

Report of the Directors

The directors of the Company ("Directors") present their report and the audited financial statements of the Company and its subsidiaries (collectively "Group") for the year ended 31 July 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in investment in Internet and information technology activities, manufacture and trading of batteries, silicone rubber products and electronic finished products as well as trading of electronic parts and components. In March 2002, the Group disposed of its businesses in manufacture and trading of electronic finished products and trading of electronic parts and components. In April 2002, the Group has diversified its businesses into the natural gas industry in China.

CHANGE OF COMPANY NAME AND ADOPTION OF NEW CHINESE NAME

Pursuant to a special resolution passed by the shareholders of the Company on 3 June 2002 and an approval of the Registrar of Companies of Bermuda, the name of the Company was changed from "Hikari Tsushin International Limited" to "China City Natural Gas Holdings Limited" effective 3 June 2002 and the Chinese name "中華城市燃氣集團有限公司" has been adopted for registration in Hong Kong for the purposes of identification.

CHANGE IN SUBSTANTIAL SHAREHOLDERS

On 4 December 2001, Hikari Tsushin, Inc, the then controlling shareholder of the Company entered into a sale and purchase agreement ("Sale and Purchase Agreement") to sell its entire equity interests in the Company to Noble Islands Int'l Limited ("Noble Islands") and immediately following the completion of the Sale and Purchase Agreement, Noble Islands was interested in about 51.04% of the then issued share capital of the Company. Pursuant to the rules of the Hong Kong Codes on Takeovers and Mergers, Noble Islands was obliged to make mandatory unconditional cash offers of all the issued shares of the Company ("Offer Shares"), outstanding warrants and share options of the Company ("Offers") other than those already owned by it and parties acting in concert with it. In January 2002, subsequent to the close of the Offers and with the consent of the Executive of the Securities and Futures Commission, Noble Islands placed 17% of the then issued shares of the Company and all those shares accepted under the Offer Shares. As at 31 July 2002, Noble Islands, the substantial shareholder of the Company, was interested in 2,127,722,000 shares of the Company, representing approximately 26.25% of the then issued share capital of the Company and the related details are disclosed under the section "Substantial Shareholders" below.

RESULTS

The Group's loss for the year ended 31 July 2002 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 19 to 54.

The Directors do not recommend the payment of any dividends for the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 July 2002 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 55. This summary is not part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of the movements in the fixed assets and investment properties of the Group during the year are set out in note 14 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 15 to the financial statements.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

Details of the bank overdrafts, bank loans and other borrowings of the Group are set out in notes 24 and 25 to the financial statements respectively.

CONVERTIBLE NOTE

Details of the convertible note of the Company are set out in note 27 to the financial statements.

ISSUE OF REGISTERED WARRANTS

Pursuant to a placing agreement dated 2 May 2002 made between the Company and Kingston Securities Limited ("Placing Agent") relating to the placing by the Placing Agent on a private basis of 800,000,000 units of warrants at an issue price of HK\$0.032 per unit of subscription rights of warrants, the Company issued 800,000,000 units of warrants on 18 June 2002 and each unit of subscription rights of warrants will initially entitle the holder thereof to subscribe for one share of the Company at an initial subscription price of HK\$0.165 per share (subject to adjustment) at any time between 20 June 2002 and 19 December 2003, both dates inclusive.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 29 to the financial statements.

SHARE OPTION SCHEMES

The Company has adopted the following share option schemes for the purposes of providing incentives and/or rewards to eligible persons as defined in the respective schemes for their contribution to the Group:

Share Option Scheme adopted on 11 May 1993 ("1993 Scheme")

Pursuant to the 1993 Scheme, the Board may at its discretion offer to any full-time employees, including executive director of the Company or its subsidiaries options to subscribe for shares in the Company ("Option Shares") in accordance with the terms and conditions stipulated therein.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the 1993 Scheme will not exceed 10% of the issued share capital of the Company, excluding any shares issued pursuant to the 1993 Scheme from time to time.

The maximum entitlement of each eligible person under the 1993 Scheme must not exceed 25% of the aggregate number of shares for the time being issued and issuable under the 1993 Scheme.

The offer of a grant of options may be accepted within 28 days from the date of the offer, upon the payment of a nominal consideration of HK\$1 by the grantee for the grant thereof.

The exercise period within which an option may be exercised shall be determined by the Board, and in any event such period of time shall not exceed a period of three years commencing on the expiry of six months after the date of acceptance of the offer and expiring on either the last day of the three-year period or the expiry date of the 1993 Scheme, whichever is the earlier.

