	9,150
Reserves		176,068	135,580
Equity attributable to equity holders of the Company		187,563	144,730
Minority interests		3,110	-
Total equity		190,673	144,730

The financial statements were approved and authorized for issue by the Board of Directors on 27 July 2006 and signed on its behalf by:

Tang Yan Tian
Director

Yeung Kit
Director

Balance Sheet

As at 31 March 2006
(Expressed in Hong Kong dollars)

	Notes	2006 HK\$'000	2005 HK\$'000 (As restated)
Non-current assets			
Investments in subsidiaries	17	<u>80,108</u>	<u>17,090</u>
Current assets			
Amount due from the Controlling Shareholder	22	-	24
Bank balances and cash		<u>7,011</u>	<u>8,301</u>
		<u>7,011</u>	<u>8,325</u>
Current liabilities			
Amounts due to subsidiaries	17	<u>56,036</u>	<u>3,996</u>
Other payables and accruals	25	<u>1,035</u>	<u>588</u>
		<u>57,071</u>	<u>4,584</u>
Net current (liabilities)/assets		<u>(50,060)</u>	<u>3,741</u>
Net assets		<u><u>30,048</u></u>	<u><u>20,831</u></u>
Capital and reserves			
Share capital	27	<u>11,495</u>	<u>9,150</u>
Reserves	31	<u>18,553</u>	<u>11,681</u>
		<u><u>30,048</u></u>	<u><u>20,831</u></u>

Tang Yan Tian
Director

Yeung Kit
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Investment property revaluation reserve	Warrants reserve	Share options reserve	Shareholder's contribution	Translation reserve	Retained profits	Total reserves	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2004	8,000	16,365	124,117	-	-	-	-	70,536	211,018	-	219,018
Issue of new shares	1,150	44,850	-	-	-	-	-	-	44,850	-	46,000
Share issue expenses	-	(1,735)	-	-	-	-	-	-	(1,735)	-	(1,735)
Revaluation reserve attributable to investment properties released on disposal	-	-	(124,117)	-	-	-	-	-	(124,117)	-	(124,117)
Grant of share options (Note 30(a))	-	-	-	-	5,063	-	-	-	5,063	-	5,063
Profit for the year	-	-	-	-	-	-	-	501	501	-	501
As at 31 March 2005, as restated	9,150	59,480	-	-	5,063	-	-	71,037	135,580	-	144,730
Exchange difference on translation of foreign operations	-	-	-	-	-	-	(163)	-	(163)	138	(25)
Income and expenses recognized directly in equity	-	-	-	-	-	-	(163)	-	(163)	138	(25)
Loss for the year	-	-	-	-	-	-	-	(29,913)	(29,913)	(440)	(30,353)
Total income and expenses recognized for the year	-	-	-	-	-	-	(163)	(29,913)	(30,076)	(302)	(30,378)
Grant of call options by the Controlling Shareholder (Note 30(b))	-	-	-	-	-	12,640	-	-	12,640	-	12,640
Placing of warrants (Note 28)	-	-	-	1,830	-	-	-	-	1,830	-	1,830
Warrants issue expenses	-	(25)	-	-	-	-	-	-	(25)	-	(25)
Issue of shares upon exercise of warrants (Note 27(iii))	1,830	32,940	-	-	-	-	-	-	32,940	-	34,770
Transfer of reserves upon exercise of warrants	-	1,830	-	(1,830)	-	-	-	-	-	-	-
Grant of share options (Note 30(a))	-	-	-	-	2,744	-	-	-	2,744	-	2,744
Issue of shares upon exercise of share options (Note 27(ii))	515	20,435	-	-	-	-	-	-	20,435	-	20,950
Transfer of reserves upon exercise of share options	-	3,224	-	-	(3,224)	-	-	-	-	-	-
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	3,412	3,412
As at 31 March 2006	11,495	117,884	-	-	4,583	12,640	(163)	41,124	176,068	3,110	190,673

Consolidated Cash Flow Statement

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

	Notes	2006 HK\$'000	2005 HK\$'000 (As restated)
Cash flows from operating activities			
(Loss)/Profit before taxation		(30,353)	501
Adjustments for:			
Equity settled share-based payments		15,384	5,063
Interest income		(92)	(328)
Depreciation		380	317
Impairment loss on investment in an associate		-	352
Gain on disposal of property, plant and equipment		(2)	-
Finance costs		40	13
Operating cash flows before changes in working capital		(14,643)	5,918
Trade receivables		129,651	(32,513)
Prepayments, deposits and other receivables		1,890	(14,128)
Amount due from the Controlling Shareholder		24	(5)
Amounts due from minority shareholders		(3,583)	-
Other payables and accruals		(30,710)	30,785
Amount due to a related company		-	(93)
Net cash generated from/(used in) operations		82,629	(10,036)
Interest received		92	236
Net cash generated from/(used in) operating activities		82,721	(9,800)
Cash flows from investing activities			
Repayment of secured promissory note		3,592	500
Payments to acquire property, plant and equipment		(588)	(159)
Proceeds from disposal of property, plant and equipment		11	-
Payment of Earnest Money	20(i)	(50,000)	-
Net cash (used in)/generated from investing activities		(46,985)	341
Cash flows from financing activities			
Net proceeds from issue of shares	27	55,720	44,265
Net proceeds from placing of warrants	28	1,805	-
Advance to an associate		-	(21)
Capital repayment of hire purchase obligations		(186)	(62)
Capital contributions from minority shareholders		3,412	-
Interest paid		(40)	(13)
Net cash generated from financing activities		60,711	44,169
Net increase in cash and cash equivalents		96,447	34,710
Effect of foreign exchange rate changes		(25)	-
Cash and cash equivalents at the beginning of the year		38,642	3,932
Cash and cash equivalents at the end of the year		135,064	38,642
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		135,064	38,642

As at 31 March 2006, the Group had bank balances and cash of approximately HK\$125,083,000 (2005: approximately HK\$27,831,000) which were denominated in Renminbi and placed with banks situated in the People's Republic of China.



Notes to the Financial Statements

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

1. CORPORATE INFORMATION

Sino Prosper Holdings Limited (the "Company") was incorporated with limited liability in the Cayman Islands on 26 October 2001 as an exempted company under the Companies Law of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 May 2002. The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate information" of the Group's Annual Report.

