

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 September 2006, no turnover was generated. For the six months ended 30 September 2005, the Group's turnover of HK\$1,867,000 was from sale of asphaltic rocks under its new energy and natural resources business segment. Net loss attributable to shareholders was approximately HK\$95.7 million (six months ended 30 September 2005: net loss of approximately HK\$5.5 million). Such huge amount of loss for the period as compared with the last corresponding period mainly represents equity settled share-based payments amounting to HK\$84.3 million (six months ended 30 September 2005 HK\$0.80 million).

MAJOR PROJECTS AND PROSPECTS OF THE GROUP

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

1. Indonesia-Bitumen Joint Venture Extraction Project

The joint venture owned the right to carry out general exploration on mineral resources of a total of 22,076 hectares area of land, and the right has been extended for another year pursuant to the law and regulations of the Indonesian government, among which detailed exploration work regarding 1,150 hectares area of land has begun. According to the report completed by the exploration team in September 2006, Buton Bitumen reserve is estimated to be around 9,300,000 tones.

Conditioned upon the fully compliance with all relevant laws and regulations, the joint venture will be engaging in the exploration of mineral resources on 1,150 hectares area of land.

In addition, the Indonesia joint venture has successfully developed a new extraction technology. The new extraction technology achieved a speed enhancement of 50% as compared with the previous means of extraction. This helps to reduce the time required for the extraction of oil reserves, the energy used and the overall cost.

First patch of joint venture's trade in Buton Bitumen has been delivered in December 2006.

2. Sino Prosper Re-Energy and Guangxi Shenzhou Biofuel Production Operation

In response to the invitation from the Investment Promotion Bureau of Guangxi Zhuang Autonomous Region, on 15 December 2006, Sino Prosper Re-energy entered into the Framework Agreement with Guangxi Shenzhou in relation to the proposed formation of a joint venture company which is principally engaged in the operation of a raw material production base of biological fuel for fuel ethanol.

Under the framework agreement, it is proposed that Guangxi Shenzhou and Sino Prosper Re-energy will set up a sino-foreign equity joint venture enterprise under the proposed name of 廣西神州能源作物建設開發總公司 (Guangxi Shenzhou Energy Product Development Company) in Nanning City, Guangxi Zhuang Autonomous Region, the PRC. Subject to the Formal Agreement, it is proposed that the joint venture enterprise will be principally engaged in (i) cultivation of raw materials for generation of biological fuel, (ii) applications of by-products produced in the course of generating biological fuel, (iii) production, purchase and sale of raw materials for generation of biological fuel, (iv) sifting and cultivation of raw materials for energy production resources and (v) development, consultancy and sales of the relevant application technology.

The proposed registered share capital of the joint venture enterprise will be RMB200 million of which Sino Prosper Re-energy will contribute RMB160 million in cash (representing 80% interests in the joint venture enterprise) and Guangxi Shenzhou will contribute technology, management and other resources amounting RMB40 million (representing 20% interests in the joint venture enterprise). The expected total investment amount of the proposed investment is estimated to be RMB1,000 million.

According to a letter from the Investment Promotion Bureau of Guangxi Zhuang Autonomous Region to the Company which recorded that PetroChina Company Limited Exploration and Production Branch (“PetroChina”) had already indicated its intention to invest in the joint venture enterprise with a purpose to establish a principal source of raw material base for further expansion of its fuel ethanol project in Guangxi Zhuang Autonomous Region.

The People’s Government of Laibin City, Guangxi Zhuang Autonomous Region has indicated that for investment of PetroChina, the joint venture enterprise and Guangxi Shenzhou to invest, construct and develop a bio-energy production base for production of tapioca in Laibin City, the People’s Government of Laibin City, Guangxi Zhuang Autonomous Region can provide an agricultural land of up to 600,000 mu for development purpose, and will provide the Group with the required support and co-ordination for the proposed investment.

The People’s Government of Hezhou Guangxi issued the Letter from the Hezhou Government [2006] No. 163 (賀政函[2006]163號) on 25 December 2006. As stated in the “Invitation Letter from the People’s Government of Hezhou regarding the establishment of the biological fuel exploration enterprise in the city” (賀州市人民政府關於邀請參與我市生物能源產業開發的函), the Company was officially invited to participate in the exploration of tapioca based biological fuel resource and the development of relevant by-products, according to which a production project concerning the fuel ethanol and its relevant by-products with annual capacity of 30 tons was proposed.

According to the development strategy of the fuel ethanol in Guangxi Zhuang Autonomous Region, it is targeted that the joint venture enterprise will initially set up the areas with 1 million mu for cultivation and processing of tapioca for the purpose of generation of biological fuel for fuel ethanol. It is also a medium-to-long-term goal for the joint venture enterprise to set up the production base with a site area of 5 million mu for cultivation and processing of raw materials for generation of biological fuel, such as tapioca, canes and corns depending on the market conditions.