The subscription price for the Option Shares shall be determined by the Board and shall be the higher of (i) a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on the five trading days immediately preceding the date of offer of an option; and (ii) the nominal value of a share.

The 1993 Scheme was terminated on 31 January 2002 while remains in force until 11 May 2003 so as to give effect to the exercise of all outstanding options granted prior to the date of termination.

Share Option Scheme adopted on 31 January 2002 ("2002 Scheme")

In compliance with the new requirements of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange relating to share option scheme which came into effect on 1 September 2001, the Company adopted a new share option scheme on 31 January 2002 and terminated the 1993 Scheme on the same date.

Pursuant to the 2002 Scheme, the Board may at its discretion offer options to any eligible participant ("Eligible Participant") who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2002 Scheme, subject to further refreshment of the limit on grant of options by shareholders, is 10% of the issued shares as at 31 January 2002, being the date of shareholders' approval of the 2002 Scheme. Subsequent to the year-end date, on 14 August 2002, the shareholders of the Company passed an ordinary resolution relating to the refreshment of the 10% limit on grant of options under the 2002 Scheme.

The maximum entitlement of each Eligible Participant in any twelve-month period shall not exceed 1% of the number of shares in issue on the date of offer of an option.

The offer of a grant of options may be accepted within 28 days after the date of the offer, with a consideration of HK\$1 for the grant thereof.

Exercise period in respect of the options granted shall be determined by the Board and in any event such period of time shall not exceed a period of ten years commencing on the date upon which such option is deemed to be granted and accepted.

The exercise price in relation to each option offered to an Eligible Participant under the 2002 Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the date of offer of an option; (b) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of an option; and (c) the nominal value of a share.

The 2002 Scheme shall be valid for ten years from 31 January 2002 to 31 January 2012 (both dates inclusive).

SHARE OPTIONS

Particulars of the share options held by the eligible persons granted under the Share Option Schemes are as follows:

Category of Participant	Scheme Type	Date of Grant	Exercise Price per Share HK\$	Exercise Period	Closing Price Before Date of Grant HK\$	Movement of Option Shares during the year				As at 31.7.2002
						As at 1.8.2001	Granted	Exercised	Lapsed	
(i) Directors	1993	20.4.2000	0.7392	20.10.2000 – 19.4.2003	0.69	120,000,000	-	-	-	120,000,000
	1993	19.5.2000	0.5568	19.11.2000 – 11.5.2003	0.68	8,000,000	-	-	-	8,000,000
	1993	12.12.2000	0.2096	12.6.2001 – 11.5.2003	0.265	52,000,000	-	36,400,000	-	15,600,000
	1993	15.8.2001	0.0893	15.2.2002 – 11.5.2003	0.116	-	8,000,000	3,200,000	-	4,800,000
	2002	15.3.2002	0.0550	15.4.2002 – 14.3.2004	0.055	-	30,600,000	10,710,000	-	19,890,000
	2002	2.5.2002	0.1540	2.6.2002 – 2.5.2004	0.154	-	30,000,000	-	-	30,000,000
	2002	3.6.2002	0.1530	3.6.2002 – 31.5.2004	0.151*	-	66,600,000	-	-	66,600,000
2002	4.7.2002	0.1180	4.7.2002 – 3.7.2004	0.118	-	4,600,000	-	-	4,600,000	
(ii) Employees	1993	19.5.2000	0.5568	19.11.2000 – 11.5.2003	0.68	4,000,000	-	-	-	4,000,000
	1993	15.8.2001	0.0893	15.2.2002 – 11.5.2003	0.116	-	12,000,000	4,800,000	-	7,200,000
	2002	15.3.2002	0.0550	15.4.2002 – 14.3.2004	0.055	-	118,600,000	41,510,000	-	77,090,000
	2002	4.7.2002	0.1180	4.8.2002 – 2.7.2004	0.118	-	12,400,000	-	-	12,400,000
(iii) Consultants	2002	6.5.2002	0.1530	6.6.2002 – 6.5.2003	0.151	-	190,000,000	20,000,000	-	170,000,000
	2002	4.7.2002	0.1180	4.8.2002 – 3.7.2003	0.118	-	13,578,000	-	-	13,578,000
(iv) Former Directors	1993	20.4.2000	0.7392	20.10.2000 – 19.4.2003	0.69	24,000,000	-	-	24,000,000	-
	1993	17.5.2000	0.7392	17.11.2000 – 11.5.2003	0.71	36,000,000	-	-	36,000,000	-
	1993	12.12.2000	0.2096	12.6.2001 – 11.5.2003	0.265	23,000,000	-	-	23,000,000	-
(v) Former Employees	1993	20.4.2000	0.7392	20.10.2000 – 19.4.2003	0.69	8,000,000	-	-	8,000,000	-
	1993	19.5.2000	0.5568	19.11.2000 – 11.5.2003	0.68	12,000,000	-	-	12,000,000	-

* The closing price was referred to the closing price on the date of the Board meeting at which the Board proposed to grant options to these Directors.