As at 31 March 2006, the Company was controlled by Climax Park Limited (the "Controlling Shareholder"), a company incorporated in the British Virgin Islands which is wholly owned by Mr. Leung Ngai Man, the chairman and executive director of the Company.

The Company is an investment holding company. The Group is principally engaged in property development and management in the People's Republic of China (the "PRC"), investment in energy and natural resources related projects and investment in production of raw materials for power generation and construction of highways in the PRC and other countries.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

INVESTMENT PROPERTIES

In the current year, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties, which requires gains or losses arising from changes in the fair value of investment properties to be recognized directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surpluses or deficits credited or charged to the investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve was charged to the income statement. Where a deficit had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the deficit previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The adoption of HKAS 40 has had no material effect on the results for the current or prior accounting years.

FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 has had no material impact on how the financial instruments of the Group are presented for current and prior accounting years.

SHARE-BASED PAYMENTS

In the current year, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). In addition, the Group has early adopted HK(IFRIC)-Int 8 “Scope of HKFRS 2” which is effective for annual periods beginning on or after 1 May 2006.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

SHARE-BASED PAYMENTS (Continued)

The principal impacts of HKFRS 2 on the Group are in relation to (i) the expensing of the fair value of share options granted to directors, employees and consultants of the Company, determined at the date of grant of the share options, over the vesting period; and (ii) the expensing of the fair value of the call option granted by the Controlling Shareholder to CMEC International Trading Import & Export Co., Ltd. ("CMEC International Trading") in recognition of the proposed cooperation for the bitumen extraction project with the Group during the year ended 31 March 2006.

Prior to the application of HKFRS 2, the Group did not recognize the financial effect of the share options granted to directors, employees and consultants of the Company until they were exercised. The Group has applied HKFRS 2 to share options that were granted after 7 November 2002 and had not yet vested at 1 January 2005. Comparative figures have been restated. The share-based payment expense has been included in administrative expenses.

The Group has also applied HKFRS 2 and HK(IFRIC)-Int 8 to the call option granted by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group during the year ended 31 March 2006. The share-based payment expense has also been included in administrative expenses.

Further details relating to the share-based payment transactions of the Group are set out in Note 30.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

SUMMARY OF EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006 HK\$'000	2005 HK\$'000
Expenses in relation to share options granted to directors and employees	2,744	4,983
Expenses in relation to share options granted to consultants	-	80
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group	<u>12,640</u>	<u>-</u>
Increase in loss/decrease in profit for the year	<u><u>15,384</u></u>	<u><u>5,063</u></u>
Attributable to:		
Equity holders of the Company	15,384	5,063
Minority interests	<u>-</u>	<u>-</u>
	<u><u>15,384</u></u>	<u><u>5,063</u></u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

SUMMARY OF EFFECTS OF CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31 March 2005 and 1 April 2005 are summarized below:

	As at 31 March 2005 (Originally stated) HK\$'000		As at 31 March 2005 (Restated) Adjustments HK\$'000		As at 1 April 2005 (Restated) HK\$'000
Net assets	<u>144,730</u>	<u>-</u>	<u>144,730</u>	<u>-</u>	<u>144,730</u>
Share capital	9,150	-	9,150	-	9,150
Share premium	59,480	-	59,480	-	59,480
Share options reserve	-	5,063	5,063	-	5,063
Retained profits	<u>76,100</u>	<u>(5,063)</u>	<u>71,037</u>	<u>-</u>	<u>71,037</u>
Total equity	<u>144,730</u>	<u>-</u>	<u>144,730</u>	<u>-</u>	<u>144,730</u>

Notes to the Financial Statements *(Continued)*

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

		<i>Notes</i>
HKAS 1 (Amendment)	Capital Disclosures	1
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures	2
HKAS 21 (Amendment)	Net Investment in a Foreign Operation	2
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	2
HKAS 39 (Amendment)	The Fair Value Option	2
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts	2
HKFRS 6	Exploration for and Evaluation of Mineral Resources	2
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease	2
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	2
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	3
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	4
HK(IFRIC)-Int 8	Scope of HKFRS 2	5
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	6

Notes:

1. Effective for annual periods beginning on or after 1 January 2007.
2. Effective for annual periods beginning on or after 1 January 2006.
3. Effective for annual periods beginning on or after 1 December 2005.
4. Effective for annual periods beginning on or after 1 March 2006.
5. Effective for annual periods beginning on or after 1 May 2006
6. Effective for annual periods beginning on or after 1 June 2006.

The Group has early adopted HK(IFRIC)-Int 8 "Scope of HKFRS 2" in the preparation of the financial statements for the year ended 31 March 2006.



Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

SUBSIDIARIES

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

GOODWILL

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Capitalized goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	: 20%
Motor vehicles	: 30%
Furniture, fixtures and equipment	: 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the period in which they arise.

COMPLETED PROPERTIES HELD FOR SALE

Completed properties held for sale are stated at the lower of cost and net realizable value. Cost comprises all development expenditure and costs of purchase. Net realizable value is calculated at the actual or estimated selling price less related costs of marketing and selling.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

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

FINANCIAL ASSETS

Loans and receivables

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

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL LIABILITIES AND EQUITY (Continued)

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables and accruals and obligation under a hire-purchase contract are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

SHARE OPTIONS GRANTED TO DIRECTORS AND EMPLOYEES OF THE COMPANY

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits/accumulated losses.

PROVISIONS

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

IMPAIRMENT LOSSES (OTHER THAN GOODWILL)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT LOSSES (OTHER THAN GOODWILL) (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

REVENUE RECOGNITION

- (i) Sales of properties are recognized upon the execution of legally binding sales agreements.
- (ii) Sales of goods are recognized when goods are delivered and title has passed.
- (iii) Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Notes to the Financial Statements *(Continued)*

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RELATED PARTY TRANSACTIONS

A party is related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with the Group;
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is a joint venture in which the Group is a venturer;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

ESTIMATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

ESTIMATED USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

IMPAIRMENT LOSS OF TRADE AND OTHER RECEIVABLES

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

CURRENCY RISK

Certain trade and other receivables, bank balances and cash and trade and other payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

5. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

INTEREST RATE RISK

The management considers the risk is insignificant to the Group as the Group had no significant interest-bearing long-term receivables and payables.

