



Notes to the Financial Statements

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

1. CORPORATE INFORMATION

Sino Prosper Holdings Limited (the “Company”) was incorporated with limited liability in the Cayman Islands on 26 October 2001 as an exempted company under the Companies Law of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 May 2002. The addresses of its registered office and principal place of business are disclosed in the section headed “Corporate information” of the Group’s Annual Report.

As at 31 March 2006, the Company was controlled by Climax Park Limited (the “Controlling Shareholder”), a company incorporated in the British Virgin Islands which is wholly owned by Mr. Leung Ngai Man, the chairman and executive director of the Company.

The Company is an investment holding company. The Group is principally engaged in property development and management in the People’s Republic of China (the “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.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:



Notes to the Financial Statements *(Continued)*

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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

INVESTMENT PROPERTIES

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties, which requires gains or losses arising from changes in the fair value of investment properties to be recognized directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surpluses or deficits credited or charged to the investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve was charged to the income statement. Where a deficit had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the deficit previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The adoption of HKAS 40 has had no material effect on the results for the current or prior accounting years.

FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 has had no material impact on how the financial instruments of the Group are presented for current and prior accounting years.

SHARE-BASED PAYMENTS

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). In addition, the Group has early adopted HK(IFRIC)-Int 8 "Scope of HKFRS 2" which is effective for annual periods beginning on or after 1 May 2006.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
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2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

SHARE-BASED PAYMENTS (Continued)

The principal impacts of HKFRS 2 on the Group are in relation to (i) the expensing of the fair value of share options granted to directors, employees and consultants of the Company, determined at the date of grant of the share options, over the vesting period; and (ii) the expensing of the fair value of the call option granted by the Controlling Shareholder to CMEC International Trading Import & Export Co., Ltd. ("CMEC International Trading") in recognition of the proposed cooperation for the bitumen extraction project with the Group during the year ended 31 March 2006.

Prior to the application of HKFRS 2, the Group did not recognize the financial effect of the share options granted to directors, employees and consultants of the Company until they were exercised. The Group has applied HKFRS 2 to share options that were granted after 7 November 2002 and had not yet vested at 1 January 2005. Comparative figures have been restated. The share-based payment expense has been included in administrative expenses.

The Group has also applied HKFRS 2 and HK(IFRIC)-Int 8 to the call option granted by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group during the year ended 31 March 2006. The share-based payment expense has also been included in administrative expenses.

Further details relating to the share-based payment transactions of the Group are set out in Note 30.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

SUMMARY OF EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006 HK\$'000	2005 HK\$'000
Expenses in relation to share options granted to directors and employees	2,744	4,983
Expenses in relation to share options granted to consultants	-	80
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group	12,640	-
Increase in loss/decrease in profit for the year	<u>15,384</u>	<u>5,063</u>
Attributable to:		
Equity holders of the Company	15,384	5,063
Minority interests	-	-
	<u>15,384</u>	<u>5,063</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

SUMMARY OF EFFECTS OF CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31 March 2005 and 1 April 2005 are summarized below:

	As at 31 March 2005 (Originally stated) HK\$'000	Adjustments HK\$'000	As at 31 March 2005 (Restated) HK\$'000	Adjustments HK\$'000	As at 1 April 2005 (Restated) HK\$'000
Net assets	<u>144,730</u>	<u>-</u>	<u>144,730</u>	<u>-</u>	<u>144,730</u>
Share capital	9,150	-	9,150	-	9,150
Share premium	59,480	-	59,480	-	59,480
Share options reserve	-	5,063	5,063	-	5,063
Retained profits	<u>76,100</u>	<u>(5,063)</u>	<u>71,037</u>	<u>-</u>	<u>71,037</u>
Total equity	<u>144,730</u>	<u>-</u>	<u>144,730</u>	<u>-</u>	<u>144,730</u>

Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(Continued)*

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

		<i>Notes</i>
HKAS 1 (Amendment)	Capital Disclosures	1
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures	2
HKAS 21 (Amendment)	Net Investment in a Foreign Operation	2
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	2
HKAS 39 (Amendment)	The Fair Value Option	2
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts	2
HKFRS 6	Exploration for and Evaluation of Mineral Resources	2
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease	2
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	2
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	3
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	4
HK(IFRIC)-Int 8	Scope of HKFRS 2	5
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	6

Notes:

1. Effective for annual periods beginning on or after 1 January 2007.
2. Effective for annual periods beginning on or after 1 January 2006.
3. Effective for annual periods beginning on or after 1 December 2005.
4. Effective for annual periods beginning on or after 1 March 2006.
5. Effective for annual periods beginning on or after 1 May 2006
6. Effective for annual periods beginning on or after 1 June 2006.

The Group has early adopted HK(IFRIC)-Int 8 “Scope of HKFRS 2” in the preparation of the financial statements for the year ended 31 March 2006.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

SUBSIDIARIES

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

GOODWILL

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Capitalized goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	: 20%
Motor vehicles	: 30%
Furniture, fixtures and equipment	: 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognized.

INVESTMENT PROPERTY

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the period in which they arise.

COMPLETED PROPERTIES HELD FOR SALE

Completed properties held for sale are stated at the lower of cost and net realizable value. Cost comprises all development expenditure and costs of purchase. Net realizable value is calculated at the actual or estimated selling price less related costs of marketing and selling.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

FINANCIAL ASSETS

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.



Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES AND EQUITY (Continued)

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables and accruals and obligation under a hire-purchase contract are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

SHARE OPTIONS GRANTED TO DIRECTORS AND EMPLOYEES OF THE COMPANY

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits/accumulated losses.

PROVISIONS

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

IMPAIRMENT LOSSES (OTHER THAN GOODWILL)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT LOSSES (OTHER THAN GOODWILL) (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

REVENUE RECOGNITION

- (i) Sales of properties are recognized upon the execution of legally binding sales agreements.
- (ii) Sales of goods are recognized when goods are delivered and title has passed.
- (iii) Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTY TRANSACTIONS

A party is related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with the Group;
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) the party is a joint venture in which the Group is a venturer;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

ESTIMATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
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4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

ESTIMATED USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

IMPAIRMENT LOSS OF TRADE AND OTHER RECEIVABLES

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgments. Considerable judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor, and the present values of the estimated future cash flows discounted at the effective interest rates. If the financial conditions of the Group's debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include trade and other receivables, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

CURRENCY RISK

Certain trade and other receivables, bank balances and cash and trade and other payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements (Continued)

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5. FINANCIAL RISK MANAGEMENT (Continued)

CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

INTEREST RATE RISK

The management considers the risk is insignificant to the Group as the Group had no significant interest-bearing long-term receivables and payables.

6. TURNOVER AND SEGMENT INFORMATION

	2006 HK\$'000	2005 HK\$'000
Sales of properties, net of applicable sales tax	-	134,040
Sales of asphaltic rocks	1,867	-
	<u>1,867</u>	<u>134,040</u>

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Notes to the Financial Statements (Continued)

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6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments	Energy and natural resources		Property development and management		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
						(As restated)
TURNOVER						
External sales	<u>1,867</u>	<u>-</u>	<u>-</u>	<u>134,040</u>	<u>1,867</u>	<u>134,040</u>
RESULTS						
Segment results	(14,796)	-	-	514	(14,796)	514
Unallocated income					1,229	-
Unallocated corporate expenses					(16,746)	-
Finance costs					(40)	(13)
(Loss)/Profit before taxation					(30,353)	501
Taxation					-	-
(Loss)/Profit for the year					<u>(30,353)</u>	<u>501</u>
ASSETS						
Segment assets	64,199	-	-	188,704	64,199	188,704
Unallocated assets					139,552	-
Total assets					<u>203,751</u>	<u>188,704</u>
LIABILITIES						
Segment liabilities	381	-	10,364	43,974	10,745	43,974
Unallocated liabilities					2,333	-
Total liabilities					<u>13,078</u>	<u>43,974</u>
OTHER INFORMATION						
Capital expenditures	279	-	-	1,090		
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>317</u>		
Geographical segments	Hong Kong		PRC		Other Asia Pacific countries	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue	1,867	-	-	134,040	-	-
Carrying amounts of segment assets	9,706	-	187,829	188,704	6,216	-
Capital expenditures	<u>309</u>	<u>-</u>	<u>-</u>	<u>1,090</u>	<u>279</u>	<u>-</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

7. OTHER OPERATING INCOME

	2006 HK\$'000	2005 HK\$'000
Interest income from bank deposits	92	328
Net exchange gains	1,135	-
Gain on disposal of property, plant and equipment	2	-
	<u>1,229</u>	<u>328</u>

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation has been arrived at after charging the following:

	2006 HK\$'000	2005 HK\$'000 (As restated)
Staff costs		
- Directors' emoluments (Note 13)	3,972	7,941
- Other staff salaries and allowances	1,220	614
- Share options granted to employees	2,744	-
- Other staff retirement benefits schemes contributions	46	12
	<u>7,982</u>	<u>8,567</u>
Depreciation of property, plant and equipment		
- Owned assets	86	23
- Leased assets	294	294
	<u>380</u>	<u>317</u>
Operating lease rentals in respect of land and buildings	974	327
Net exchange losses	-	53
Impairment loss on investment in an associate	-	352
Auditors' remuneration	400	330
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group (Note 30(b))	<u>12,640</u>	<u>-</u>

Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on hire-purchase obligation	<u>40</u>	<u>13</u>

No interest was capitalized during the year ended 31 March 2006 (2005: Nil).

10. (LOSS)/EARNINGS PER SHARE

	2006	2005 (As restated)
(Loss)/Profit attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	<u>(HK\$29,913,000)</u>	<u>HK\$501,000</u>

	2006	2005
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>956,862,465</u>	<u>822,369,863</u>

The computation of diluted (loss)/earnings per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme since their exercise would have an anti-dilutive effect.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

10. (LOSS)/EARNINGS PER SHARE (Continued)

IMPACT OF CHANGES IN ACCOUNTING POLICIES

Changes in the Group's accounting policies during the year are disclosed in Note 2. To the extent that those changes have had an impact on results reported for the years ended 31 March 2005 and 2006, they have had an impact on the amounts reported for (loss)/earnings per share. The following table summarizes that impact on basic and diluted (loss)/earnings per share:

	2006 HK cents	2005 HK cents
Expenses in relation to share options granted to directors and employees	0.29	0.61
Expenses in relation to share options granted to consultants	–	0.01
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group	1.32	–
Increase in basic and diluted loss/decrease in basic and diluted earnings per share	1.61	0.62

11. NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$63,692,000 (2005 as restated: HK\$32,561,000).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

12. TAXATION

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries had no assessable profits derived from or arising in Hong Kong for the years ended 31 March 2005 and 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Taxation can be reconciled to the (loss)/profit per the income statement as follows:

	2006 HK\$'000	2005 HK\$'000 (As restated)
(Loss)/Profit before taxation	<u>(30,353)</u>	<u>501</u>
Taxation at domestic income tax rate of 17.5%	(5,312)	88
Tax effects of:		
Income not taxable in determining taxable profit	(266)	(2,422)
Expenses not deductible in determining taxable profit	2,692	948
Estimated tax losses not recognized	2,908	1,420
Utilization of losses not previously recognized	(20)	(19)
Depreciation allowance in excess of related depreciation expenses	<u>(2)</u>	<u>(15)</u>
Taxation for the year	<u>-</u>	<u>-</u>

No deferred tax liabilities have been recognized in the financial statements as the Group and the Company did not have material temporary differences as at 31 March 2005 and 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the Company's directors are as follows:

For the year ended 31 March 2006	Fees HK\$'000	Salaries and allowances HK\$'000	Fair values of share options granted to directors HK\$'000	Retirement benefits schemes contributions HK\$'000	Total HK\$'000
<i>Executive directors</i>					
Mr. Leung Ngai Man	-	2,400	-	12	2,412
Mr. Tang Yan Tian (Appointed on 19 July 2005)	-	333	-	-	333
Mr. Yeung Kit	-	480	-	12	492
Mr. Wong Wa Tak	-	480	-	15	495
<i>Independent non-executive directors</i>					
Mr. Cai Wei Lun	-	-	-	-	-
Mr. Chan Sing Fai	120	-	-	-	120
Dr. Leung Wai Cheung	120	-	-	-	120
Total	240	3,693	-	39	3,972

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 March 2005	Fees HK\$'000	Salaries and allowances HK\$'000	Fair values of share options granted to directors HK\$'000	Retirement benefits schemes contributions HK\$'000	Total HK\$'000
<i>Executive directors</i>					
Mr. Leung Ngai Man	-	2,400	3,056	36	5,492
Mr. Yeung Kit	-	300	1,927	12	2,239
Mr. Wong Wa Tak	-	120	-	-	120
<i>Independent non-executive directors</i>					
Mr. Cai Wei Lun	-	-	-	-	-
Mr. Chan Sing Fai	30	-	-	-	30
Dr. Leung Wai Cheung	60	-	-	-	60
Total	90	2,820	4,983	48	7,941

There were no arrangements under which the directors of the Company have waived or agreed to waive any remuneration. There were no discretionary bonuses paid to the directors or the highest paid, non-director employees of the Group for the year ended 31 March 2006 (2005: Nil).

EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group for the year ended 31 March 2006 included three directors (2005: three directors) whose emoluments are set out above. The emoluments of the remaining two (2005: two) highest paid, non-director employees of the Group are set out below:

	2006 HK\$'000	2005 HK\$'000
Salaries and allowances	-	360
Fair values of share options granted to employees	2,744	-
Retirement benefits schemes contributions	-	-
	<u>2,744</u>	<u>360</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments fell within the following bands:

	Number of employees	
	2006	2005
Nil – HK\$1,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

14. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees. During the year ended 31 March 2006, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$52,000 (2005: HK\$60,000).

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

As at 31 March 2006, there were no forfeited contributions available for the Group to offset contributions payable in future years (2005: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

15. INVESTMENT PROPERTIES

The investment properties of the Group were revalued at their open market value of HK\$214,000,000 as at 31 March 2004 by an independent firm of surveyors, Castores Magi (Hong Kong) Limited. The investment properties were located in the PRC and held under medium-term lease, and were disposed of during the year ended 31 March 2005.

16. PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold improvements HK\$'000	Motor vehicle HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
At cost:				
As at 1 April 2004	–	–	19	19
Additions	52	980	58	1,090
As at 1 April 2005	52	980	77	1,109
Additions	155	–	433	588
Disposal	–	–	(11)	(11)
As at 31 March 2006	207	980	499	1,686
Accumulated depreciation:				
As at 1 April 2004	–	–	5	5
Charge for the year	10	294	13	317
As at 1 April 2005	10	294	18	322
Charge for the year	42	294	44	380
Eliminated on disposal	–	–	(2)	(2)
As at 31 March 2006	52	588	60	700
Net book value:				
As at 31 March 2006	155	392	439	986
As at 31 March 2005	42	686	59	787

During the year ended 31 March 2005, the Group acquired a motor vehicle under a hire-purchase contract with a capital value of approximately HK\$931,000 at inception of the lease. The net book value of the motor vehicle held under hire-purchase amounted to approximately HK\$392,000 (2005: HK\$686,000) as at 31 March 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES

	2006 HK\$'000	2005 HK\$'000
The Company		
Unlisted shares, at cost	78	78
Amounts due from subsidiaries	<u>84,286</u>	<u>37,025</u>
	84,364	37,103
Less: Provision for amounts due from subsidiaries	<u>(4,256)</u>	<u>(20,013)</u>
	<u>80,108</u>	<u>17,090</u>

The amounts due from and due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from subsidiaries are unlikely to be repaid within one year and are therefore classified as non-current. The directors consider that the carrying amounts approximate their fair values.