SHARE OPTIONS (continued)

Subscription rights attaching to the share options are exercisable at different stages as determined by the Board.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted to those grantees, because in the absence of a readily market value of the share options of the Company, the Directors were unable to arrive at an assessment of the value of these share options.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 July 2002, no reserve of the Company was available for distribution to shareholders of the Company. In addition, the Company's share premium account of HK\$939,856,000 as at 31 July 2002, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	2002 %	2001 %
Purchases		
– the largest supplier	7.1	13.4
– five largest suppliers combined	28.1	27.8
Turnover		
– the largest customer	11.8	19.9
– five largest customers combined	37.9	37.5

None of the Directors or any of their associates (as defined in the Listing Rules) or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Mr WONG King Shiu, Daniel (<i>Chairman</i>)	(appointed on 25 January 2002)
Mr WONG Kui Shing, Danny (<i>Chief Executive Officer</i>)	
Mr KAN Kwok Shu	
Mr LIN Che Chu, George	(appointed on 5 April 2002)
Mr CHEN Jian	(appointed on 5 April 2002)
Mr ABE Kazuhiko	(resigned on 15 August 2001)
Mr TSUJIGUCHI Takashi	(resigned on 15 August 2001)
Mr MASHITA Hirokazu	(appointed on 15 August 2001 and resigned on 25 January 2002)
Mr NAKAMURA Tatsuya	(appointed on 15 August 2001 and resigned on 25 January 2002)
Mr YUEN Tin Fan, Francis	(resigned on 30 November 2001)
Mr CHUNG Cho Yee, Mico	(resigned on 30 November 2001)
Mr CHAK Hubert	(appointed as alternate to Mr Chung Cho Yee, Mico on 15 August 2001 and ceased to be alternate Director on 30 November 2001)

Non-Executive Director

Mr SUZUKI Masanori	(re-designated as Non-executive Director from Executive Director on 25 January 2002)
--------------------	--

Independent Non-Executive Directors

Mr LAU Wah Sum	
Mr CHEUNG Man Yau, Timothy	(appointed on 5 April 2002)
Mr KAN Fook Yee	(resigned on 5 April 2002)

In accordance with the Company's Bye-law 86(2), Messrs Lin Che Chu, George, Chen Jian and Cheung Man Yau, Timothy will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's Bye-law 87 and 169(2), Mr Suzuki Masanori will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this report are as follows:

Executive Directors

WONG King Shiu, Daniel, aged 43, was appointed Director and Chairman of the Company in January 2002. He is responsible for the overall management and decision making on the policy and strategic development of the Group. Mr Wong has over 10 years' investment experience. He graduated from Haking Wong Technical Institute.

WONG Kui Shing, Danny, aged 43, was appointed Director of the Company in March 2001. He joined the Group as Deputy Chief Executive Officer in April 2000 and was promoted to the Chief Executive Officer in September 2000. He is responsible for the Group's overall investment and operations. Mr Wong has extensive exposure in the financial and investment fields for over 16 years and is well experienced in international market. He obtained a Bachelor of Arts degree from the University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

KAN Kwok Shu, aged 45, was appointed Director and Deputy Chief Executive Officer of the Company in March 2001. He joined the Group as Senior Vice President in May 2000. Besides participating in strategic development and overall operation, Mr Kan also involves in the decision making on the overall investments of the Group. Prior to joining the Group, Mr Kan held various senior positions in leading fund management companies such as Jardine Fleming Investment Management Limited, Euro Pacific Advisers Limited and Thornton Management (Asia) Limited. Mr Kan has over 16 years of investment experience in the Asia-Pacific region, in particular the Greater China Market. Mr Kan obtained a Bachelor degree in Commerce from the University of Calgary, Canada.