6. TURNOVER AND SEGMENT INFORMATION

	2006 HK\$'000	2005 HK\$'000
Sales of properties, net of applicable sales tax	-	134,040
Sales of asphaltic rocks	<u>1,867</u>	<u>-</u>
	<u><u>1,867</u></u>	<u><u>134,040</u></u>

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments	Energy and natural resources		Property development and management		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
						(As restated)
TURNOVER						
External sales	<u>1,867</u>	<u>-</u>	<u>-</u>	<u>134,040</u>	<u>1,867</u>	<u>134,040</u>
RESULTS						
Segment results	(14,796)	-	-	514	(14,796)	514
Unallocated income					1,229	-
Unallocated corporate expenses					(16,746)	-
Finance costs					(40)	(13)
(Loss)/Profit before taxation					(30,353)	501
Taxation					-	-
(Loss)/Profit for the year					<u>(30,353)</u>	<u>501</u>
ASSETS						
Segment assets	64,199	-	-	188,704	64,199	188,704
Unallocated assets					139,552	-
Total assets					<u>203,751</u>	<u>188,704</u>
LIABILITIES						
Segment liabilities	381	-	10,364	43,974	10,745	43,974
Unallocated liabilities					2,333	-
Total liabilities					<u>13,078</u>	<u>43,974</u>
OTHER INFORMATION						
Capital expenditures	279	-	-	1,090		
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>317</u>		
Geographical segments	Hong Kong		PRC		Other Asia Pacific countries	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue	1,867	-	-	134,040	-	-
Carrying amounts of segment assets	9,706	-	187,829	188,704	6,216	-
Capital expenditures	<u>309</u>	<u>-</u>	<u>-</u>	<u>1,090</u>	<u>279</u>	<u>-</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

7. OTHER OPERATING INCOME

	2006 HK\$'000	2005 HK\$'000
Interest income from bank deposits	92	328
Net exchange gains	1,135	-
Gain on disposal of property, plant and equipment	2	-
	<u>1,229</u>	<u>328</u>

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation has been arrived at after charging the following:

	2006 HK\$'000	2005 HK\$'000 (As restated)
Staff costs		
- Directors' emoluments (Note 13)	3,972	7,941
- Other staff salaries and allowances	1,220	614
- Share options granted to employees	2,744	-
- Other staff retirement benefits schemes contributions	46	12
	<u>7,982</u>	<u>8,567</u>
Depreciation of property, plant and equipment		
- Owned assets	86	23
- Leased assets	294	294
	<u>380</u>	<u>317</u>
Operating lease rentals in respect of land and buildings	974	327
Net exchange losses	-	53
Impairment loss on investment in an associate	-	352
Auditors' remuneration	400	330
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group (Note 30(b))	12,640	-
	<u>12,640</u>	<u>-</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on hire-purchase obligation	<u>40</u>	<u>13</u>

No interest was capitalized during the year ended 31 March 2006 (2005: Nil).

10. (LOSS)/EARNINGS PER SHARE

	2006	2005 (As restated)
(Loss)/Profit attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	<u>(HK\$29,913,000)</u>	<u>HK\$501,000</u>
	2006	2005
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>956,862,465</u>	<u>822,369,863</u>

The computation of diluted (loss)/earnings per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme since their exercise would have an anti-dilutive effect.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

10. (LOSS)/EARNINGS PER SHARE (Continued)

IMPACT OF CHANGES IN ACCOUNTING POLICIES

Changes in the Group's accounting policies during the year are disclosed in Note 2. To the extent that those changes have had an impact on results reported for the years ended 31 March 2005 and 2006, they have had an impact on the amounts reported for (loss)/earnings per share. The following table summarizes that impact on basic and diluted (loss)/earnings per share:

	2006 HK cents	2005 <i>HK cents</i>
Expenses in relation to share options granted to directors and employees	0.29	0.61
Expenses in relation to share options granted to consultants	-	0.01
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group	1.32	-
Increase in basic and diluted loss/decrease in basic and diluted earnings per share	1.61	0.62

11. NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$63,692,000 (2005 as restated: HK\$32,561,000).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

12. TAXATION

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries had no assessable profits derived from or arising in Hong Kong for the years ended 31 March 2005 and 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Taxation can be reconciled to the (loss)/profit per the income statement as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i> (As restated)
(Loss)/Profit before taxation	<u>(30,353)</u>	<u>501</u>
Taxation at domestic income tax rate of 17.5%	(5,312)	88
Tax effects of:		
Income not taxable in determining taxable profit	(266)	(2,422)
Expenses not deductible in determining taxable profit	2,692	948
Estimated tax losses not recognized	2,908	1,420
Utilization of losses not previously recognized	(20)	(19)
Depreciation allowance in excess of related depreciation expenses	<u>(2)</u>	<u>(15)</u>
Taxation for the year	<u>-</u>	<u>-</u>

No deferred tax liabilities have been recognized in the financial statements as the Group and the Company did not have material temporary differences as at 31 March 2005 and 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the Company's directors are as follows:

For the year ended 31 March 2006	Fees HK\$'000	Salaries and allowances HK\$'000	Fair values of share options granted to directors HK\$'000	Retirement benefits contributions HK\$'000	Total HK\$'000
<i>Executive directors</i>					
Mr. Leung Ngai Man	-	2,400	-	12	2,412
Mr. Tang Yan Tian (Appointed on 19 July 2005)	-	333	-	-	333
Mr. Yeung Kit	-	480	-	12	492
Mr. Wong Wa Tak	-	480	-	15	495
<i>Independent non-executive directors</i>					
Mr. Cai Wei Lun	-	-	-	-	-
Mr. Chan Sing Fai	120	-	-	-	120
Dr. Leung Wai Cheung	120	-	-	-	120
Total	240	3,693	-	39	3,972

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 March 2005	Fees HK\$'000	Salaries and allowances HK\$'000	Fair values of share options granted to directors HK\$'000	Retirement benefits schemes contributions HK\$'000	Total HK\$'000
<i>Executive directors</i>					
Mr. Leung Ngai Man	-	2,400	3,056	36	5,492
Mr. Yeung Kit	-	300	1,927	12	2,239
Mr. Wong Wa Tak	-	120	-	-	120
<i>Independent non-executive directors</i>					
Mr. Cai Wei Lun	-	-	-	-	-
Mr. Chan Sing Fai	30	-	-	-	30
Dr. Leung Wai Cheung	60	-	-	-	60
Total	90	2,820	4,983	48	7,941

There were no arrangements under which the directors of the Company have waived or agreed to waive any remuneration. There were no discretionary bonuses paid to the directors or the highest paid, non-director employees of the Group for the year ended 31 March 2006 (2005: Nil).

EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group for the year ended 31 March 2006 included three directors (2005: three directors) whose emoluments are set out above. The emoluments of the remaining two (2005: two) highest paid, non-director employees of the Group are set out below:

	2006 HK\$'000	2005 HK\$'000
Salaries and allowances	-	360
Fair values of share options granted to employees	2,744	-
Retirement benefits schemes contributions	-	-
	<u>2,744</u>	<u>360</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments fell within the following bands:

	Number of employees	
	2006	2005
Nil – HK\$1,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

14. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees. During the year ended 31 March 2006, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$52,000 (2005: HK\$60,000).

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

As at 31 March 2006, there were no forfeited contributions available for the Group to offset contributions payable in future years (2005: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

15. INVESTMENT PROPERTIES

The investment properties of the Group were revalued at their open market value of HK\$214,000,000 as at 31 March 2004 by an independent firm of surveyors, Castores Magi (Hong Kong) Limited. The investment properties were located in the PRC and held under medium-term lease, and were disposed of during the year ended 31 March 2005.

16. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold improvements <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:				
As at 1 April 2004	–	–	19	19
Additions	52	980	58	1,090
As at 1 April 2005	52	980	77	1,109
Additions	155	–	433	588
Disposal	–	–	(11)	(11)
As at 31 March 2006	207	980	499	1,686
Accumulated depreciation:				
As at 1 April 2004	–	–	5	5
Charge for the year	10	294	13	317
As at 1 April 2005	10	294	18	322
Charge for the year	42	294	44	380
Eliminated on disposal	–	–	(2)	(2)
As at 31 March 2006	52	588	60	700
Net book value:				
As at 31 March 2006	155	392	439	986
As at 31 March 2005	42	686	59	787

During the year ended 31 March 2005, the Group acquired a motor vehicle under a hire-purchase contract with a capital value of approximately HK\$931,000 at inception of the lease. The net book value of the motor vehicle held under hire-purchase amounted to approximately HK\$392,000 (2005: HK\$686,000) as at 31 March 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES

The Company	2006 HK\$'000	2005 <i>HK\$'000</i>
Unlisted shares, at cost	78	78
Amounts due from subsidiaries	84,286	37,025
	84,364	37,103
Less: Provision for amounts due from subsidiaries	(4,256)	(20,013)
	80,108	17,090

The amounts due from and due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries are unlikely to be repaid within one year and are therefore classified as non-current. The directors consider that the carrying amounts approximate their fair values.

Particulars of the Company's subsidiaries as at 31 March 2006 are as follow:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Sino Prosper Group Limited	British Virgin Islands	US\$10,000	100%	-	Investment holding
Access Power Group Limited	British Virgin Islands	US\$1	-	100%	Provision of marketing and subcontracting services
Joint Profit Group Limited	Hong Kong	HK\$2	-	100%	Provision of administrative services
Konrich (Asia) Limited	Hong Kong	HK\$2	-	100%	Investment holding

Notes to the Financial Statements *(Continued)*

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Lighting Charm Limited	British Virgin Islands	US\$2	-	100%	Investment holding
P.T. Sino Prosper Indocarbon <i>(Note (i))</i>	Indonesia	US\$1,250,000	-	65%	Not yet commenced business
Sino Prosper Asphalt Investment Limited	Hong Kong	HK\$1	-	100%	Investment holding
Sino Prosper Coal Mining Investment Limited	British Virgin Islands	US\$1	-	100%	Investment holding
Sino Prosper Gas Limited	Hong Kong	HK\$2	-	100%	Investment holding
Sino Prosper Gas (Luoyang) Limited	British Virgin Islands	US\$1	-	100%	Investment holding
Sino Prosper Medical Technology Limited	Hong Kong	HK\$2	-	100%	Investment holding
Sino Prosper LNG Limited	Hong Kong	HK\$1	-	100%	Investment holding
Sino Prosper Resources Limited	Hong Kong/ PRC	HK\$1	-	100%	Investment holding and trading of asphaltic rocks
Sino Prosper Northasia Travel Development Limited	British Virgin Islands	US\$1	-	100%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Sino Prosper Macau Travel Development Limited	British Virgin Islands	US\$1	-	100%	Investment holding
Dalian Haixin Investment Consultant Co., Ltd. (Note (ii))	PRC	US\$3,205,000	-	100%	Provision of consultancy services

Notes:

- (i) P.T. Sino Prosper Indocarbon is a limited liability joint venture company incorporated in Indonesia which was established by the Group and its joint venture partners pursuant to a joint venture agreement dated 25 April 2005 for the purpose of extraction of bitumen in the bitumen mine in Buton Island, Indonesia.
- (ii) Dalian Haixin Investment Consultant Co., Ltd. is a wholly owned foreign enterprise established in the PRC.
- (iii) None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

18. INVESTMENT IN AN ASSOCIATE

As at 31 March 2005 and 2006, the Company held 29% of the issued share capital of Bekwin International Ltd., a company incorporated in the British Virgin Islands with limited liability, through its wholly-owned subsidiary, Lighting Charm Limited. As at 31 March 2005 and 2006, the issued share capital of Bekwin International Ltd. amounted to US\$100 and Bekwin International Ltd. remained inactive during the year. The directors consider that the assets, liabilities and amounts of unrecognized share of results of Bekwin International Ltd. are insignificant.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

19. TRADE RECEIVABLES

For the property segment, the Group grants credit terms to purchasers of properties on the merit of individual purchaser's credit. For the energy and natural resources segment, customers are assessed and rated for credit approval. The aged analysis of trade receivables as at the balance sheet date is as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i>
0 – 90 days	–	95,000
91 – 180 days	–	7,991
181 – 270 days	–	26,660
	<hr/>	<hr/>
	–	129,651
	<hr/> <hr/>	<hr/> <hr/>

