

31 July 2004

I. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

On 11 June 2004, Maxi Gain Corporation, a company held by Equity Trustee Limited which is the trustee of a family trust and under which the discretionary objects are the entities beneficially owned by the family members of Mr. Wong King Shiu, Daniel, director, disposed of all its shareholdings in Noble Islands Int'l Limited ("Noble Islands"), a private company which holds 2,180,122,000 shares of the Company, to Capital Fortune Investments Limited ("Capital Fortune"), a company wholly owned by Mr. Zhou Weirong ("Mr. Zhou"). Thereafter, Mr. Zhou has become the substantial shareholder of the Company.

Subsequent to the balance sheet date on 16 September 2004, Capital Fortune disposed of all its shareholdings in Noble Islands to Power Honest Holdings Limited, a company wholly owned by Mr. Danny Wong, a director of the Company up to 10 June 2004 and reappointed as director and chairman of the Company from 16 September 2004 onwards.

During the year, the Group was involved in the following principal activities:

- investment in internet and information technology activities;
- investment in natural gas business; and
- manufacture and trading of silicone rubber products.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

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2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) (continued)

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 24 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 and in note 24 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries for the year ended 31 July 2004. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or up to the effective dates of disposal respectively. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Company's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, directly or indirectly, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any 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. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated to write off the cost of each asset over its estimated useful life. The principal annual rates and methods used for this purpose are as follows:

| | |
|-----------------------------------|---|
| Leasehold land | Over the unexpired terms of the lease |
| Buildings | 4% on the straight-line basis |
| Leasehold improvements | Over the lease terms |
| Plant and machinery | 15% on the reducing balance basis |
| Motor vehicles | 25% on the reducing balance basis |
| Furniture, fixtures and equipment | 15% – 20% on the reducing balance basis |
| Moulds | 33.3% on the straight-line basis |
| Tools | 50% on the reducing balance basis |

The gain or loss on disposal of or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities or comparison of price/revenue ratios, price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments (continued)

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials is determined on a first-in, first-out basis. Cost of work in progress and finished goods includes materials, labour and appropriate portions of attributable overheads. Net realisable value represents the estimated selling prices less all costs to completion and all direct costs to be incurred in selling and distribution.

Trade receivables

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint venture companies, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the relevant services are rendered; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Foreign currency transactions are recorded at the applicable rates of exchange ruling at that dates. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the Company's overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of the Company's overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee retirement benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions to the MPF scheme vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiaries in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is the required contributions, which are charged to the profit and loss account in the year to which they relate.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing operations

- (a) investment in internet and information technology activities;
- (b) investment in natural gas business;
- (c) manufacture and trading of silicone rubber products; and

Discontinued operations

- (d) manufacture and trading of batteries*.

* Discontinued since July 2003

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The principal activities of the Group are mainly managed in three geographical zones, Asia, Europe and North America. In the context of the segment information, Asia consists mainly of Mainland China, Japan and India. Europe is mainly the United Kingdom and Spain. North America includes the United States of America and Canada.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

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| | Continuing operations | | | Discontinued operations | | |
|---|--|---|---|---|--------------------|--------------------------|
| | Investment in internet and information technology activities HK\$'000 | Investment in natural gas business HK\$'000 | Manufacture and trading of silicone rubber products HK\$'000 | Manufacture and trading of batteries HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
| Segment revenue: | | | | | | |
| Turnover | – | – | 23,133 | – | – | 23,133 |
| Segment results | (163,526) | – | (1,605) | – | – | (165,131) |
| Interest income | | | | | | 312 |
| Unallocated expenses | | | | | | (30,023) |
| Loss from operating activities | | | | | | (194,842) |
| Finance costs | | | | | | (1,935) |
| Share of loss of a jointly-controlled entity | – | (9,418) | – | – | – | (9,418) |
| Amortisation and impairment of goodwill | – | (9,734) | – | – | – | (9,734) |
| Loss before tax | | | | | | (215,929) |
| Tax | | | | | | – |
| Loss before minority interests | | | | | | (215,929) |
| Minority interests | | | | | | – |
| Net loss from ordinary activities attributable to shareholders | | | | | | (215,929) |
| Segment assets | 157,170 | – | 12,767 | – | – | 169,937 |
| Interest in a jointly-controlled entity | – | 60,979 | – | – | – | 60,979 |
| Total assets | | | | | | 230,916 |
| Segment liabilities | (11,414) | – | (7,901) | – | – | (19,315) |
| Unallocated liabilities | | | | | | (20,000) |
| Total liabilities | | | | | | (39,315) |
| Other segment information: | | | | | | |
| Depreciation | 2,071 | – | 1,383 | – | – | 3,454 |
| Amortisation | – | 1,713 | – | – | – | 1,713 |
| Impairment losses on long term investments | 155,320 | – | – | – | – | 155,320 |
| Impairment of leasehold land and buildings | 628 | – | – | – | – | 628 |
| Capital expenditure | 2,007 | – | 4,046 | – | – | 6,053 |