Particulars of the Company's subsidiaries as at 31 March 2006 are as follow:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Sino Prosper Group Limited	British Virgin Islands	US\$10,000	100%	-	Investment holding
Access Power Group Limited	British Virgin Islands	US\$1	-	100%	Provision of marketing and subcontracting services
Joint Profit Group Limited	Hong Kong	HK\$2	-	100%	Provision of administrative services
Konrich (Asia) Limited	Hong Kong	HK\$2	-	100%	Investment holding

Notes to the Financial Statements *(Continued)*

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Lighting Charm Limited	British Virgin Islands	US\$2	–	100%	Investment holding
P.T. Sino Prosper Indocarbon <i>(Note (i))</i>	Indonesia	US\$1,250,000	–	65%	Not yet commenced business
Sino Prosper Asphalt Investment Limited	Hong Kong	HK\$1	–	100%	Investment holding
Sino Prosper Coal Mining Investment Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Sino Prosper Gas Limited	Hong Kong	HK\$2	–	100%	Investment holding
Sino Prosper Gas (Luoyang) Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Sino Prosper Medical Technology Limited	Hong Kong	HK\$2	–	100%	Investment holding
Sino Prosper LNG Limited	Hong Kong	HK\$1	–	100%	Investment holding
Sino Prosper Resources Limited	Hong Kong/ PRC	HK\$1	–	100%	Investment holding and trading of asphaltic rocks
Sino Prosper Northasia Travel Development Limited	British Virgin Islands	US\$1	–	100%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
Sino Prosper Macau Travel Development Limited	British Virgin Islands	US\$1	-	100%	Investment holding
Dalian Haixin Investment Consultant Co., Ltd. (Note (ii))	PRC	US\$3,205,000	-	100%	Provision of consultancy services

Notes:

- (i) P.T. Sino Prosper Indocarbon is a limited liability joint venture company incorporated in Indonesia which was established by the Group and its joint venture partners pursuant to a joint venture agreement dated 25 April 2005 for the purpose of extraction of bitumen in the bitumen mine in Buton Island, Indonesia.
- (ii) Dalian Haixin Investment Consultant Co., Ltd. is a wholly owned foreign enterprise established in the PRC.
- (iii) None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

18. INVESTMENT IN AN ASSOCIATE

As at 31 March 2005 and 2006, the Company held 29% of the issued share capital of Bekwin International Ltd., a company incorporated in the British Virgin Islands with limited liability, through its wholly-owned subsidiary, Lighting Charm Limited. As at 31 March 2005 and 2006, the issued share capital of Bekwin International Ltd. amounted to US\$100 and Bekwin International Ltd. remained inactive during the year. The directors consider that the assets, liabilities and amounts of unrecognized share of results of Bekwin International Ltd. are insignificant.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

19. TRADE RECEIVABLES

For the property segment, the Group grants credit terms to purchasers of properties on the merit of individual purchaser's credit. For the energy and natural resources segment, customers are assessed and rated for credit approval. The aged analysis of trade receivables as at the balance sheet date is as follows:

	2006 HK\$'000	2005 HK\$'000
0 – 90 days	-	95,000
91 – 180 days	-	7,991
181 – 270 days	-	26,660
	<u>-</u>	<u>129,651</u>

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Earnest Money (Note (i))	50,000	-
Prepayments, deposits and other receivables	<u>14,118</u>	<u>16,008</u>
	<u>64,118</u>	<u>16,008</u>

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes:

- (i) On 4 May 2006, the Company announced that Sino Prosper Coal Mining Investment Limited ("SPCL"), a wholly-owned subsidiary of the Company, entered into a conditional agreement dated 28 March 2006 (the "Sky Gain Acquisition Agreement") with Ample Pacific Group Limited and On Faith Group Limited (the "Vendors") and the guarantors, pursuant to which SPCL agreed to acquire from the Vendors (i) the Sale Shares (as defined therein), representing the entire issued share capital of Sky Gain Development Limited ("Sky Gain"), at a consideration of HK\$479,968,600; and (ii) the Sale Debts (as defined therein) at a cash consideration of HK\$1. The consideration for the acquisition of the Sale Shares is to be satisfied by cash payment and by the allotment and issue of consideration shares.

Sky Gain is a company incorporated in Hong Kong and is the legal and beneficial owner of 51% of the registered capital in Xinjiang Jingxin Mineral Development Limited ("Xinjiang Jingxin Mineral"). Xinjiang Jingxin Mineral is a Sino-foreign equity joint venture enterprise established in the PRC and is principally engaged in coal mining development in Xinjiang, the PRC.

Earnest money of HK\$50 million in cash (the "Earnest Money") has been paid by the Group to the Vendors upon signing of the Sky Gain Acquisition Agreement. Such Earnest Money will be refunded to SPCL (or other members of the Group as it may direct) without interest within 60 days after the date of completion of the Sky Gain Acquisition Agreement. In the event that the Sky Gain Acquisition Agreement is terminated, each of the Vendors shall, within seven business days after the date of such termination, repay to SPCL (or its nominee) an amount equivalent to the Earnest Money, together with interest which shall accrue at the prevailing best lending rate of The Hongkong and Shanghai Banking Corporation from the date of payment of the Earnest Money up to and inclusive of the date of repayment of the entire sum of the Earnest Money.

