



## 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.

## Directors' Report (Continued)

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 <i>(Note 1)</i>	Capacity and nature of interest	Approximate percentage of interests <i>(Note 2)</i>
Climax Park Limited	380,330,000 (L) 80,000,000 (S)	Beneficial owner <i>(Notes 3 and 4)</i>	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 <i>(Note 3)</i>	6.96
China National Machinery & Equipment Import & Export Corporation	80,000,000 (L)	Interest of a controlled corporation <i>(Note 3)</i>	6.96
Kan Che Kin, Billy Albert	533,000,000 (L)	Interest of a controlled corporation and beneficial owner <i>(Note 5)</i>	46.37
Kan Kung Chuen Lai	533,000,000 (L)	Interest of spouse <i>(Note 6)</i>	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