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4. SEGMENT INFORMATION (continued)**(a) Business segments (continued)****Group**

31 July 2003

| | Continuing operations | | | Discontinued operations | | Consolidated HK\$'000 |
|---|--|---|---|---|--------------------|--------------------------|
| | Investment in internet and information technology activities HK\$'000 | Investment in natural gas business HK\$'000 | Manufacture and trading of silicone rubber products HK\$'000 | Manufacture and trading of batteries HK\$'000 | Others HK\$'000 | |
| Segment revenue: | | | | | | |
| Turnover | – | – | 19,323 | 258,900 | – | 278,223 |
| Segment results | (209,651) | – | 1,052 | 5,822 | 348 | (202,429) |
| Interest income | | | | | | 4,580 |
| Unallocated expenses | | | | | | (109,394) |
| Loss from operating activities | | | | | | (307,243) |
| Finance costs | | | | | | (1,950) |
| Share of profit of a jointly-controlled entity | – | 390 | – | – | – | 390 |
| Amortisation and impairment of goodwill | – | (24,265) | – | – | – | (24,265) |
| Loss before tax | | | | | | (333,068) |
| Tax | | | | | | (1,778) |
| Loss before minority interests | | | | | | (334,846) |
| Minority interests | | | | | | 69 |
| Net loss from ordinary activities attributable to shareholders | | | | | | (334,777) |
| Segment assets | 307,358 | – | 13,120 | – | – | 320,478 |
| Interest in a jointly-controlled entity | – | 80,131 | – | – | – | 80,131 |
| Total assets | | | | | | 400,609 |
| Segment liabilities | (22,945) | – | (3,645) | – | – | (26,590) |
| Unallocated liabilities | | | | | | – |
| Total liabilities | | | | | | (26,590) |
| Other segment information: | | | | | | |
| Depreciation | 2,752 | – | 1,503 | 15,030 | 417 | 19,702 |
| Amortisation | – | 1,665 | – | – | – | 1,665 |
| Impairment losses on long term investments | 129,832 | – | – | – | – | 129,832 |
| Impairment of leasehold land and buildings | – | – | – | – | – | – |
| Capital expenditure | 1,830 | – | 1,273 | 5,036 | – | 8,139 |

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

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| | Hong Kong | Mainland China | Asia (other than Mainland China) | North America | Europe | Other countries | Consolidated |
|-----------------------|-----------|-------------------|---|------------------|----------|--------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | | | | |
| Segment revenue: | | | | | | | |
| Turnover | 8,780 | 4,089 | 517 | 3,658 | 5,147 | 942 | 23,133 |
| Segment assets | 156,276 | 74,640 | – | – | – | – | 230,916 |
| Capital expenditure | 490 | 5,563 | – | – | – | – | 6,053 |

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| | Hong Kong | Mainland China | Asia (other than Mainland China) | North America | Europe | Other countries | Consolidated |
|-------------------------|-----------|-------------------|---|------------------|----------|--------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Continuing operations | | | | | | | |
| Segment revenue: | | | | | | | |
| Turnover | 11,687 | 8 | 1,080 | 2,973 | 3,575 | – | 19,323 |
| Segment assets | 311,058 | 89,551 | – | – | – | – | 400,609 |
| Capital expenditure | 1,788 | 1,315 | – | – | – | – | 3,103 |
| Discontinued operations | | | | | | | |
| Segment revenue: | | | | | | | |
| Turnover | 42,492 | 79,372 | 35,935 | 50,948 | 46,601 | 3,552 | 258,900 |
| Capital expenditure | 303 | 4,733 | – | – | – | – | 5,036 |