The acquisition constitutes a major transaction for the Company for the purpose of the Listing Rules. The acquisition and the transactions contemplated under the Sky Gain Acquisition Agreement (including but not limited to the allotment and issue of the consideration shares) will be subject to approval by the Company's shareholders at an extraordinary general meeting of the Company. Further details in relation to the aforesaid transactions are set out in the Company's announcement dated 4 May 2006.

- (ii) The directors consider that the carrying amounts of prepayments, deposits and other receivables approximate their fair values.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
(Expressed in Hong Kong dollars)*

21. SECURED PROMISSORY NOTE

Pursuant to a conditional sale and purchase agreement dated 23 March 2004, a secured promissory note of HK\$4,000,000 was issued in favor of the Group and was to be paid on 31 December 2004. Pursuant to a supplementary agreement dated 10 January 2005, the repayment of the secured promissory note was extended and interest was charged at 10% per annum on the outstanding amount. The final principal outstanding amount of HK\$3,500,000 together with accrued interest thereon were fully settled during the year ended 31 March 2006.

22. AMOUNT DUE FROM THE CONTROLLING SHAREHOLDER

The amount due was unsecured, interest-free and fully settled during the year ended 31 March 2006.

23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The amounts due from the minority shareholders of P.T. Sino Prosper Indocarbon, a 65% owned subsidiary of the Company, are unsecured, interest-free and have no fixed terms of repayment. The directors consider that the carrying amounts approximate their fair values.

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that are interest bearing at prevailing market rate and have original maturity of three months or less. The directors consider that the carrying amounts of bank balances and cash approximate their fair values.

25. OTHER PAYABLES AND ACCRUALS

The directors consider that the carrying amounts of other payables and accruals approximate their fair values.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

26. OBLIGATION UNDER A HIRE-PURCHASE CONTRACT

As at 31 March 2006, the Group had obligation under a hire-purchase contract repayable as follows:

	2006 HK\$'000	2005 HK\$'000
Within 1 year	226	226
After 1 year but within 2 years	226	226
After 2 years but within 5 years	376	602
	<hr/>	<hr/>
	828	1,054
Less: Future finance charges	(145)	(185)
	<hr/>	<hr/>
Present value of minimum lease payments	683	869
	<hr/>	<hr/>
Present value of minimum lease payments repayable:		
Within 1 year	186	186
After 1 year but within 2 years	186	186
After 2 years but within 5 years	311	497
	<hr/>	<hr/>
	683	869
	<hr/>	<hr/>

The directors consider that the carrying amounts of the Group's lease obligations approximate their fair values.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

27. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01 each:		
Authorized:		
Ordinary shares of HK\$0.01 each		
As at 31 March 2005 and 2006	20,000,000,000	200,000,000
Issued and fully paid:		
As at 1 April 2004	800,000,000	8,000,000
Issue of new shares (Note (i))	115,000,000	1,150,000
As at 31 March 2005 and 1 April 2005	915,000,000	9,150,000
Issue of shares upon exercise of share options (Note (ii))	51,500,000	515,000
Issue of shares upon exercise of warrants (Note (iii))	183,000,000	1,830,000
As at 31 March 2006	1,149,500,000	11,495,000

Notes:

- (i) On 10 January 2005, the Company announced that it had entered into a placing and subscription agreement dated 7 January 2005 (the "Placing and Subscription Agreement") with the joint placing agents and Climax Park Limited, the Controlling Shareholder. Pursuant to the Placing and Subscription Agreement, Climax Park Limited agreed to place, through the joint placing agents, an aggregate of 115,000,000 shares, on a fully underwritten basis, to not fewer than six independent investors at a price of HK\$0.40 per share. Pursuant to the Placing and Subscription Agreement, Climax Park Limited conditionally agreed to subscribe for an aggregate of 115,000,000 shares at a price of HK\$0.40 per share. The new shares were issued under the general mandate granted to the directors of the Company by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 24 August 2004. The net proceeds received by the Company amounted to approximately HK\$44.3 million. As of 31 March 2006, approximately HK\$17.2 million have been used for general working capital. The remaining HK\$27.1 million were placed with banks and intended to be used as general working capital for development of the Group's bitumen mine in Indonesia.
- (ii) During the year ended 31 March 2006, 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 (Note 29).
- (iii) During the year ended 31 March 2006, 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 (Note 28).



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
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28. WARRANTS

On 27 July 2005, the Company announced that it had entered into a conditional placing agreement dated 27 July 2005 with an independent investor in relation to a private placing of 183,000,000 non-listed warrants at an issue price of HK\$0.01 per warrant. The warrants entitled the holder thereof to subscribe for new shares of the Company at an initial exercise price of HK\$0.19 per new share (subject to adjustment) at any time during a period of three years commencing from the date of issue of the warrants. Each warrant carried the right to subscribe for one new share. The warrants were freely transferable in integral multiples of 10,000,000 warrants.

The warrants were issued on 19 August 2005 upon completion of the warrant placing agreement, and the Company received net proceeds of approximately HK\$1,805,000 in respect of the placing of the warrants. As of 31 March 2006, approximately HK\$0.2 million have been used for general working capital. The remaining HK\$1.6 million were placed with banks and intended to be used as general working capital of the Group.

