

On behalf of the board of directors ("Board") of China City Natural Gas Holdings Limited ("Company"), I would like to present to our shareholders the report and the annual results of the Company and its subsidiaries (collectively "Group") for the year ended 31 July 2004.

FINANCIAL RESULTS

For the year ended 31 July 2004, the Group's turnover was approximately HK\$23.1 million, representing an increase of 19.7% as compared to that for the continuing operation of HK\$19.3 million last year, and representing a decrease of 91.7% as compared to the total turnover of approximately HK\$278.2 million last year. Such decrease was mainly due to the absence of the turnover from the discontinued operations which recorded a turnover of HK\$258.9 million last year. The Group's loss attributable to shareholders was approximately HK\$215.9 million for the year, representing a decrease in loss of approximately 35.5% as compared with the loss for the last year of HK\$334.8 million. The decrease in loss attributable to shareholders for the year was mainly due to the loss on disposal of HK\$105 million recorded last year.

The Board does not recommend any dividend for the year ended 31 July 2004 (2003: Nil).

BUSINESS REVIEW

The financial year under review was a challenging and strategic year for the Group. The Group's business activities were broadly divided into: (a) the industrial segment which consisted of the manufacturing and trading of batteries and silicone rubber products; and (b) the investment segment which consisted of investments in the areas of Internet, information technology, natural gas and capital market. Following the disposal of its battery operation in July 2003, the industrial segment is no longer the Group's major focus.

Investment Business

Last year was a difficult year for the Group's investment business, given the adverse impact of the volatile global economy and the outbreak of SARS lagging into the operations and performance of the investee companies in this year, some of the investee companies were seriously suffered. For prudence sake, an impairment loss on the long-term investments of HK\$155.3 million (2003: 129.8 million) was made in this year.

During the year under review, we utilised a total amount of HK\$185 million on the acquisition of long-term investments (2003: HK\$106 million) and disposed of certain interests of an investee company at a total consideration of HK\$5 million subsequent to the balance sheet date. As at the balance sheet date, the Group maintained a long-term investment portfolio of approximately HK\$123.5 million (2003: 100.9 million).

As at the balance sheet date, the Group maintained a marketable securities portfolio, consisting of equity securities listed in Hong Kong, of approximately HK\$16 million (2003: HK\$87.7 million) while cashing securities for approximately HK\$68.9 million during the year under review, and an impairment loss on the securities of approximately HK\$2.9 million was made due to the decrease in market value as at the balance sheet date.

Chairman's Statement and Management Discussion and Analysis

On the one hand, we are strengthened and more flexible, with our strategic Japanese partner and the co-investing arrangement, in investing in projects with high growth of larger scale, on the other hand, balance between risk and return is always cautiously assessed to suit our prudent-but-aggressive investing strategy while overall risk of the investment portfolio is reduced by our extensive experience and expertise on diversification of investments in different kind of assets and projects.

Natural Gas Business

The Group, through its jointly-controlled entity, China City Natural Gas Co., Ltd ("CCNGL"), a joint venture with China Petroleum Pipeline Bureau (中國石油天然氣管道局), holds joint-venture natural gas companies in various cities and areas in China, namely, Xining, Tianjin (Binhai District), Liling, Binzhou, Huimin and Qingyun to operate piped natural gas business.

The performance from Tianjin, Binzhou, Huimin and Qingyun where business of the supply of natural gas commenced in the last financial year, was disappointing, whereas the performance in Xining remains strong and growing. For the year under review, turnover and net loss of CCNGL were approximately HK\$260 million (2003: HK\$117 million) and HK\$18.8 million (2003: profit of HK\$780,000) respectively.

By the end of the year 2003, CCNGL has already fully invested its capital in natural gas projects in various cities. Since the capital base has virtually been exhausted, the expansion and growth into further cities would be stagnant. The Group would like to continue investing in the natural gas business provided that it could increase its equity interest in CCNGL to achieve management control, otherwise, the Group may consider disposing of the natural gas investment to release the resources for other suitable investments.