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5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's turnover, other revenue and gains is as follows:

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Continuing operations | 23,133 | 19,323 |
| Discontinued operations | – | 258,900 |
| | 23,133 | 278,223 |
| Other revenue | | |
| Interest income | 312 | 4,580 |
| Tooling and subcontracting income | – | 13,024 |
| Others | 745 | 2,181 |
| | 1,057 | 19,785 |
| Gains | | |
| Gain on disposal of fixed assets | 351 | – |
| Gain on disposal of long term investments (after a transfer from the investment revaluation reserve of a deficit of HK\$677,000) | 2,825 | – |
| | 3,176 | – |
| Other revenue and gains | 4,233 | 19,785 |

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6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|---|-------|------------------|------------------|
| Depreciation | 14 | 3,454 | 19,702 |
| Amortisation of goodwill | 16 | 1,713 | 1,665 |
| Impairment loss on goodwill | 16 | 8,021 | 22,600 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | 3,518 | 9,958 |
| Plant and machinery | | – | 1,802 |
| | | 3,518 | 11,760 |
| Auditors' remuneration | | 1,317 | 1,356 |
| Staff costs (excluding directors' remuneration – note 8): | | | |
| Salaries and wages | | 13,464 | 30,862 |
| Pension scheme contributions | | 171 | 799 |
| | | 13,635 | 31,661 |
| Provision for bad and doubtful debts | | – | 2 |
| Loss on disposal of subsidiaries | 11 | – | 105,067 |
| Impairment of leasehold land and buildings* | | 628 | – |
| Provision for impairment of long term investments transferred from the investment revaluation reserve* | | 155,320 | 129,832 |
| Loss on disposal of long term investments* (after a transfer from the investment revaluation reserve of a deficit of HK\$433,000) | | – | 513 |
| Loss on disposal of short term investments* | | – | 7,153 |
| Unrealised loss on short term investments* | | 2,850 | 38,074 |
| Loss on disposal of fixed assets* | | – | 2 |
| Write-off of fixed assets* | | – | 4,057 |
| Exchange losses, net | | – | 77 |

* Included under the heading of "Other expenses" on the face of the consolidated profit and loss account.

During the year, share options were granted to the Group's employees and consultants for services rendered to the Group (see note 26).

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7. FINANCE COSTS

| | Group | |
|---|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Interest on bank overdrafts and bank loans wholly repayable within five years | – | 1,950 |
| Interest on a securities trading account | 1,605 | – |
| Interest on a convertible note | 330 | – |
| Total finance costs | 1,935 | 1,950 |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

| | Group | |
|---|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Fees | 1,322 | 1,438 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 8,208 | 6,506 |
| Pension scheme contributions | 48 | 37 |
| | 9,578 | 7,981 |

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|--------------------------------|----------------------------|------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 4 | 5 |
| HK\$1,000,001 to HK\$1,500,000 | 2 | 3 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$2,000,001 to HK\$2,500,000 | – | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 1 | – |
| | 8 | 9 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remaining two non-director, highest paid employees for the year ended 31 July 2003 were as follows:

| | Group 2003 HK\$'000 |
|---|---------------------------|
| Salaries, allowances and benefits in kind | 3,709 |
| Pension scheme contributions | 24 |
| | 3,733 |

The remuneration of each of the non-director, highest paid employees fell within the band of HK\$1,500,001 to HK\$2,000,000 for the year ended 31 July 2003.

In addition to the above emoluments, certain employees were granted share options in the current year under the Company's share option schemes, further details of which are set out in note 26 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account or included in above disclosures.

10. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---------------------------------|--------------------------------|------------------|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | – | 2,184 |
| Overprovision in the prior year | – | (406) |
| Total tax charge for the year | – | 1,778 |

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10. TAX (continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| Group | 2004 | | 2003 | |
|--|------------------|---------------|-----------|--------|
| | HK\$'000 | % | HK\$'000 | % |
| Loss before tax | (215,929) | | (333,068) | |
| Tax at the statutory tax rate | (37,788) | 17.5 | (58,287) | 17.5 |
| Effect on opening deferred tax of increase in rates | – | – | 463 | (0.1) |
| Adjustments in respect of current tax of previous periods | – | – | (406) | 0.1 |
| Income not subject to tax | (549) | 0.3 | (802) | 0.2 |
| Expenses not deductible for tax | 32,455 | (15.0) | 55,069 | (16.5) |
| Tax losses not recognised | 5,524 | (2.6) | 4,890 | (1.5) |
| Others | 358 | (0.2) | 851 | (0.2) |
| Total tax charge at the Group's effective rate | – | – | 1,778 | (0.5) |