LIN Che Chu, George, aged 39, was appointed Director of the Company in April 2002. He oversees and monitors the Group's natural gas-related operation and is closely involved in its strategic decision making and policy setting. He is a direct investment expert with over 10 years' experience in hi-tech investment and venture fund management and an investment professional with domain know-how in technology field. Mr Lin was the president of various venture fund management companies in Taiwan, including Capital Venture Management Limited, Agora Investment Management Limited and CYPAC Investment Management Limited. He was the vice-president of Central Investment Holding Co., Ltd.. Mr Lin holds a Bachelor degree in Engineering from Feng Chia University, Taiwan and a Master of Business Administration degree from Illinois Institute of Technology, Chicago, USA.

CHEN Jian, aged 30, was appointed Director of the Company in April 2002. He is the Chief Representative in the Group's Shenzhen office in the PRC and responsible for its daily operations. Prior to joining the Company, he was a director and deputy general manager of Fujian He Chen Trading Company Ltd and deputy factory manager of Guilin Tobacco and Cigarette Factory. He graduated from the University of International Business and Economics, Beijing, PRC.

Non-executive Director

SUZUKI Masanori, aged 44, was appointed Director of the Company in March 2000 and has been re-designated non-executive Director since January 2002. Mr Suzuki was a director of Hikari Tsushin, Inc in charge of global strategy and investment planning. Prior to joining the Hikari Tsushin group in Japan, Mr Suzuki was a general manager of Jafco, a global venture capital firm and a director of Credit Suisse First Boston Securities. During his services with Nomura Securities Co, Ltd, Mr Suzuki was responsible for investment banking and corporate finance in the Asia-Pacific region. He is currently the president of Ashford Capital, KK. He has a strong background in finance and administration in strategic investment.

Independent Non-executive Directors

LAU Wah Sum, aged 74, was appointed an independent non-executive Director in April 2000. Mr Lau is the chairman of both W S Lau & Associates Ltd and Equity Holdings Limited. He is a registered investment adviser and fellow of the Chartered Institute of Management Accountants. He serves the community as chairman of Urban Renewal Authority and court member of the University of Science and Technology of Hong Kong. He also sits on the board of several listed companies in Hong Kong.

CHEUNG Man Yau, Timothy, aged 44, was appointed an independent non-executive Director in April 2002. He is currently a practising accountant and an associate of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. He has more than 19 years of extensive experience in the finance field and previously worked for a number of international accounting firms and listed companies in Hong Kong. Mr Cheung graduated from the University of Hong Kong with a Bachelor of Arts degree.

Senior Management

WONG Chee Wai, Alan, aged 48, is the Chief Financial Officer of the Group. He joined the Group in March 2001. He is responsible for overseeing the Group's finance, accounting, company secretarial, administration and information technology matters. He has over 23 years of experience in finance, treasury, accounting and administration with various companies in Hong Kong and North America. He holds a Bachelor degree in Arts (major in Economics), a Bachelor degree in Commerce (Honours Business Administration) and a Master of Business Administration degree from the University of Windsor, Ontario, Canada.

CHU King Tien, aged 48, joined the Group in 1973. He is responsible for the overall management and formulation of the policies and strategies of the Group's Manufacturing Business and also its business development. He has more than 20 years' experience in the battery industry.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals of the Group are set out in notes 8 and 9 to the financial statements respectively.

DIRECTORS' SERVICE CONTRACTS

Certain Directors have entered into service contracts with the Company are as follows:

- (a) A service contract made with each of Messrs Suzuki Masanori and Cheung Man Yau, Timothy for a fixed term of two years commencing on 25 January 2002 and 5 April 2002 respectively. After the expiry of the initial term of two years, these service contracts will be deemed to be renewed or extended unless terminated by either party giving not less than three months' prior written notice to the other.
- (b) A service contract made with each of Messrs Lin Che Chu, George and Chen Jian for a fixed term of one year commencing on 5 April 2002. After the expiry of the initial term of one year, these service contracts will be deemed to be renewed or extended unless terminated by either party giving not less than three months' prior written notice to the other.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group paid a sum of approximately HK\$1 million to Equity Financial Press Limited and a sum of approximately HK\$0.2 million to Central Language Services, Limited in respect of their provision of printing and translation services to the Group respectively. Mr Lau Wah Sum is the chairman of Equity Financial Press Limited and a director of Central Language Services, Limited.