Manufacturing Business

Following the disposal of the Group's battery operation in July 2003, the industrial segment is no longer the Group's major focus. The remaining businesses of the manufacturing and trading of silicone rubber products is minimal and insignificant to the Group's major business as investment holding. Turnover and net loss of the silicone rubber operation were approximately HK\$23.1 million (2003: HK\$19.3 million) and HK\$1.6 million (2003: profit of HK\$1.1 million) respectively.

Employees and Remuneration Policy

As at 31 July 2004, the Group employed a total workforce of approximately 365 people (2003: 276) among which 29 people (2003: 25) were working in Hong Kong and 336 people (2003: 251) were working in the PRC. The staff costs for the year amounted to approximately HK\$13.6 million (2003: HK\$31.7 million). 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.

Pledge of Assets

As at the balance sheet date, the Group has no pledge of assets.

Contingent Liability

As at 31 July 2004, the Group had no contingent liability.

Foreign Exchange and Interest Rate Exposure

As the Group's sales are mostly based on United States Dollar, and investments are mostly made in Hong Kong Dollar, having considered the exchange rate of United States Dollar is fairly stable, no foreign exchange and interest rate risk management or related hedges were made at present. Proper policy will be in place when the Board considers appropriate.

Litigation

On 11 August 2003, legal proceedings were brought by a third party against the Company for an alleged breach of an arrangement relating to a proposed sale and purchase of certain subsidiaries of the Company including an exclusivity arrangement. The amount claimed by the third party against the Company are damages of (i) the opportunity to acquire HK\$129 million worth of assets being the combined net asset value of those subsidiaries as at 31 March 2003 at the consideration of HK\$40 million; and (ii) breach of terms in the relevant agreements for a sum of HK\$3 million. Based on legal advice, the Directors consider that the probable maximum future outflow of resources, as a result of the claim, is HK\$3 million. As at the date of this report, there is no further development in relation to this case.

Golite International Limited ("Golite"), a wholly-owned subsidiary of the Group engaged in the manufacturing and trading of silicone rubber products, has been carrying out its operation in Dongguan, the PRC by virtue of a feeding processing arrangement made between a Dongguan manufactory ("Manufactory") and Golden Power Industries Limited ("Golden Power"), a disposed subsidiary of the Group engaged in the manufacturing of batteries. Following the disposal of the battery business, Golite has decided to detach from the Manufactory, and a new factory is set up. Requests were made to Golden Power on releasing the plants and machineries and related trading records, but such requests were unreasonably rejected by Golden Power. Golite has taken legal action against Golden Power. As at the date of this report, most of the trading records were returned to Golite.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings

As at 31 July 2004, save for the convertible notes in an aggregate principal amount of HK\$20,000,000 issued in January 2004, the Group has no bank loans, overdraft or other borrowings. As at 31 July 2004, the Group's gearing ratio, measured on the basis of total current liabilities as a percentage of total shareholders' fund, was 20.3% as compared with 7% in last financial year end.

Capital Investments and Commitments

During the year under review, the Group has totally invested HK\$185 million in long-term investments. Save for the memorandum of understanding made in October 2004 in relation to the possible acquisition of a majority stake in Shanghai Holdfast Science & Technology Co., Ltd., the Group did not incur or commit any material investment or capital expenditure during the year.

Capital Structure

In January 2004, the Company issued 500,000,000 new shares of the Company at a par value of HK\$0.025 ("Shares") each pursuant to the placing agreement dated 18 December 2003, which raised approximately HK\$19.5 million. In addition, the Company issued a convertible note in an aggregate principal amount of HK\$20,000,000 for a net proceeds of approximately HK\$19.8 million. As at 31 July 2004, no convertible note was converted. During the year under review, 336,190,000 new Shares were issued upon exercise of 51,190,000 and 285,000,000 option shares at the subscription prices of HK\$0.055 per Share and HK\$0.037 per Share respectively, resulting in raising approximately HK\$13.4 million.