11. DISCONTINUED OPERATIONS

Pursuant to a sale and purchase agreement dated 23 July 2003, the Group disposed of its entire interests in Golden Power Investments (B.V.I.) Limited and its subsidiaries, which were mainly engaged in the manufacture and trading of batteries, for a cash consideration of HK\$37 million. The disposal of the above businesses was completed on the same date and resulted in a loss on disposal of subsidiaries of approximately HK\$105 million for the year ended 31 July 2003.

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11. DISCONTINUED OPERATIONS (continued)

The turnover, other revenue and gains, expenses and results of the discontinued operations for the year ended 31 July 2003 were as follows:

| | 2003 HK\$'000 |
|---|------------------|
| Turnover | 258,900 |
| Cost of sales | (211,025) |
| Gross profit | 47,875 |
| Other revenue and gains | 14,749 |
| Selling and distribution costs | (10,309) |
| Administrative expenses | (45,892) |
| PROFIT FROM OPERATING ACTIVITIES | 6,423 |
| Finance costs | (973) |
| PROFIT BEFORE TAX | 5,450 |
| Tax | (1,701) |
| PROFIT BEFORE MINORITY INTERESTS | 3,749 |
| Minority interests | 277 |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 4,026 |

The net cash inflows attributable to the discontinued operations from operating and financing activities for the year ended 31 July 2003 were HK\$1,753,000 and HK\$10,216,000, respectively. The net cash outflows from investing activities amounted to HK\$9,022,000.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 July 2004 dealt with in the financial statements of the Company amounted to HK\$213,378,000 (2003: HK\$331,010,000).

13. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 July 2004 is based on the net loss attributable to shareholders for the current year of HK\$215,929,000 (2003: HK\$334,777,000), and on the weighted average of 9,268,432,680 (2003: 8,526,612,053) ordinary shares in issue during the year.

No diluted loss per share amount has been presented for the years ended 31 July 2004 and 2003 as the warrants and options outstanding during these years had anti-dilutive effects on the basic loss per share for these years.

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14. FIXED ASSETS

| Group | Land and | Leasehold | Plant and | Motor | Furniture, | Moulds | Tools | Total |
|--|-----------|--------------|-----------|----------|--------------|---------|-------|---------|
| | buildings | improvements | machinery | vehicles | fixtures and | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | equipment | | | |
| Cost: | | | | | | | | |
| At beginning of year | 1,924 | – | 11,124 | 4,159 | 12,156 | 3,081 | 233 | 32,677 |
| Additions | – | 1,475 | 1,804 | 700 | 1,354 | 661 | 59 | 6,053 |
| Disposals | – | – | (1,041) | (280) | (41) | (1,410) | – | (2,772) |
| At 31 July 2004 | 1,924 | 1,475 | 11,887 | 4,579 | 13,469 | 2,332 | 292 | 35,958 |
| Accumulated depreciation and impairment: | | | | | | | | |
| At beginning of year | 58 | – | 7,687 | 1,149 | 6,100 | 2,078 | 204 | 17,276 |
| Provided during the year | 38 | – | 483 | 793 | 1,314 | 782 | 44 | 3,454 |
| Impairment recognised in the profit and loss account during the year | 628 | – | – | – | – | – | – | 628 |
| Disposals | – | – | (983) | (23) | (21) | (1,301) | – | (2,328) |
| At 31 July 2004 | 724 | – | 7,187 | 1,919 | 7,393 | 1,559 | 248 | 19,030 |
| Net book value: | | | | | | | | |
| At 31 July 2004 | 1,200 | 1,475 | 4,700 | 2,660 | 6,076 | 773 | 44 | 16,928 |
| At 31 July 2003 | 1,866 | – | 3,437 | 3,010 | 6,056 | 1,003 | 29 | 15,401 |

The Group's land and buildings are situated in the People's Republic of China (the "PRC") and are held under long term leases.

15. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unlisted shares, at cost | 1 | 1 |
| Due from subsidiaries | 422,475 | 328,747 |
| Due to subsidiaries | (2,000) | (2,000) |
| | 420,476 | 326,748 |
| Provision for impairment | (206,000) | – |
| | 214,476 | 326,748 |

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name of subsidiary | Place of incorporation/ registration and operations | Nominal value of issued/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|--|---|----------|---|
| | | | Direct | Indirect | |
| Hikari Tsushin Investments Holdings (BVI) Limited | British Virgin Islands ("BVI")/ Hong Kong | US\$1 | 100 | – | Investment holding |
| Hikari Tsushin Investments Management (Hong Kong) Limited | Hong Kong | HK\$1,000,000 | – | 100 | Provision of financial and administrative services to group companies |
| Golite International Limited | Hong Kong/ Hong Kong & Mainland China | HK\$2,000,000 | – | 100 | Manufacture and distribution of silicone rubber products |
| Alta Financial Holdings Limited | BVI/Hong Kong | US\$1,000 | – | 100 | Investment holding |
| Best On Development Ltd. | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Best Income Ltd. | Hong Kong | HK\$2 | – | 100 | Property holding |
| Holylake Co., Ltd. | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

| Name of subsidiary | Place of incorporation/ registration and operations | Nominal value of issued/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|-------------------------------------|---|--|---|----------|-------------------------|
| | | | Direct | Indirect | |
| Joy Crown Ltd. | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Picador International Ltd. | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Real Million Investments Limited | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Royal Eastern Ltd. | Hong Kong | HK\$2 | – | 100 | Property holding |
| Top Perfect Group Ltd. | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Winner Sheen Limited | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Wishing Land Limited | BVI/Hong Kong | US\$1 | – | 100 | Investment holding |
| Zhongda Industrial Group Inc. | BVI/Hong Kong | US\$10,000 | – | 100 | Investment holding |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

| | Group | |
|---------------------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 60,979 | 70,397 |
| Goodwill arising on acquisition | – | 9,734 |
| | 60,979 | 80,131 |

Goodwill arising on acquisition is recognised as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

Movements in goodwill arising from the acquisition of a jointly-controlled entity, which had been capitalised as an asset in the consolidated balance sheet and included in interest in a jointly-controlled entity, are as follows:

| | Group | |
|--|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Cost: | | |
| As beginning of year | 34,268 | 32,350 |
| Additions | – | 1,918 |
| At 31 July | 34,268 | 34,268 |
| Accumulated amortisation and impairment: | | |
| At beginning of year | 24,534 | 269 |
| Provided during the year | 1,713 | 1,665 |
| Impairment provided during the year | 8,021 | 22,600 |
| At 31 July | 34,268 | 24,534 |
| Net book value: | | |
| At 31 July | – | 9,734 |

Particulars of the jointly-controlled entity are as follows:

| Name | Business structure | Place of incorporation/ registration and operations | Percentage of ownership interest | Principal activities |
|----------------------------------|---------------------------|--|---|--|
| China City Natural Gas Co., Ltd. | Corporate | Mainland China | 50 | Developing and operating natural gas pipeline network and ancillary facilities |

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16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

The above investment in the jointly-controlled entity is indirectly held by the Company.

Extracts of the results for the year ended 31 July 2004 and financial position at that date of the jointly-controlled entity are as follows:

| | 2004 | 2003 |
|--|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Turnover | 259,973 | 116,729 |
| Net profit/(loss) attributable to shareholders | (18,836) | 780 |
| Non-current assets | 235,856 | 208,827 |
| Current assets | 137,807 | 153,784 |
| Current liabilities | (97,100) | (113,394) |
| Non-current liabilities | (153,625) | (109,294) |

As at 31 July 2004, the Group's share of its jointly-controlled entity's own capital commitments amounted to approximately HK\$17 million (2003: HK\$37 million).

As at 31 July 2004, a guarantee of HK\$47 million was given by the jointly-controlled entity to a bank in connection with facilities granted to one of its jointly-controlled entities. The guarantee was fully utilised as at 31 July 2004 (2003: HK\$24 million).

