



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