Subsequent to the balance sheet date, the Group issued (i) the convertible notes in an aggregate principal amount of HK\$25,000,000 to Cross Profit Capital Limited, icoupon Limited and independent investors through placing agent in October 2004 ("Oct CN"). The Oct CN is interest bearing of 1% per annum and if fully converted at the conversion price of HK\$0.025 per Share, a total of 1,000,000,000 Shares will be issued; and (ii) the convertible notes in an aggregate principal amount of US\$2,000,000 (approximately HK\$15,600,000) to ICP Inc ("ICP CN") in November 2004. The ICP CN is interest bearing of 1% per annum and if fully converted at the conversion price of HK\$0.025 per Share, a total of 624,000,000 Shares will be issued.

In October 2004, the Company proposed a rights issue on the basis of two rights shares of HK\$0.025 each for every ten existing Shares with bonus shares to be issued on the basis of three bonus shares for every two fully-paid rights shares ("Rights Issue"). The Rights Issue is fully underwritten by Kingston Securities Limited and is expected to be completed at the end of December 2004. The net proceeds to be raised from the Rights Issue will be approximately HK\$50,000,000 and a total of 5,120,920,710 Shares will be issued under the Rights Issue.

To accommodate the rapid growth and to facilitate the up-coming fund raising exercises of the Group, in October 2004, the Company proposed to increase its authorised share capital from HK\$500,000,000 divided into 20,000,000,000 Shares to HK\$1,250,000,000 divided into 50,000,000,000 Shares by the creation of 30,000,000,000 new Shares.

As at 31 July 2004, the Group had total assets of approximately HK\$230.9 million (2003: HK\$400.6 million). Current assets were approximately HK\$29.5 million (2003: HK\$204.2 million), while current liabilities were approximately HK\$39 million (2003: HK\$26.2 million). As at the balance sheet date, the current ratio of the Group is 0.76 (2003: 7.79) and the quick ratio is 0.59 (2003: 6.54).

Assuming other things being status quo, upon completion of the Rights Issue together with the convertible notes issued subsequent to the balance sheet date, the Group will have total assets of approximately HK\$321.5 million and current assets of HK\$120.1 million. As such, the Group's current ratio and quick ratio will be improved to 2.06 and 1.87 respectively.

As at the date of this report, the Company has total 10,241,841,423 Shares in issue.

PROSPECTS

Since the joining of new management to the Board in September 2004, by virtue of the new Directors' extensive business networks and connections in Japan, the Company has taken a great leap to reposition itself as a value-added platform for high growth Japanese IT and telecom companies to invest in China. As such, in October 2004, the Board proposed to change the Company's name to Nippon Asia Investments Holdings Limited and adopt "日本亞太事業投資有限公司" as its Chinese name to reflect the aforesaid.

The Group has established strategic alliance with Japanese investor by the co-investing arrangement, aiming at the technology and telecom projects with high growth and earnings potential in China. To facilitate the up-coming co-investing opportunities in investments of larger scale, the Group has carried out a series of fund raising exercises, including the proposed Rights Issue, to strengthen its financial position, and taking our commitment to action, the Group has also entered into a memorandum of understanding to acquire a majority stake in Shanghai Holdfast Science & Technology Co., Ltd. and if proceeded, this will enhance the value-added features of the Company. Such possible acquisition will also provide the Group with synergistic competitive advantages, and bring significant returns in the long run.

The Group is optimistic towards the economic development of China and believes the growth will be continuous and substantial. By virtue of the Board's ample business connections and network with Japanese investors, the Group will definitely have niche in acting as investments platform in the PRC, and the Board will leverage on its expertise and resources in both the PRC and Japan markets to aggressively pursue expansion strategy.

APPRECIATION

I would like to take this opportunity to express my sincere appreciation for the valuable efforts of our fellow Directors, management and employees for their contributions to the Group. I also thank our business associates, investors, shareholders for their continued support over the years.

Wong Kui Shing, Danny

Chairman

Hong Kong, 29 November 2004