17. LONG TERM INVESTMENTS

| | Group | | Company | |
|--|-----------------|----------|-----------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Equity investments listed outside Hong Kong, at market value | 3,900 | 560 | – | 560 |
| Unlisted equity investments, at fair value | 119,623 | 100,344 | – | 8,091 |
| | 123,523 | 100,904 | – | 8,651 |

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18. INVENTORIES

| | Group | |
|------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 760 | 1,016 |
| Work in progress | 361 | 349 |
| Finished goods | 1,026 | 766 |
| | 2,147 | 2,131 |

No inventory was carried at net realisable value as at 31 July 2004 (2003: Nil).

19. TRADE RECEIVABLES

An aged analysis of trade receivables is as follows:

| | Group | |
|--------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 3,858 | 2,337 |
| 91 to 180 days | 47 | 42 |
| Over 180 days | 89 | 11 |
| Total | 3,994 | 2,390 |

The Group allows an average credit period of 60 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

The above aged analysis of trade receivables was based on the due dates of the revenue recognised from the respective sale of goods.

20. LOAN RECEIVABLES

The loan receivables from an independent third party were guaranteed by the holding company of the independent third party, bore interest at the Hong Kong dollar prime rate plus 1% per annum and were fully repaid during the year.

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21. SHORT TERM INVESTMENTS

| | Group | |
|---|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Listed equity investments, at market value: | | |
| Hong Kong | 16,013 | 87,713 |

The market value of the Group's short term listed equity investments at the date of approval of these financial statements was approximately HK\$20 million (2003: HK\$94 million).

22. TRADE PAYABLES

An aged analysis of trade payables is as follows:

| | Group | |
|--------------------|-----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current to 90 days | 2,441 | 2,064 |
| 91 to 180 days | 1,333 | 85 |
| Over 180 days | 156 | 132 |
| Total | 3,930 | 2,281 |

The above aged analysis of trade payables was based on the dates of the receipt of the respective goods and services.

23. CONVERTIBLE NOTE

In January 2004, the Company issued a 3% convertible note due on 14 July 2005 in the principal amount of HK\$20,000,000 to an independent third party. The note is convertible into new shares for a period of one year from the date of issue at a conversion price of HK\$0.05 per share.

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24. DEFERRED TAX LIABILITIES

| | Group | |
|------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Balance at beginning of year | 365 | 4,935 |
| Disposal of subsidiaries (note 28) | - | (4,570) |
| At end of year | 365 | 365 |

The principal component of the Group's deferred tax liabilities comprises accelerated depreciation allowances.

The Group has tax losses arising in Hong Kong of HK\$6,584,000 (2003: HK\$2,103,000) that are agreed by the Inland Revenue Department and available indefinitely for offsetting against future taxable profits of the Group. Deferred tax assets have not been recognised in respect of these losses as the Group has been loss-making for some time.

25. SHARE CAPITAL

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Shares | | |
| Authorised: | | |
| 20,000,000,000 ordinary shares of HK\$0.025 each | 500,000 | 500,000 |
| Issued and fully paid: | | |
| 9,521,841,423 (2003: 8,685,651,423) ordinary shares of HK\$0.025 each | 238,046 | 217,141 |

During the year and up to date of financial statements, the movements in share capital were as follows:

- (a) The subscription rights attaching to 51,190,000 and 285,000,000 option shares were exercised at the subscription prices of HK\$0.055 and HK\$0.037 per share, respectively, resulting in an issue of 336,190,000 shares of HK\$0.025 each for a total cash consideration before expenses, of approximately HK\$13,361,000.
- (b) Pursuant to the share placing agreement dated 18 December 2003, the Company placed 500,000,000 new ordinary shares to independent third parties at a placing price of HK\$0.039 per share resulting in a total cash consideration before expenses, of approximately HK\$19,500,000.
- (c) Subsequent to the balance sheet date, subscription rights attaching to 720,000,000 option shares were exercised at the subscription price of HK\$0.025 per share resulting in an issue of 720,000,000 shares of HK\$0.025 each for a total cash consideration before expenses, of approximately HK\$18,000,000.