On 9 February 2006, the subscription rights attaching to the warrants were exercised, resulting in the allotment and issue of 183,000,000 new shares at the exercise price of HK\$0.19 per new share (Note 27(iii)). The new shares were issued under the general mandate granted to the directors of the Company by resolution of the Company's shareholders passed at the extraordinary general meeting of the Company held on 21 February 2005.

29. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties including consultants as incentives for their contributions to the development of the Group.



Notes to the Financial Statements *(Continued)*

*For the year ended 31 March 2006
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29. SHARE OPTION SCHEME *(Continued)*

The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with an aggregate value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days from the date of the offer of grant of the share option. Options may be exercised at any time not later than 10 years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
(Expressed in Hong Kong dollars)

29. SHARE OPTION SCHEME (Continued)

Movements in the share options during the years ended 31 March 2005 and 2006 are as follows:

Category/ Name of directors	Date of grant	Exercisable period	Exercise price per share	Number of share options			
				Granted during the year ended 31 March 2005 and outstanding and exercisable as at 31 March 2005	Granted during the year ended 31 March 2006	Exercised during the year ended 31 March 2006	Outstanding and exercisable as at 31 March 2006
Mr. Leung Ngai Man	3 January 2005	3 January 2005 to 2 January 2015	HK\$0.410	8,000,000	-	-	8,000,000
Mr. Yeung Kit	1 November 2004	1 November 2004 to 31 October 2014	HK\$0.475	1,400,000	-	-	1,400,000
	12 January 2005	12 January 2005 to 11 January 2015	HK\$0.410	6,600,000	-	(1,600,000)	5,000,000
Master Hill Development Limited (Note (i))	29 November 2004	29 November 2004 to 28 November 2014	HK\$0.460	7,000,000	-	(4,000,000)	3,000,000
Mr. Chan Sing Fai	1 November 2004	1 November 2004 to 31 October 2014	HK\$0.475	800,000	-	-	800,000
Directors				23,800,000	-	(5,600,000)	18,200,000
Employees	7 October 2004	7 October 2004 to 6 October 2014	HK\$0.450	6,000,000	-	(5,000,000)	1,000,000
	29 November 2004	29 November 2004 to 28 November 2014	HK\$0.460	8,000,000	-	(7,200,000)	800,000
	19 April 2005	19 April 2005 to 18 April 2015	HK\$0.265	-	8,000,000	(8,000,000)	-
	11 May 2005	11 May 2005 to 10 May 2015	HK\$0.220	-	4,000,000	(4,000,000)	-
Consultants	1 November 2004	1 November 2004 to 31 October 2014	HK\$0.475	5,800,000	-	(4,400,000)	1,400,000
	29 November 2004	29 November 2004 to 28 November 2014	HK\$0.460	16,000,000	-	(16,000,000)	-
	23 March 2005	23 March 2005 to 22 March 2015	HK\$0.340	8,000,000	-	(1,300,000)	6,700,000
Total				<u>67,600,000</u>	<u>12,000,000</u>	<u>(51,500,000)</u>	<u>28,100,000</u>

Notes to the Financial Statements (Continued)

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29. SHARE OPTION SCHEME (Continued)

Notes:

- (i) Mr. Wong Wa Tak, who was appointed as an executive director of the Company on 14 January 2005, has beneficial interest in Master Hill Development Limited.
- (ii) The total consideration received during the year from grant of share options amounted to HK\$2 (2005: HK\$13).
- (iii) None of the share options were forfeited or expired during the years ended 31 March 2005 and 2006.
- (iv) The closing prices of the Company's shares immediately before 7 October 2004, 1 November 2004, 29 November 2004, 3 January 2005, 12 January 2005, 23 March 2005, 19 April 2005 and 11 May 2005, the dates of grant of the share options were HK\$0.44, HK\$0.47, HK\$0.45, HK\$0.39, HK\$0.29, HK\$0.34, HK\$0.25 and HK\$0.20, respectively.
- (v) The closing prices of the Company's shares immediately before 28 July 2005, 29 July 2005, 20 September 2005, 26 September 2005, 24 November 2005, 28 November 2005, 12 December 2005, 19 December 2005, 22 December 2005, 6 February 2006, 7 February 2006, 8 February 2006, 9 February 2006, 15 February 2006 and 20 February 2006, the dates on which the share options were exercised were HK\$0.26, HK\$0.34, HK\$0.73, HK\$0.68, HK\$0.61, HK\$0.63, HK\$0.63, HK\$0.59, HK\$0.67, HK\$0.89, HK\$0.94, HK\$0.97, HK\$1.05, HK\$1.13 and HK\$1.11, respectively.
- (vi) The exercise in full of the outstanding vested share options would, with the capital structure of the Company as at 31 March 2006, result in the issue of additional 28,100,000 ordinary shares (2005: 67,600,000 ordinary shares).

30. SHARE-BASED PAYMENT TRANSACTIONS

As mentioned in Note 2, the Group has, for the first time, applied HKFRS 2 "Share-based Payments" and HK(IFRIC)-Int 8 "Scope of HKFRS 2" to account for its share-based payment transactions in the years ended 31 March 2005 and 2006.

	2006 HK\$'000	2005 HK\$'000
Expenses in relation to share options granted to directors and employees	2,744	4,983
Expenses in relation to share options granted to consultants	-	80
Expense in relation to the grant of the call option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group	12,640	-
Equity settled share-based payment transactions	<u>15,384</u>	<u>5,063</u>

Notes to the Financial Statements (Continued)

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(Expressed in Hong Kong dollars)

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) SHARE OPTIONS

The fair values of share options granted to directors, employees and consultants determined at the dates of grant are expensed over the vesting periods, with a corresponding adjustment to the Group's share options reserve.

