

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 September 2005, the Group's turnover was HK\$1,867,000 from sale of asphaltic rocks under its new energy and natural resources business segment (six months ended 30 September 2004: Nil). Net loss attributable to shareholders was approximately HK\$5.5 million (six months ended 30 September 2004: net loss of approximately HK\$6.7 million). This is an improvement of 18% compared to the same corresponding period last year. The "other operating expense" reported under corresponding period ended 30 September 2004 relates to net loss from sale of properties held as investment properties and fully disposed off.

MAJOR PROJECTS AND PROSPECTS OF THE GROUP

The Group has been taking active steps to focus on the energy and resources sector. The following sets out briefly the progress of projects, which the Group has been working on.

ENERGY RESOURCES BUSINESS

Energy Projects

Indonesia-Bitumen Joint Venture Extraction Project

- a) On April 2005, Sino Prosper Resources Limited ("SPRL"), a subsidiary of the Company entered into a joint venture agreement with two Indonesians, Mr. Sayono and Mr. Hariono Moeliawan, to establish a joint venture company under the proposed name of "P.T. Sino Prosper Indocarbon" ("SPI") in Indonesia, whose business will involve the extraction of bitumen in Buton Island, Indonesia (the world's largest bitumen mine). For phase 1 of the bitumen extraction project, a minimum of 1,200,000 metric tons of marine fuel oil and a minimum of 50,000 metric tons of asphalt modifier will be produced. Under the joint venture agreement, upon the establishment, SPI will be owned as to 65% by the Group, and 25% and 10% respectively by the Indonesian counterparties respectively.



On 25 April 2005, the Ministry of BAPPENAS (National Development Planning Agency) of Indonesia issued a letter supporting the establishment of SPI for the investment of the bitumen extraction project at Buton Island, Indonesia, subject to compliance with the applicable laws and regulations of Indonesia.

On 25 May 2005, Bupati Buton issued a letter expressing support for the establishment of SPI, the fulfilment of the need of raw materials, and the acceleration of the development of Bitumen extraction project as Buton Island.

On 10 June 2005, the “Foreign Investment Approval” issued by Investment Coordinating Board (BKPM – Badan Koordinasi Penanaman Modal) in Indonesia was obtained for SPI.

On 18 June 2005, Bupati Muna (Muna Government) issued a letter of support to SPI to obtain the “Mining Right Permit of General Surveillance.”

On 10 September 2005, SPI was granted the Exploration Right of the Buton Bitumen Mine by the Muna Government for a total area of 24,382 hectares. Upon compliance with the Indonesia laws and regulations, the Joint Venture Company shall have the right to explore and extract bitumen from the Buton Bitumen Mine for 30 years. Such right will be subject to a renewal right for another 10 years upon expiry and another renewal right for a further 10 years upon expiry of the first renewal. The details of the licences by which the Authority granted the Exploration Right to SPI are as follows:

Licence Number	Area of Mine Applicable to (Hectares)
NOMBOR 363 TAHUN 2005	4,491
NOMBOR 364 TAHUN 2005	4,993
NOMBOR 365 TAHUN 2005	4,974
NOMBOR 366 TAHUN 2005	4,956
NOMBOR 367 TAHUN 2005	4,968
	Total: 24,382

Further Information of the Bitumen Mine

According to the report issued by Bidang Wilayah Pertambangan Dan Energi, a technical consultants company in Indonesia, in respect of a survey conducted for a total area of 369 hectares out of the above-mentioned area of 24,382 hectares in the Buton Bitumen Mine, it is estimated that the total asbuton reserves in such 369 hectares is around 120,500,000 cubic metres (i.e., about 204,000,000 metric tons). As estimated, the total asbuton reserves in the exploration area of 24,382 hectares is around 8 billion cubic metres (i.e., around 13.6 million metric tons). On the assumption of 10% extraction rate, it is estimated that 1.2 billion metric tons of marine fuel oil and 136,000,000 metric tons of asphalt modifier could be extracted from such 24,382 hectares bitumen mine.



- b) Co-operation with China National Machinery & Equipment Import and Export Corporation (“CMEC”) On 17 March 2005, SPRL and CMEC entered into an agreement pursuant to which CMEC will conduct the exploration and mining of the Buton Bitumen Mine. Commissioned by the Buton Bitumen Mine, CMEC will be responsible for engineering, production and management of the mine and will be retained as the engineering procurement construction contractor for the project. CMEC will provide financing arrangements, including seller’s credit. CMEC will also assist to procure potential purchasers in the PRC for all the products produced or extracted from the project at a price no higher than that of the international oil market.

On 16 May 2005, SPRL entered into a cooperation agreement with CMEC in respect of the Indonesia Bitumen Extraction Project and the total investment would not exceed US\$50,000,000. Pursuant to the cooperation agreement, CMEC agreed to provide financial support of not more than US\$45,000,000 (equivalent to approximately HK\$350,100,000).

- c) Co-operation Agreement with Huayou
SPRL, a wholly owned subsidiary of the Company, and China Huayou Group Corporation (“Huayou”), a wholly owned subsidiary of China National Petroleum Corporation (“CNPC”), entered into a co-operation agreement on 12 September 2005. According to the agreement, Huayou shall 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 shall supply not less than 1,200,000 metric tons of marine fuel oil to Huayou for the first year after commencement of production or extraction of the marine fuel oil from the Buton Bitumen Mine which is estimated to be prior to the year 2007.

Background of Huayou

Huayou is a wholly-owned subsidiary of CNPC. CNPC is one of the two largest state-owned petroleum corporations in the PRC in 2005. It was rated 46th by the Fortune Global 500 in terms of sales revenue. CNPC currently holds two Hong Kong listed subsidiaries, namely PetroChina Company Limited and CNPC (H.K.) 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 oils, development of chemical agents used in oil fields and the refining industry, and production of advanced building materials, etc.

OUTLOOK AND NEW DEVELOPMENTS

a) Selective Prospecting of Energy Resources and Investment Opportunities

The Group will continue to take a prudent yet proactive approach to new investment opportunities, including exploration of potential energy projects both in China and overseas to capture the demands generated from China’s rapid economic development.