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006 HK\$'000	2005 <i>HK\$'000</i>
Earnest Money (Note (i))	50,000	–
Prepayments, deposits and other receivables	14,118	16,008
	<hr/>	<hr/>
	64,118	16,008
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes:

- (i) On 4 May 2006, the Company announced that Sino Prosper Coal Mining Investment Limited ("SPCL"), a wholly-owned subsidiary of the Company, entered into a conditional agreement dated 28 March 2006 (the "Sky Gain Acquisition Agreement") with Ample Pacific Group Limited and On Faith Group Limited (the "Vendors") and the guarantors, pursuant to which SPCL agreed to acquire from the Vendors (i) the Sale Shares (as defined therein), representing the entire issued share capital of Sky Gain Development Limited ("Sky Gain"), at a consideration of HK\$479,968,600; and (ii) the Sale Debts (as defined therein) at a cash consideration of HK\$1. The consideration for the acquisition of the Sale Shares is to be satisfied by cash payment and by the allotment and issue of consideration shares.

Sky Gain is a company incorporated in Hong Kong and is the legal and beneficial owner of 51% of the registered capital in Xinjiang Jingxin Mineral Development Limited ("Xinjiang Jingxin Mineral"). Xinjiang Jingxin Mineral is a Sino-foreign equity joint venture enterprise established in the PRC and is principally engaged in coal mining development in Xinjiang, the PRC.

Earnest money of HK\$50 million in cash (the "Earnest Money") has been paid by the Group to the Vendors upon signing of the Sky Gain Acquisition Agreement. Such Earnest Money will be refunded to SPCL (or other members of the Group as it may direct) without interest within 60 days after the date of completion of the Sky Gain Acquisition Agreement. In the event that the Sky Gain Acquisition Agreement is terminated, each of the Vendors shall, within seven business days after the date of such termination, repay to SPCL (or its nominee) an amount equivalent to the Earnest Money, together with interest which shall accrue at the prevailing best lending rate of The Hongkong and Shanghai Banking Corporation from the date of payment of the Earnest Money up to and inclusive of the date of repayment of the entire sum of the Earnest Money.

The acquisition constitutes a major transaction for the Company for the purpose of the Listing Rules. The acquisition and the transactions contemplated under the Sky Gain Acquisition Agreement (including but not limited to the allotment and issue of the consideration shares) will be subject to approval by the Company's shareholders at an extraordinary general meeting of the Company. Further details in relation to the aforesaid transactions are set out in the Company's announcement dated 4 May 2006.

- (ii) The directors consider that the carrying amounts of prepayments, deposits and other receivables approximate their fair values.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

21. SECURED PROMISSORY NOTE

Pursuant to a conditional sale and purchase agreement dated 23 March 2004, a secured promissory note of HK\$4,000,000 was issued in favor of the Group and was to be paid on 31 December 2004. Pursuant to a supplementary agreement dated 10 January 2005, the repayment of the secured promissory note was extended and interest was charged at 10% per annum on the outstanding amount. The final principal outstanding amount of HK\$3,500,000 together with accrued interest thereon were fully settled during the year ended 31 March 2006.

22. AMOUNT DUE FROM THE CONTROLLING SHAREHOLDER

The amount due was unsecured, interest-free and fully settled during the year ended 31 March 2006.

23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The amounts due from the minority shareholders of P.T. Sino Prosper Indocarbon, a 65% owned subsidiary of the Company, are unsecured, interest-free and have no fixed terms of repayment. The directors consider that the carrying amounts approximate their fair values.

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that are interest bearing at prevailing market rate and have original maturity of three months or less. The directors consider that the carrying amounts of bank balances and cash approximate their fair values.

25. OTHER PAYABLES AND ACCRUALS

The directors consider that the carrying amounts of other payables and accruals approximate their fair values.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

26. OBLIGATION UNDER A HIRE-PURCHASE CONTRACT

As at 31 March 2006, the Group had obligation under a hire-purchase contract repayable as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 1 year	226	226
After 1 year but within 2 years	226	226
After 2 years but within 5 years	376	602
	<hr/>	<hr/>
	828	1,054
Less: Future finance charges	(145)	(185)
	<hr/>	<hr/>
Present value of minimum lease payments	683	869
	<hr/> <hr/>	<hr/> <hr/>
Present value of minimum lease payments repayable:		
Within 1 year	186	186
After 1 year but within 2 years	186	186
After 2 years but within 5 years	311	497
	<hr/>	<hr/>
	683	869
	<hr/> <hr/>	<hr/> <hr/>

The directors consider that the carrying amounts of the Group's lease obligations approximate their fair values.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

27. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each:		
Authorized:		
Ordinary shares of HK\$0.01 each		
As at 31 March 2005 and 2006	20,000,000,000	200,000,000
Issued and fully paid:		
As at 1 April 2004	800,000,000	8,000,000
Issue of new shares (Note (i))	115,000,000	1,150,000
As at 31 March 2005 and 1 April 2005	915,000,000	9,150,000
Issue of shares upon exercise of share options (Note (ii))	51,500,000	515,000
Issue of shares upon exercise of warrants (Note (iii))	183,000,000	1,830,000
As at 31 March 2006	1,149,500,000	11,495,000

Notes:

- (i) On 10 January 2005, the Company announced that it had entered into a placing and subscription agreement dated 7 January 2005 (the "Placing and Subscription Agreement") with the joint placing agents and Climax Park Limited, the Controlling Shareholder. Pursuant to the Placing and Subscription Agreement, Climax Park Limited agreed to place, through the joint placing agents, an aggregate of 115,000,000 shares, on a fully underwritten basis, to not fewer than six independent investors at a price of HK\$0.40 per share. Pursuant to the Placing and Subscription Agreement, Climax Park Limited conditionally agreed to subscribe for an aggregate of 115,000,000 shares at a price of HK\$0.40 per share. The new shares were issued under the general mandate granted to the directors of the Company by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 24 August 2004. The net proceeds received by the Company amounted to approximately HK\$44.3 million. As of 31 March 2006, approximately HK\$17.2 million have been used for general working capital. The remaining HK\$27.1 million were placed with banks and intended to be used as general working capital for development of the Group's bitumen mine in Indonesia.
- (ii) During the year ended 31 March 2006, 51,500,000 shares were issued upon the exercise of share options at exercise prices ranging from HK\$0.220 to HK\$0.475, giving rise to aggregate net proceeds of approximately HK\$20,950,000 (Note 29).
- (iii) During the year ended 31 March 2006, 183,000,000 shares were issued upon the exercise of the subscription rights attaching to the warrants at the exercise price of HK\$0.19, giving rise to net proceeds of approximately HK\$34,770,000 (Note 28).