The Company measures the fair values of share options granted to consultants by reference to the fair values of services received. The total fair values of the share options granted to consultants for the year ended 31 March 2005 amounted to approximately HK\$368,000. The total fair values of the share options granted to consultants recognized in the income statement for the year ended 31 March 2005 amounted to approximately HK\$80,000.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted to directors and employees. The Model is one of the commonly used models to estimate the fair value of a share option. The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option.

Using the Model, the fair values of the share options granted to directors and employees on 7 October 2004, 1 November 2004, 29 November 2004, 3 January 2005 and 12 January 2005 were estimated to be approximately HK\$2,436,000, HK\$955,000, HK\$3,328,000, HK\$3,056,000 and HK\$1,927,000, respectively. The total fair values of the share options granted to directors and employees recognized in the income statement for the year ended 31 March 2005 amounted to approximately HK\$4,983,000.

Using the Model, the fair values of the share options granted to directors and employees on 19 April 2005 and 11 May 2005 were estimated to be approximately HK\$2,008,000 and HK\$736,000, respectively. The total fair values of the share options granted to directors and employees recognized in the income statement for the year ended 31 March 2006 amounted to approximately HK\$2,744,000.

The significant inputs into the Model were share prices at the respective grant dates as shown in Note 29 above, exercise prices as shown in Note 29 above, expected volatility ranging from 106% to 135%, annual risk-free interest rate of approximately 4.0% (2005: 4.0%) (being the approximate yields of 10-year Hong Kong Exchange Fund Notes traded on the respective grant dates), expected life of options of approximately 10 years (2005: 10 years) and dividend pay out ratio of zero (2005: zero). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's shares (15 May 2002).



Notes to the Financial Statements *(Continued)*

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30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) *GRANT OF CALL OPTION BY THE CONTROLLING SHAREHOLDER TO CMEC INTERNATIONAL TRADING IN RECOGNITION OF THE PROPOSED COOPERATION FOR BITUMEN EXTRACTION PROJECT WITH THE GROUP*

On 20 July 2005, the Company announced that the Company was informed by the Controlling Shareholder that the Controlling Shareholder had entered into an option agreement dated 19 July 2005 (the "Option Agreement") in respect of a call option (the "Call Option") granted to CMEC International Trading by the Controlling Shareholder to purchase 80,000,000 shares of the Company in recognition of the proposed cooperation for the bitumen extraction project with the Group in Buton Island, Indonesia. CMEC International Trading is a wholly owned subsidiary of China National Machinery & Equipment Import & Export Corporation which had entered into an agreement with the Group on 17 March 2005 in relation to the cooperation for the bitumen extraction project in Buton Island, Indonesia.

According to the Option Agreement, the Call Option should be exercised in full at one time. The exercise price of the Call Option is 85% of the average closing price of the shares as quoted on the Stock Exchange for the last 5 consecutive trading days prior to the exercise date. The Call Option will expire in 36 months after the date of entering into the Option Agreement, i.e. on 19 July 2008.

In accordance with HKFRS 2, transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity are share-based payment transactions. Further, in accordance with HK(IFRIC)-Int 8, the grant of the Call Option by the Controlling Shareholder to CMEC International Trading in recognition of the proposed cooperation for the bitumen extraction project with the Group falls within the scope of HKFRS 2. For the year ended 31 March 2006, the Group recognized share-based payment expense of HK\$12,640,000 in relation to the grant of the Call Option by the Controlling Shareholder to CMEC International Trading, with a corresponding increase in shareholder's contribution in equity, being the deemed capital contribution to the Company from the Controlling Shareholder.

The Company has used the Model to estimate the fair value of the Call Option. The fair value of the Call Option was estimated to be approximately HK\$12,640,000. The significant inputs into the Model were share price at the date of the Option Agreement of HK\$0.20, estimated exercise prices of HK\$0.17 (being 85% of the 5-day average closing price of the shares prior to the date of the Option Agreement), expected volatility of 135%, annual risk-free interest rate of approximately 4.0% (being the approximate yield of 10-year Hong Kong Exchange Fund Notes traded on the date of the Option Agreement), expected life of the Call Option of 3 years and dividend pay out ratio of zero. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices from the date of listing of the Company's shares (15 May 2002).

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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31. RESERVES OF THE COMPANY

	Share premium HK\$'000	Warrants reserve HK\$'000	Share options reserve HK\$'000	Shareholder's contribution HK\$'000	Accumulated losses HK\$'000	Total reserves HK\$'000
As at 1 April 2004	16,365	-	-	-	(20,301)	(3,936)
Issue of new shares (Note 27(i))	44,850	-	-	-	-	44,850
Share issue expenses	(1,735)	-	-	-	-	(1,735)
Grant of share options (Note 30(a))	-	-	5,063	-	-	5,063
Loss for the year	-	-	-	-	(32,561)	(32,561)
As at 31 March 2005, as restated	59,480	-	5,063	-	(52,862)	11,681
Grant of call options by the Controlling Shareholder (Note 30(b))	-	-	-	12,640	-	12,640
Placing of warrants (Note 28)	-	1,830	-	-	-	1,830
Warrants issue expenses	(25)	-	-	-	-	(25)
Issue of shares upon exercise of warrants (Note 27(iii))	32,940	-	-	-	-	32,940
Transfer of reserves upon exercise of warrants	1,830	(1,830)	-	-	-	-
Grant of share options (Note 30(a))	-	-	2,744	-	-	2,744
Issue of shares upon exercise of share options (Note 27(ii))	20,435	-	-	-	-	20,435
Transfer of reserves upon exercise of share options	3,224	-	(3,224)	-	-	-
Loss for the year	-	-	-	-	(63,692)	(63,692)
As at 31 March 2006	117,884	-	4,583	12,640	(116,554)	18,553