Save as disclosed above, no Director had a material interest in any contract of significance to the business of the Group to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party during the year under review.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY AND DEBT SECURITIES

As at 31 July 2002, the interests of the Directors and chief executive of the Company in the securities and options of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules were as follows:

I. Securities

Name of Director	Nature of Interest	Number of Shares
Wong King Shiu, Daniel ("Mr Daniel Wong")	Corporate <i>(Note)</i>	2,127,722,000
Wong Kui Shing, Danny	Personal	15,400,000
Kan Kwok Shu	Personal	7,790,000

Notes: As at 31 July 2002, Mr Daniel Wong was the beneficial owner of the entire issued capital of Noble Islands. Out of these 2,127,722,000 shares owned by Noble Islands, 1,673,310,000 shares and 454,412,000 shares were registered in the names of Kingston Securities Limited and HKSCC Nominees Limited respectively. In accordance with the SDI Ordinance, Mr Daniel Wong was deemed to be interested in the 2,127,722,000 shares interested by Noble Islands.

Subsequent to the year-end date, on 14 August 2002, the entire issued capital of Noble Islands was transferred from Mr Daniel Wong to Maxi Gain Corporation which is in turn held by The Daniel K S Wong Family Trust, a discretionary trust ("Trust") of which Equity Trustee Limited is the trustee. The discretionary objects of the Trust are entities beneficially owned by the family members of Mr Daniel Wong.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY AND DEBT SECURITIES (continued)

II. Share Options

Name of Director	Date of Grant	Exercise Price HK\$	Exercise Period	Closing Price Before Date of Grant HK\$	Movement of Option Shares during the year				As at 31.7.2002
					As at 1.8.2001	Granted	Exercised	Lapsed	
WONG King Shiu, Daniel [†]	3.6.2002	0.1530	3.6.2002 – 31.5.2004	0.151*	-	46,600,000	-	-	46,600,000
WONG Kui Shing, Danny	20.4.2000	0.7392	20.10.2000 – 19.4.2003	0.69	80,000,000	-	-	-	80,000,000
	12.12.2000	0.2096	12.6.2001 – 11.5.2003	0.265	22,000,000	-	15,400,000	-	6,600,000
KAN Kwok Shu	19.5.2000	0.5568	19.11.2000 – 11.5.2003	0.68	8,000,000	-	-	-	8,000,000
	15.8.2001	0.0893	15.2.2002 – 11.5.2003	0.116	-	8,000,000	3,200,000	-	4,800,000
	15.3.2002	0.0550	15.4.2002 – 14.3.2004	0.055	-	30,600,000	10,710,000	-	19,890,000
CHEN Jian	2.5.2002	0.1540	2.6.2002 – 2.5.2004	0.154	-	30,000,000	-	-	30,000,000
SUZUKI Masanori	20.4.2000	0.7392	20.10.2000 – 19.4.2003	0.69	40,000,000	-	-	-	40,000,000
	12.12.2000	0.2096	12.6.2001 – 11.5.2003	0.265	30,000,000	-	21,000,000	-	9,000,000
LAU Wah Sum	3.6.2002	0.1530	3.6.2002 – 31.5.2004	0.151*	-	20,000,000	-	-	20,000,000
CHEUNG Man Yau, Timothy	4.7.2002	0.1180	4.7.2002 – 3.7.2004	0.118	-	4,600,000	-	-	4,600,000

* As at 31 July 2002, Mr Wong King Shiu, Daniel, the Chairman and Director of the Company, was the sole shareholder of Noble Islands, a substantial shareholder of the Company.

* The closing price was referred to the closing price on the date of the Board meeting at which the Board proposed to grant options to Mr Wong and Mr Lau.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director, their respective spouse or children under 18 years of age of any such Director any right to subscribe for securities of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the year.

Save as disclosed above and under the section "Share Options", as at 31 July 2002, none of the Directors, chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company and its associated corporations which require notification to the Company and the Stock Exchange as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed 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 Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 July 2002, the following parties having an interest of 10% or more of the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of Shares	% of Issued Share Capital of the Company
Noble Islands (Note)	2,127,722,000	26.25
Wong King Shiu, Daniel ("Mr Daniel Wong") (Note)	2,127,722,000	26.25

Note: As at 31 July 2002, Mr Daniel Wong was the beneficial owner of the entire issued capital of Noble Islands. Out of these 2,127,722,000 shares owned by Noble Islands, 1,673,310,000 shares and 454,412,000 shares were registered in the names of Kingston Securities Limited and HKSCC Nominees Limited respectively. In accordance with the SDI Ordinance, Mr Daniel Wong was deemed to be interested in the 2,127,722,000 shares interested by Noble Islands.

Subsequent to the year-end date, on 14 August 2002, the entire issued capital of Noble Islands was transferred from Mr Daniel Wong to Maxi Gain Corporation which is in turn held by The Daniel K S Wong Family Trust, a discretionary trust ("Trust") of which Equity Trustee Limited is the trustee. The discretionary objects of the Trust are entities beneficially owned by the family members of Mr Daniel Wong. As at 6 September 2002, Noble Islands held 2,127,722,000 shares, among which 2,067,722,000 shares and 60,000,000 shares were registered in the names of Kingston Finance Limited and HKSCC Nominees Limited respectively.