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

28. WARRANTS

On 27 July 2005, the Company announced that it had entered into a conditional placing agreement dated 27 July 2005 with an independent investor in relation to a private placing of 183,000,000 non-listed warrants at an issue price of HK\$0.01 per warrant. The warrants entitled the holder thereof to subscribe for new shares of the Company at an initial exercise price of HK\$0.19 per new share (subject to adjustment) at any time during a period of three years commencing from the date of issue of the warrants. Each warrant carried the right to subscribe for one new share. The warrants were freely transferable in integral multiples of 10,000,000 warrants.

The warrants were issued on 19 August 2005 upon completion of the warrant placing agreement, and the Company received net proceeds of approximately HK\$1,805,000 in respect of the placing of the warrants. As of 31 March 2006, approximately HK\$0.2 million have been used for general working capital. The remaining HK\$1.6 million were placed with banks and intended to be used as general working capital of the Group.

On 9 February 2006, the subscription rights attaching to the warrants were exercised, resulting in the allotment and issue of 183,000,000 new shares at the exercise price of HK\$0.19 per new share (Note 27(iii)). The new shares were issued under the general mandate granted to the directors of the Company by resolution of the Company's shareholders passed at the extraordinary general meeting of the Company held on 21 February 2005.

29. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties including consultants as incentives for their contributions to the development of the Group.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

29. SHARE OPTION SCHEME *(Continued)*

The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with an aggregate value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days from the date of the offer of grant of the share option. Options may be exercised at any time not later than 10 years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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29. SHARE OPTION SCHEME (Continued)

Movements in the share options during the years ended 31 March 2005 and 2006 are as follows:

Category/ Name of directors	Date of grant	Exercisable period	Exercise price per share	Number of share options			Outstanding and exercisable as at 31 March 2006
				Granted during the year ended 31 March 2005 and outstanding and exercisable as at 31 March 2005	Granted during the year ended 31 March 2006	Exercised during the year ended 31 March 2006	
Mr. Leung Ngai Man	3 January 2005	3 January 2005 to 2 January 2015	HK\$0.410	8,000,000	-	-	8,000,000
Mr. Yeung Kit	1 November 2004	1 November 2004 to 31 October 2014	HK\$0.475	1,400,000	-	-	1,400,000
	12 January 2005	12 January 2005 to 11 January 2015	HK\$0.410	6,600,000	-	(1,600,000)	5,000,000
Master Hill Development Limited (Note (f))	29 November 2004	29 November 2004 to 28 November 2014	HK\$0.460	7,000,000	-	(4,000,000)	3,000,000
Mr. Chan Sing Fai	1 November 2004	1 November 2004 to 31 October 2014	HK\$0.475	800,000	-	-	800,000
Directors				<u>23,800,000</u>	<u>-</u>	<u>(5,600,000)</u>	<u>18,200,000</u>
Employees	7 October 2004	7 October 2004 to 6 October 2014	HK\$0.450	6,000,000	-	(5,000,000)	1,000,000
	29 November 2004	29 November 2004 to 28 November 2014	HK\$0.460	8,000,000	-	(7,200,000)	800,000
	19 April 2005	19 April 2005 to 18 April 2015	HK\$0.265	-	8,000,000	(8,000,000)	-
	11 May 2005	11 May 2005 to 10 May 2015	HK\$0.220	-	4,000,000	(4,000,000)	-
Consultants	1 November 2004	1 November 2004 to 31 October 2014	HK\$0.475	5,800,000	-	(4,400,000)	1,400,000
	29 November 2004	29 November 2004 to 28 November 2014	HK\$0.460	16,000,000	-	(16,000,000)	-
	23 March 2005	23 March 2005 to 22 March 2015	HK\$0.340	8,000,000	-	(1,300,000)	6,700,000
Total				<u>67,600,000</u>	<u>12,000,000</u>	<u>(51,500,000)</u>	<u>28,100,000</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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29. SHARE OPTION SCHEME (Continued)

Notes:

- (i) Mr. Wong Wa Tak, who was appointed as an executive director of the Company on 14 January 2005, has beneficial interest in Master Hill Development Limited.
- (ii) The total consideration received during the year from grant of share options amounted to HK\$2 (2005: HK\$13).
- (iii) None of the share options were forfeited or expired during the years ended 31 March 2005 and 2006.
- (iv) The closing prices of the Company's shares immediately before 7 October 2004, 1 November 2004, 29 November 2004, 3 January 2005, 12 January 2005, 23 March 2005, 19 April 2005 and 11 May 2005, the dates of grant of the share options were HK\$0.44, HK\$0.47, HK\$0.45, HK\$0.39, HK\$0.29, HK\$0.34, HK\$0.25 and HK\$0.20, respectively.
- (v) The closing prices of the Company's shares immediately before 28 July 2005, 29 July 2005, 20 September 2005, 26 September 2005, 24 November 2005, 28 November 2005, 12 December 2005, 19 December 2005, 22 December 2005, 6 February 2006, 7 February 2006, 8 February 2006, 9 February 2006, 15 February 2006 and 20 February 2006, the dates on which the share options were exercised were HK\$0.26, HK\$0.34, HK\$0.73, HK\$0.68, HK\$0.61, HK\$0.63, HK\$0.63, HK\$0.59, HK\$0.67, HK\$0.89, HK\$0.94, HK\$0.97, HK\$1.05, HK\$1.13 and HK\$1.11, respectively.
- (vi) The exercise in full of the outstanding vested share options would, with the capital structure of the Company as at 31 March 2006, result in the issue of additional 28,100,000 ordinary shares (2005: 67,600,000 ordinary shares).

30. SHARE-BASED PAYMENT TRANSACTIONS

As mentioned in Note 2, the Group has, for the first time, applied HKFRS 2 "Share-based Payments" and HK(IFRIC)-Int 8 "Scope of HKFRS 2" to account for its share-based payment transactions in the years ended 31 March 2005 and 2006.