Notes to the Financial Statements (Continued)

For the year ended 31 March 2006
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32. 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
Authorized and contracted for in respect of investment in a joint venture company	<u>44,811</u>	<u>44,811</u>

Pursuant to a joint venture agreement dated 4 February 2005 entered into between Sino Prosper Gas Limited ("SPGL" – a wholly owned subsidiary of the Company) and Lang Fang Development District Northern China Petroleum Sales Company (the "Joint Venture Partner"), SPGL and the Joint Venture Partner agreed to set up a joint venture company as an equity joint venture company in the PRC for a term of 30 years commencing from the date of issue of the business license of the joint venture company, which will be engaged in the wholesale, sales, transportation and storage of petroleum gas. Pursuant to the joint venture agreement, the registered capital of the joint venture company is RMB50 million (equivalent to approximately HK\$47.2 million) which will be contributed as to RMB47.5 million in cash (equivalent to approximately HK\$44.8 million) by SPGL from the internal financial resources of the Group, and as to RMB2.5 million in cash (equivalent to approximately HK\$2.4 million) by the Joint Venture Partner.

On 15 March 2005, SPGL, the Joint Venture Partner and Wuhan Hengsheng Shimao Petroleum Natural Gas Pipeline Engineering Company Limited (the "New Joint Venture Partner") entered into a supplemental agreement. Pursuant to the supplemental agreement, the Joint Venture Partner agreed to withdraw and the New Joint Venture Partner agreed to replace the Joint Venture Partner in the formation of the joint venture company. The registered capital of the joint venture company to be contributed by SPGL as to approximately HK\$44.8 million remain unchanged and no contribution has been made by SPGL up to the date of approval of these financial statements.

As at the balance sheet dates, the Company had no significant capital commitments.

Notes to the Financial Statements (Continued)

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33. OPERATING LEASE COMMITMENTS

As at 31 March 2006, the Group had commitments for future minimum leases payments under non-cancelable operating leases in respect of land and buildings which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	734	218
In the second to fifth years inclusive	332	40
	<u>1,066</u>	<u>258</u>

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2006 HK\$'000	2005 HK\$'000
Short-term employee benefits	3,972	2,958
Share-based payments	-	4,983
	<u>3,972</u>	<u>7,941</u>

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Financial Statements *(Continued)*

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35. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (i) On 3 February 2006, the Company announced that it had entered into a subscription agreement dated 24 January 2006 (the "Beijing CMIL Subscription Agreement") with Beijing China Metallurgy Investment Limited (北京中冶投資有限公司) ("Beijing CMIL"), pursuant to which Beijing CMIL has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 49,763,158 new shares at the subscription price of HK\$0.80 per subscription share.

On 4 May 2006, the Company further announced that completion of the Beijing CMIL Subscription Agreement took place on 27 April 2006 and an aggregate of 49,763,158 new shares subscribed by Beijing CMIL pursuant to the Beijing CMIL Subscription Agreement were allotted and issued to Beijing CMIL at the subscription price of HK\$0.80 per subscription share on 27 April 2006. The new shares were allotted and issued under the general mandate granted to the Company's directors by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 22 August 2005. The Company intends to apply the net proceeds therefrom of approximately HK\$39.4 million as general working capital of the Group and investment funding to the Group on possible investment projects.

- (ii) On 6 June 2006, the Company announced that Sino Prosper Ethanol Development Limited ("SPE" – a wholly-owned subsidiary of the Company) had entered into a conditional agreement dated 30 May 2006 (the "Heads of Agreement") with Picnic Corporation Public Company Limited ("Picnic Public" – a company incorporated under the laws of Thailand and the shares of which are listed on The Stock Exchange of Thailand) and Picnic Ethanol Company Limited ("Picnic Ethanol" – a company incorporated under the laws of Thailand). Pursuant to the Heads of Agreement, Picnic Public shall procure Picnic Ethanol to increase and Picnic Ethanol shall increase its registered capital to such amount in Baht that shall be equivalent to US\$10,000,000 (equivalent to approximately HK\$78,000,000) (the "Capital Increase"). SPE shall subscribe 51% of the total issued and outstanding shares of Picnic Ethanol on a fully diluted basis after the Capital Increase by contributing US\$5,100,000 (equivalent to approximately HK\$39,780,000) to Picnic Ethanol (the "Subscription"). The Subscription constitutes a major transaction for the Company for the purpose of the Listing Rules. The Subscription and the transactions contemplated under the Heads of Agreement and the definitive agreements will be subject to approval by the Company's shareholders at an extraordinary general meeting of the Company. Further details in relation to the aforesaid transactions are set out in the Company's announcement dated 6 June 2006.