Save as disclosed above, no other parties were recorded as having an interest of 10% or more of the issued share capital of the Company in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

During the year, the Group had transactions with the following companies and individuals, which are constituted "connected transactions" as defined in the Listing Rules:

	Notes	Year ended 31 July 2002 HK\$'000	Group Period from 1 April 2000 to 31 July 2001 HK\$'000
Jiangmen Industrial Products Import and Export Corporation ("JIPIE") and Jiangmen J.J.J. Battery Company Limited ("JJJB")			
Purchase of raw materials	1	2,020	14,434
JJB			
Rental expenses	2	3,448	4,423
Goldtium (Hong Kong) Company Limited ("Goldtium HK") and Goldtium (Jiang Men) Battery Company Limited ("Goldtium JM")			
Sales of raw materials	3	3,689	3,661
Purchase of finished goods	3	80,597	111,158
Rental	4	8,800	17,600
JIPIE	5		
Sales of raw materials		90	2,335
Sales of finished goods		–	4,594
Purchase of raw materials		90	2,392
Purchase of finished goods		–	4,720

JIPIE and JJJB are the shareholders of Goldtium JM. Goldtium HK and Goldtium JM are non-wholly-owned subsidiaries of the Group.

Notes:

- The purchase transactions with JIPIE and JJJB were defined as "Ongoing Connected Transactions" in the circular to the shareholders of the Company dated 10 February 1998 ("Circular I") and were approved by the shareholders at the special general meeting of the Company held on 5 March 1998 ("SGM"). The Stock Exchange has granted waivers from strict compliance with the connected transaction requirements as set out in the Listing Rules.

Such Ongoing Connected Transactions have been reviewed by the Directors (including the independent non-executive Directors) and the independent non-executive Directors have confirmed that they consider that the above transactions were concluded:

- in the ordinary and usual course of business of the Group;

CONNECTED TRANSACTIONS (continued)

- (b) on normal commercial terms or on terms no less favourable than terms available from independent third parties; and
- (c) on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The aggregate amount of such purchases by the Group amounted to less than 10% of the audited consolidated purchases of the Group for the year ended 31 July 2002 and did not exceed the cap of the waiver granted by the Stock Exchange on 25 February 1998.

- The rental expenses were related to the factory premises leased from JJB. The rental charges were made pursuant to the terms of the tenancy agreement dated 16 October 1998. The aggregate amount of the rental charges for the year ended 31 July 2002 did not exceed the cap of HK\$10,000,000 as stipulated in a waiver granted by the Stock Exchange on 5 November 1998.
- The sales and purchase transactions with Goldtium HK and Goldtium JM were defined as "Future Connected Transactions" in Circular I. The amount of sales of raw materials did not exceed 12% of the audited consolidated purchases of the Group for the year ended 31 July 2002, being the cap of waivers granted by the Stock Exchange on 25 February 1998. The purchase of finished goods did not exceed 25% of the audited consolidated turnover of the Group for the year ended 31 July 2002, being the cap of waiver granted by the Stock Exchange on 27 May 2002.
- Pursuant to the leasing agreement dated 12 March 1998 between Goldtium HK and Goldtium JM, the latter paid a monthly equipment rental fee of HK\$1,100,000 to Goldtium HK with respect to the leasing of the alkaline manganese battery production line. The lease agreement expired on 31 March 2002.
- The sales and purchase transactions with JIPIE were defined as "Jiangmen IE Transactions" in the circulars to the shareholders of the Company dated 25 June 1999 ("Circular II") and 5 March 2002 ("Circular III") respectively. The Stock Exchange has granted waivers from strict compliance with the connected transaction requirements as set out in the Listing Rules up to 31 July 2004.

The aggregate amount of Jiangmen IE Transactions was less than HK\$42,000,000, being the cap of the waiver granted by the Stock Exchange on 27 May 2002.

