

- 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.



b) Direct Focus on Energy Resources

With the rapid development of China's economy, the demand for energy resources is immense. The establishment of SPI in Indonesia and the co-operation with CMEC are good investment opportunities which allow the Group to enhance its spectrum of products in the area of power generation. They also bring along the opportunity for further expansion in natural energy business in Indonesia.

Forward looking, as there is great demand for marine fuel oil and bitumen derived from power generation in the future, the Group will build on these new energy projects and work closely with our new partners by tapping on their extensive experience in technical support, construction, sub-contracting and solid marketing network both in the PRC and overseas for the bitumen extraction project. The Group expects the bitumen mine to undergo pilot operation by the end of 2006 and operate at the first quarter of 2007. 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. The Group hopes to generate profit from these new investments in the near future.

FINANCIAL REVIEW

The Group generally finances its operations with internally generated cash flows. As at 30 September 2005, the Group had bank and cash balances of approximately HK\$50.1 million (31 March 2005: approximately HK\$38.6 million). Its gearing ratio calculated as a ratio of debt to equity was nil (31 March 2005: nil). Net current assets totalled HK\$145.3 million (31 March 2005: HK\$144.6 million) and the current ratio was maintained at the strong level of approximately 9.67 (31 March 2005: approximately 4.34).

CAPITAL COMMITMENTS

The Group had the following capital commitments as at 30 September 2005 and 31 March 2005

	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000
Authorised and contracted for in respect of investment in a joint venture company	<u>44,811</u>	<u>44,811</u>