	2006 HK\$'000	2005 HK\$'000
Expenses in relation to share options granted to directors and employees	2,744	4,983
Expenses in relation to share options granted to consultants	-	80
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group	12,640	-
Equity settled share-based payment transactions	<u>15,384</u>	<u>5,063</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) SHARE OPTIONS

The fair values of share options granted to directors, employees and consultants determined at the dates of grant are expensed over the vesting periods, with a corresponding adjustment to the Group's share options reserve.

The Company measures the fair values of share options granted to consultants by reference to the fair values of services received. The total fair values of the share options granted to consultants for the year ended 31 March 2005 amounted to approximately HK\$368,000. The total fair values of the share options granted to consultants recognized in the income statement for the year ended 31 March 2005 amounted to approximately HK\$80,000.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted to directors and employees. The Model is one of the commonly used models to estimate the fair value of a share option. The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option.

Using the Model, the fair values of the share options granted to directors and employees on 7 October 2004, 1 November 2004, 29 November 2004, 3 January 2005 and 12 January 2005 were estimated to be approximately HK\$2,436,000, HK\$955,000, HK\$3,328,000, HK\$3,056,000 and HK\$1,927,000, respectively. The total fair values of the share options granted to directors and employees recognized in the income statement for the year ended 31 March 2005 amounted to approximately HK\$4,983,000.

Using the Model, the fair values of the share options granted to directors and employees on 19 April 2005 and 11 May 2005 were estimated to be approximately HK\$2,008,000 and HK\$736,000, respectively. The total fair values of the share options granted to directors and employees recognized in the income statement for the year ended 31 March 2006 amounted to approximately HK\$2,744,000.

The significant inputs into the Model were share prices at the respective grant dates as shown in Note 29 above, exercise prices as shown in Note 29 above, expected volatility ranging from 106% to 135%, annual risk-free interest rate of approximately 4.0% (2005: 4.0%) (being the approximate yields of 10-year Hong Kong Exchange Fund Notes traded on the respective grant dates), expected life of options of approximately 10 years (2005: 10 years) and dividend pay out ratio of zero (2005: zero). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's shares (15 May 2002).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) *GRANT OF CALL OPTION BY THE CONTROLLING SHAREHOLDER TO CMEC INTERNATIONAL TRADING IN RECOGNITION OF THE PROPOSED COOPERATION FOR BITUMEN EXTRACTION PROJECT WITH THE GROUP*

On 20 July 2005, the Company announced that the Company was informed by the Controlling Shareholder that the Controlling Shareholder had entered into an option agreement dated 19 July 2005 (the "Option Agreement") in respect of a call option (the "Call Option") granted to CMEC International Trading by the Controlling Shareholder to purchase 80,000,000 shares of the Company in recognition of the proposed cooperation for the bitumen extraction project with the Group in Buton Island, Indonesia. CMEC International Trading is a wholly owned subsidiary of China National Machinery & Equipment Import & Export Corporation which had entered into an agreement with the Group on 17 March 2005 in relation to the cooperation for the bitumen extraction project in Buton Island, Indonesia.

According to the Option Agreement, the Call Option should be exercised in full at one time. The exercise price of the Call Option is 85% of the average closing price of the shares as quoted on the Stock Exchange for the last 5 consecutive trading days prior to the exercise date. The Call Option will expire in 36 months after the date of entering into the Option Agreement, i.e. on 19 July 2008.

In accordance with HKFRS 2, transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity are share-based payment transactions. Further, in accordance with HK(IFRIC)-Int 8, the grant of the Call Option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group falls within the scope of HKFRS 2. For the year ended 31 March 2006, the Group recognized share-based payment expense of HK\$12,640,000 in relation to the grant of the Call Option by the Controlling Shareholder to CMEC International Trading, with a corresponding increase in shareholder's contribution in equity, being the deemed capital contribution to the Company from the Controlling Shareholder.

The Company has used the Model to estimate the fair value of the Call Option. The fair value of the Call Option was estimated to be approximately HK\$12,640,000. The significant inputs into the Model were share price at the date of the Option Agreement of HK\$0.20, estimated exercise prices of HK\$0.17 (being 85% of the 5-day average closing price of the shares prior to the date of the Option Agreement), expected volatility of 135%, annual risk-free interest rate of approximately 4.0% (being the approximate yield of 10-year Hong Kong Exchange Fund Notes traded on the date of the Option Agreement), expected life of the Call Option of 3 years and dividend pay out ratio of zero. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's shares (15 May 2002).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

31. RESERVES OF THE COMPANY

	Share premium HK\$'000	Warrants reserve HK\$'000	Share options reserve HK\$'000	Shareholder's contribution HK\$'000	Accumulated losses HK\$'000	Total reserves HK\$'000
As at 1 April 2004	16,365	-	-	-	(20,301)	(3,936)
Issue of new shares (Note 27(i))	44,850	-	-	-	-	44,850
Share issue expenses	(1,735)	-	-	-	-	(1,735)
Grant of share options (Note 30(a))	-	-	5,063	-	-	5,063
Loss for the year	-	-	-	-	(32,561)	(32,561)
As at 31 March 2005, as restated	59,480	-	5,063	-	(52,862)	11,681
Grant of call options by the Controlling Shareholder (Note 30(b))	-	-	-	12,640	-	12,640
Placing of warrants (Note 28)	-	1,830	-	-	-	1,830
Warrants issue expenses	(25)	-	-	-	-	(25)
Issue of shares upon exercise of warrants (Note 27(iii))	32,940	-	-	-	-	32,940
Transfer of reserves upon exercise of warrants	1,830	(1,830)	-	-	-	-
Grant of share options (Note 30(a))	-	-	2,744	-	-	2,744
Issue of shares upon exercise of share options (Note 27(ii))	20,435	-	-	-	-	20,435
Transfer of reserves upon exercise of share options	3,224	-	(3,224)	-	-	-
Loss for the year	-	-	-	-	(63,692)	(63,692)
As at 31 March 2006	117,884	-	4,583	12,640	(116,554)	18,553

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

32. CAPITAL COMMITMENTS

As at 31 March 2006, the Group had the following commitments which were not provided for in the financial statements:

	2006	2005
	HK\$'000	HK\$'000
Authorized and contracted for in respect of investment in a joint venture company	<u>44,811</u>	<u>44,811</u>

Pursuant to a joint venture agreement dated 4 February 2005 entered into between Sino Prosper Gas Limited ("SPGL" – a wholly owned subsidiary of the Company) and Lang Fang Development District Northern China Petroleum Sales Company (the "Joint Venture Partner"), SPGL and the Joint Venture Partner agreed to set up a joint venture company as an equity joint venture company in the PRC for a term of 30 years commencing from the date of issue of the business license of the joint venture company, which will be engaged in the wholesale, sales, transportation and storage of petroleum gas. Pursuant to the joint venture agreement, the registered capital of the joint venture company is RMB50 million (equivalent to approximately HK\$47.2 million) which will be contributed as to RMB47.5 million in cash (equivalent to approximately HK\$44.8 million) by SPGL from the internal financial resources of the Group, and as to RMB2.5 million in cash (equivalent to approximately HK\$2.4 million) by the Joint Venture Partner.

On 15 March 2005, SPGL, the Joint Venture Partner and Wuhan Hengsheng Shima Petroleum Natural Gas Pipeline Engineering Company Limited (the "New Joint Venture Partner") entered into a supplemental agreement. Pursuant to the supplemental agreement, the Joint Venture Partner agreed to withdraw and the New Joint Venture Partner agreed to replace the Joint Venture Partner in the formation of the joint venture company. The registered capital of the joint venture company to be contributed by SPGL as to approximately HK\$44.8 million remain unchanged and no contribution has been made by SPGL up to the date of approval of these financial statements.

As at the balance sheet dates, the Company had no significant capital commitments.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

33. OPERATING LEASE COMMITMENTS

As at 31 March 2006, the Group had commitments for future minimum leases payments under non-cancelable operating leases in respect of land and buildings which fall due as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	734	218
In the second to fifth years inclusive	332	40
	<u>1,066</u>	<u>258</u>

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Short-term employee benefits	3,972	2,958
Share-based payments	-	4,983
	<u>3,972</u>	<u>7,941</u>

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

35. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (i) On 3 February 2006, the Company announced that it had entered into a subscription agreement dated 24 January 2006 (the "Beijing CMIL Subscription Agreement") with Beijing China Metallurgy Investment Limited (北京中冶投資有限公司) ("Beijing CMIL"), pursuant to which Beijing CMIL has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 49,763,158 new shares at the subscription price of HK\$0.80 per subscription share.

On 4 May 2006, the Company further announced that completion of the Beijing CMIL Subscription Agreement took place on 27 April 2006 and an aggregate of 49,763,158 new shares subscribed by Beijing CMIL pursuant to the Beijing CMIL Subscription Agreement were allotted and issued to Beijing CMIL at the subscription price of HK\$0.80 per subscription share on 27 April 2006. The new shares were allotted and issued under the general mandate granted to the Company's directors by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 22 August 2005. The Company intends to apply the net proceeds therefrom of approximately HK\$39.4 million as general working capital of the Group and investment funding to the Group on possible investment projects.

- (ii) On 6 June 2006, the Company announced that Sino Prosper Ethanol Development Limited ("SPE" - a wholly-owned subsidiary of the Company) had entered into a conditional agreement dated 30 May 2006 (the "Heads of Agreement") with Picnic Corporation Public Company Limited ("Picnic Public" - a company incorporated under the laws of Thailand and the shares of which are listed on The Stock Exchange of Thailand) and Picnic Ethanol Company Limited ("Picnic Ethanol" - a company incorporated under the laws of Thailand). Pursuant to the Heads of Agreement, Picnic Public shall procure Picnic Ethanol to increase and Picnic Ethanol shall increase its registered capital to such amount in Baht that shall be equivalent to US\$10,000,000 (equivalent to approximately HK\$78,000,000) (the "Capital Increase"). SPE shall subscribe 51% of the total issued and outstanding shares of Picnic Ethanol on a fully diluted basis after the Capital Increase by contributing US\$5,100,000 (equivalent to approximately HK\$39,780,000) to Picnic Ethanol (the "Subscription"). The Subscription constitutes a major transaction for the Company for the purpose of the Listing Rules. The Subscription and the transactions contemplated under the Heads of Agreement and the definitive agreements will be subject to approval by the Company's shareholders at an extraordinary general meeting of the Company. Further details in relation to the aforesaid transactions are set out in the Company's announcement dated 6 June 2006.

Financial Summary

	Year ended 31 March				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000
Results					
Turnover	<u>113,318</u>	<u>24,427</u>	<u>27,831</u>	<u>134,040</u>	<u>1,867</u>
Profit/(loss) before taxation	53,026	(9,901)	3,701	501	(30,353)
Taxation	(24,241)	-	-	-	-
Profit/(loss) for the year	<u>28,785</u>	<u>(9,901)</u>	<u>3,701</u>	<u>501</u>	<u>(30,353)</u>
Attributable to:					
Equity holders of the Company	27,766	(9,665)	150	501	(29,913)
Minority interests	1,019	(236)	3,551	-	(440)
	<u>28,785</u>	<u>(9,901)</u>	<u>3,701</u>	<u>501</u>	<u>(30,353)</u>
Earning/(Loss) per share for profit/(loss) attributable to equity holders of the Company for the year					
Basic and diluted	<u>4.14 cents</u>	<u>(1.21 cents)</u>	<u>0.02 cents</u>	<u>0.06 cents</u>	<u>(3.13 cents)</u>
	As at 31 March				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000
Total assets	341,848	292,335	224,376	188,704	203,751
Total liabilities	(224,624)	(171,587)	(5,358)	(43,974)	(13,078)
	<u>117,224</u>	<u>120,748</u>	<u>219,018</u>	<u>144,730</u>	<u>190,673</u>
Equity attributable to equity holders of the Company	111,063	116,463	219,018	144,730	187,563
Minority interests	6,161	4,285	-	-	3,110
Total equity	<u>117,244</u>	<u>120,748</u>	<u>219,018</u>	<u>144,730</u>	<u>190,673</u>

Note: The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 to the financial statements. Figures for the year 2005 have been adjusted. However, it is not practicable to restate earlier years for comparison purpose.