In addition to the above transactions, the Group also granted loans to Goldtium HK and Goldtium JM and corporate guarantees to banks in favour of Goldtium HK and Goldtium JM, details of which are as follows:

	Note	Group Year ended 31 July 2002 HK\$'000	Period from 1 April 2000 to 31 July 2001 HK\$'000
Goldtium HK			
Loans and corporate guarantees	1	55,202	103,500
Shareholders' loans	2	6,919	41,860
Goldtium JM			
Loans	3	21,009	53,308
Shareholders' loans	4	42,402	8,079
Goldtium HK and Goldtium JM			
Loans	5	8,609	16,571

Notes:

- 1.* In 2001, a corporate guarantee of HK\$20,000,000 was given by the Company in respect of a loan granted from Bank of China (Hong Kong) Limited ("BOCHK") to Goldtium HK, such guarantee was duly approved by the shareholders previously. This corporate guarantee was subsequently terminated upon the full repayment of the loan to BOCHK in April 2002. Besides, a loan of HK\$2,602,000 (2001: nil) and corporate guarantees amounting to HK\$52,600,000 (2001: HK\$83,500,000) were granted by the Company in favour of Goldtium HK for the year ended 31 July 2002, these guarantees were for pool banking and other loan facilities extended partly to Goldtium HK and partly to other member(s) of the Group ("Pool Guarantees").

The amount of the loans and guarantees granted by the Group in favour of Goldtium HK mentioned above did not exceed the following waiver caps granted by the Stock Exchange on 27 May 2002:

- HK\$100,000,000, which includes the loans advanced to Goldtium HK by the Group (excluding the Goldtium Transactions) and the Pool Guarantees; and
- HK\$20,000,000, which includes the loans advanced to Goldtium HK by the Group (excluding the Goldtium Transactions) and the guarantee provided by the Group for banking or other loan facilities available only to Goldtium HK (i.e. excluding the Pool Guarantees).

2. Pursuant to the shareholders' loan agreement dated 1 August 1998, Techway (China) Limited ("Techway"), a wholly-owned subsidiary of the Company, Mr Shi Zhaoping and Mr Liu Dongyu ("PRC Individuals"), have committed to granting interest-free loans to Goldtium HK in proportion to their respective equity interests in that company for financing its operation. 70% of the shareholders' loans were granted by the Group and 15% of which were granted by each of the PRC Individuals.
- 3.* The amount of loans and guarantees granted by the Group in favour of Goldtium JM in aggregate did not exceed the cap of HK\$57,410,783, being 15% of the unaudited consolidated net tangible assets of the Group as at 30 September 1997, as stipulated in the waiver granted by the Stock Exchange on 25 February 1998.
4. Pursuant to the shareholders' loan agreement dated 17 September 1998, Techway, JJB and JIPIE, have committed to granting interest-free loans to Goldtium JM in proportion to their respective equity interests in that company for financing its operation. 70% of the shareholders' loans were granted by the Group and 15% of which were granted by each of JJB and JIPIE.
5. The loan transactions between Goldtium HK and Goldtium JM were defined as "Goldtium Transactions" in Circular II and Circular III mentioned above. This amount represented loans advanced from Goldtium HK to Goldtium JM. The total amount of the loans and advances in aggregate did not exceed the cap of HK\$30,000,000, being the waiver cap granted by the Stock Exchange on 27 May 2002.

* *For the loans and guarantees granted by the Group in favour of Goldtium HK and Goldtium JM as stated in notes 1 and 3 above, the Group has obtained indemnities from the minority shareholders of Goldtium HK and Goldtium JM in favour of the Group in respect of their respective equity interests in the companies.*

The Directors, including the independent non-executive Directors, have reviewed the above connected transactions and confirmed that these connected transactions, being conducted in the ordinary course of business and carried out under normal commercial terms or in accordance with the terms of the respective agreements governing the transactions, are considered to be fair and reasonable so far as the interests of the shareholders of the Company are concerned.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2002, the Group employed approximately 1,615 full-time employees and out of which 1,515 were in the PRC and 100 were in Hong Kong. Remuneration package is reviewed annually with reference to the market trend and prevailing legislation. Discretionary bonuses are granted to certain employees of the Group. In the PRC, the Group provides its employees with staff welfare in accordance with the prevailing labour law. Certain Directors and employees of the Group are entitled to medical insurance. Share options pursuant to the Company's share option schemes have been granted to certain Directors and employees of the Group during the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2002, the Group had cash and bank balances in aggregate of approximately HK\$214 million. The liquidity position of the Group was as follows:

	31 July 2002	31 July 2001
Liquid ratio	3.76	1.56
Ratio of total liabilities to shareholders' equity	0.16	0.46

During the year under review, part of the proceeds from the subscription of new shares in March 2000 amounting to approximately HK\$112 million was used to acquire investments for long-term purposes. On the other hand, the Group disposed of certain long-term investments and recorded a cash inflow of approximately HK\$31 million. The Group also recorded a net cash outflow of approximately HK\$133 million from the trading of certain Hong Kong marketable securities. In April 2002, the Group invested in China City Natural Gas Co., Ltd. ("CCNGCL") of approximately HK\$89 million. CCNGCL is a Sino-foreign joint venture company involved in the design, installation, development and operation of natural gas pipeline network and the ancillary facilities as well as the provision of inspection, maintenance and technological services in this regard. In the second half of the year under review, the Group raised approximately HK\$297 million from the issues of new shares and registered warrants. Accordingly, the Group's liquid ratio as at 31 July 2002 increased to a higher level of 3.76. The Group has continuously placed most of the remaining funds mainly denominated in Hong Kong Dollar and US Dollar with sound financial institutions. However, due to the prevailing low bank deposit interest rate, interest income of the Group was reduced.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

As at 31 July 2002, the Group had outstanding bank borrowings of approximately HK\$15 million and approximately HK\$5 million of which was the outstanding trust receipt loans payable, which were much lower than the balances as at 31 July 2001. Such decrease was mainly due to the early repayment of certain trust receipt loans at the end of the year under review. Most of the outstanding trust receipt loans were denominated in Hong Kong Dollar and US Dollar but the related interest rate was mainly based on prevailing prime rate. The unexpected substantial increase in the exchange rate of Japanese Yen versus Hong Kong Dollar in the second half of the year under review led to exchange losses for the Manufacturing Business though such amount was insignificant as compared with the Group's total losses. The Group will consider hedging the future foreign exchange risks for major material purchases denominated in Japanese Yen in future. The Group has consistently kept its available trade facility utilisation rate at a reasonably safe level.

As at 31 July 2002, the Group maintained term loans of approximately HK\$10 million, which included a term loan of RMB10 million repayable in November 2002. This term loan is for the Group's manufacturing operations in the PRC. In April 2002, the Group had repaid in aggregate of approximately HK\$8.6 million, which was the balance of another four-year term loan of HK\$40 million, so the overall bank liabilities of the Group were reduced to a lower level. Further, in February 2002, the Company repaid an outstanding convertible note with a book value of approximately HK\$93 million for HK\$92 million, with a gain of approximately HK\$1 million. In addition, the Group issued convertible notes of HK\$70 million to independent third parties in April 2002 and the notes were fully converted into 1,272,727,268 shares of the Company in April and May 2002. With the existing cash and banking position, it is believed that the Group will have adequate cash resources to meet its capital requirements and any commitments for future expansion should the opportunities arise.

As at 31 July 2002, the Group had contingent liabilities of approximately HK\$14.6 million, being the utilised amount of the facilities granted to the Company's subsidiaries for which guarantees were given to banks by the Company.

CAPITAL STRUCTURE

During the year under review, the Company had substantial changes in its capital structure as follows:

	Number of shares
(a) new shares issued upon the subscription of shares	2,051,700,000
(b) new shares issued upon exercise of options granted	116,620,000
(c) new shares issued upon conversion of convertible notes	1,272,727,268
(d) new shares issued upon exercise of subscription rights of warrants	28,527
	3,441,075,795

From the above issues of new shares of the Company, the Company raised approximately HK\$272 million which included the conversion of the \$70 million convertible notes. Furthermore, the Company issued warrants to independent third parties for the net proceeds of HK\$24,400,000 in June 2002. As at 31 July 2002, no such warrant was exercised. The Company intended to use the net proceeds raised for the Group's general working capital, future investment, the development of oil and gas projects, or any other suitable projects whenever opportunities are identified.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of the executive Directors in competing businesses as at 31 July 2002 required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of Director	Name of Company	Nature of Competing Business	Nature of Interest
Wong Kui Shing, Danny	Chinaproducts.com Ltd	Providing online database of Chinese exporters and manufacturers and offering e-Commerce related web solution services	As a director
	One Studio Ltd	Internet solutions services provider	As a director
	OSINTERNET LTD	Telecommunication related business	As a director

Other than as disclosed above, none of the executive Directors is interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, for any part of the accounting year covered by this report.

In accordance with the Code of Best Practice, the Board of Directors established an audit committee in 1998. The audit committee, consisting of the two independent non-executive Directors of the Company, reviews and supervises the Group's financial reporting and internal control systems.

AUDITORS

Messrs Ernst & Young have acted as auditors of the Company for the last three financial years/period. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Messrs Ernst & Young as auditors of the Company.

On behalf of the Board

Wong King Shiu, Daniel
Chairman

Hong Kong, 19 November 2002