

Chairman's Statement

On behalf of the Board of Directors (the "Directors"), I am pleased to present the annual results of Sino Prosper Holdings Limited ("Sino Prosper"/the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2004.

BUSINESS REVIEW AND PROSPECTS

Business Performance and Analysis

Looking back at the financial year ended 31 March 2004, though many businesses were seriously affected by the Iraqi War and the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the Group undertook business restructuring during the year and managed to achieve stable performance. For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$27,831,000 representing an increase of approximately 14% as compared to last year. Aiming at improving operational efficiencies, the management dedicated their effort to adjust the Group's operation strategy, hence generating net profit attributable to shareholders to approximately HK\$150,000 (year ended 31 March 2003: a net loss of approximately HK\$9,665,000).

Properties Development Operations

Dalian Properties Development Projects

In the first six months of the year under review, the property retail market in the PRC was dragged by the threat of SARS. The Group was however able to promptly respond to market changes and with flexibility adjust its sales strategy, bringing in increased turnover when compared to the same period last year. Nevertheless, to realise its plan to diversify its business and re-position itself to develop gas and power business, the Group sold two subsidiaries and thus disposed of the majority

of its properties development and management service projects in Dalian at a total consideration of HK\$8,000,000 in March 2004.

Such move is expected to improve the Group's cash flow position, and enable the Group to invest in new properties development and gas pipeline projects with greater flexibility, further widening the Group's sources of income.

Energy Projects

After acquiring 29% interests of Beijing Bluesky Technology Co., Ltd ("Beijing Bluesky"), a wholly-owned subsidiary of Bekwin International Ltd which is owned as to 29% by the Group, in late 2002 at a consideration of RMB8,000,000, the Group has been actively planning to increase its investment in the development of city gas pipelines and the supply and sales of natural gas in the PRC. Thus, the Group has been actively looking for suitable projects so as to seize any promising development opportunities.

To capture the vast opportunities brought about by the "West-to-East Gas Transmission Project" in the PRC, on 23 December 2003, the Group, through its newly formed wholly-owned subsidiary, Sino Prosper Gas Limited ("Sino Prosper Gas"), signed a letter of intent with China Everbright Petroleum Exploitation and Investment Co., Ltd. ("Everbright") to set up a co-operative company in China. Pooling the strengths of the two parties, including Everbright's experience in developing and operating gas pipeline networks in various PRC cities and the capital advantages of Sino Prosper, the co-operation allows both partners to set up businesses in various cities and regions in the PRC to develop gas supply networks and provide gas

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supply services, which will further consolidate Sino Prosper's foundation in gas operations in the PRC.

In addition, on 26 January 2004, Sino Prosper Gas entered into the Memorandum of Understanding with shareholders of Luoyang Wuzhou Gas Limited ("Wuzhou Gas") for the proposed purchase by Sino Prosper Gas of 100% interest in the registered capital of Wuzhou Gas ("Sale Equity") at a consideration of not more than RMB18,500,000 (equivalent to approximately HK\$17,500,000 million). Sino Prosper Gas would acquire 90% of the Sale Equity from Shenzhen Fenglei Investments Co., Ltd ("Shenzhen Fenglei") and 10% of the Sale Equity from Henan Huilida Industrial Co., Ltd ("Henan Huilida").

Wuzhou Gas is a natural gas pipelines operator with approval from the Luoyang Municipal Public Services Bureau, as the sole operator for the construction and operation of the gas pipeline networks in Xinan County, Yanshi County and Mengjian County in Luoyang, PRC for a term of operation of 25 years commencing 2003. Moreover, Shenzhen Fenglei and Henan Huilida guarantees that the profit before tax of Wuzhou Gas for the year ending 31 December 2004 would not be less than RMB8,000,000 (equivalent to approximately HK\$7,500,000), and that Wuzhou Gas would be entitled to the preferential treatments and assistance from the national, provincial and local governments in respect of the construction and operation of Wuzhou Gas on such terms and conditions as currently offered by the national, provincial and local governments.

The Group is confident that it will benefit from the synergies of the acquisition. Wuzhou Gas has the

technology and the expertise that can enhance the development of its gas, power and resources business and bring in higher returns rapidly.

Looking ahead, the Group will focus on consolidating its business and enhancing its profitability by raising its overall efficiency and strengthening its operations. In the meantime, the Group will continue to take a prudent approach to identify investment opportunities with promising prospects. Based on the Group's persistently stable operation strategy, we are ready to seize the vast potential brought about by the growing Chinese economy.

FINANCIAL REVIEW

NET ASSETS

As at 31 March 2004, the Group recorded total assets of approximately HK\$224,376,000, which were financed by liabilities of approximately HK\$5,358,000. The Group's net asset value as at 31 March 2004 increased by 88% to approximately HK\$219,018,000 as compared to approximately HK\$116,463,000 as at 31 March 2003.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows. As at 31 March 2004, the Group had cash and bank balances of approximately HK\$3,932,000 (2003: approximately HK\$10,645,000). Its gearing ratio calculated as a ratio of interest bearing net debt to shareholders' funds was nil (2003: approximately 0.61). Net current assets totalled approximately HK\$4,473,000 (2003: approximately HK\$44,033,000) and the current ratio was maintained at the healthy level of approximately 1.83 (2003: approximately 1.26).

CHARGES ON ASSETS

As at 31 March 2004, the Group's investment properties with an aggregate revalued amount of approximately HK\$126,090,000 were pledged in favour of a bank in the PRC (the "Bank") to secure a loan of approximately RMB70,940,000 (equivalent to approximately HK\$66,723,000) granted by the Bank to the Company's former subsidiary, Dalian Dong Gang Real Estate Development Co., Ltd. ("Dalian Dong Gang"), pursuant to the bank loan agreement and pledge agreement signed between Dalian Dong Gang and the Bank. As at 31 March 2003, investment properties of approximately HK\$76,500,000 and properties held for sale of approximately HK\$27,968,000 were pledged to banks to secure banking facilities granted.

TREASURY POLICIES

The Group generally finances its operations with internally generated resources and credit facilities provided by banks in the PRC. Before the disposal of subsidiaries by the Group as disclosed in the financial statements, the Group's subsidiaries in the PRC are financed by their short-term loans as working capital. Bank deposits as at 31 March 2004 as shown in the financial statements are denominated in Hong Kong dollars.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group had no contingent liabilities. As at 31 March 2003, the Group had contingent liabilities in relation to penalties for late completion of properties of approximately HK\$8,471,000 and guarantees given to a bank in respect of mortgage facilities granted to purchasers for the acquisition of the properties of approximately HK\$80,175,000.

COMMITMENT

As at 31 March 2004, the Group had no commitment. As at 31 March 2003, expenditure contracted for but not provided in the financial statements in respect of acquisition of land in the PRC amounted to approximately HK\$3,224,000.

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 2004, the Group employed approximately 10 full time staff in the PRC and Hong Kong. The Group remunerates its employees based on their performance, 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.

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 of Directors and staff 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, 28 July 2004