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25. SHARE CAPITAL (Continued)

A summary of the transactions during the year and up to date of the financial statements with reference to the above movements of the Company's issued ordinary share capital is as follows:

| | Number of shares in issue | Issued share capital HK\$'000 | Share premium account HK\$'000 | Total HK\$'000 |
|--|--------------------------------------|--|---|---------------------------|
| At 1 August 2002 | 8,104,861,423 | 202,622 | 939,856 | 1,142,478 |
| Subscription of shares | 180,000,000 | 4,500 | 11,519 | 16,019 |
| Share options exercised | 400,790,000 | 10,019 | 30,644 | 40,663 |
| At 31 July and 1 August 2003 | 8,685,651,423 | 217,141 | 982,019 | 1,199,160 |
| Share options exercised (a) | 336,190,000 | 8,405 | 4,956 | 13,361 |
| Placing of shares (b) | 500,000,000 | 12,500 | 7,000 | 19,500 |
| At 31 July 2004 | 9,521,841,423 | 238,046 | 993,975 | 1,232,021 |
| Share options exercised (c) | 720,000,000 | 18,000 | – | 18,000 |
| At the date of approval of the financial statements | 10,241,841,423 | 256,046 | 993,975 | 1,250,021 |

Warrants

On 3 June 2002, the shareholders of the Company approved a private placement of 800,000,000 warrants at an issue price of HK\$0.032 per unit of subscription rights of warrants, which confers the holders upon the right to subscribe in cash for one ordinary share of HK\$0.025 in the Company at an initial subscription price of HK\$0.165 per share at any time between 20 June 2002 and 19 December 2003. No warrant was exercised and the aforesaid 800,000,000 warrants lapsed upon their expiry on 19 December 2003.

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26. SHARE OPTION SCHEMES

Pursuant to a resolution passed by the shareholders on 31 January 2002, the Company adopted a new share option scheme (the "Scheme").

Under the Scheme, the board may at its discretion offer options to any 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 Scheme, subject to further refreshment of the limit on the grant of options by shareholders, is 10% of the issued shares as at 31 January 2002, being the date of shareholders' approval of the Scheme. On 14 August 2002 and 9 June 2004, the shareholders of the Company passed an ordinary resolution respectively approving the refreshment of the 10% limit on the grant of options under the Scheme.

The maximum entitlement of each eligible participant in any 12 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 10 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 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 sheet 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 Scheme shall be valid for 10 years from 31 January 2002 to 31 January 2012 (both dates inclusive).

During the year, 645,000,000 option shares at exercise prices ranging from HK\$0.03 per share to HK\$0.037 per share were granted to the Group's employees and consultants; 336,190,000 shares were allotted and issued upon the exercise of subscription rights by the option holders; and 374,000,000 option shares lapsed upon the cessation of employment of certain employees, resignation of a director or expiry of the exercise period. At 31 July 2004, the Company had outstanding options to subscribe for 406,000,000 shares under the Scheme.

Subsequent to the balance sheet date, options to subscribe for 720,000,000 shares at an exercise price of HK\$0.025 per share were granted to the Group's consultants under the Scheme and all of these option shares were exercised thereafter (note 25). In addition, 11,200,000 option shares lapsed upon cessation of employment of certain employees. Following the proposed rights issue as announced by the Company on 25 October 2004 becoming unconditional, the exercise prices of all the outstanding share options at the date of approving of these financial statements will be adjusted in accordance with the Scheme. The exercise price in respect of 34,800,000 option shares granted on 6 January 2003 will then be adjusted from HK\$0.0856 per share to HK\$0.0604 per share whereas in respect of 360,000,000 option shares granted on 28 April 2004, the exercise price will be adjusted from HK\$0.03 per share to HK\$0.025 per share.

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26. SHARE OPTION SCHEMES (Continued)

Movements in the Company's share option during the year are as follows:

| Category of Participant | Date of grant | Exercise price per share HK\$ | Exercise period | Closing price before date of grant HK\$ | As at 1.8.2003 | Movements of option shares during the year | | | | Price of share at exercise date of options HK\$ |
|-------------------------|---------------|-------------------------------|-------------------------|---|----------------|--|---------------|---------------|-----------------|---|
| | | | | | | Granted | Exercised | Lapsed | As at 31.7.2004 | |
| (i) Directors | 15.03.2002 | 0.0550 | 15.04.2002 – 14.03.2004 | 0.055 | 19,890,000 | – | (19,890,000) | – | – | 0.052 |
| | 03.06.2002 | 0.1530 | 03.06.2002 – 31.05.2004 | 0.151* | 46,600,000 | – | – | (46,600,000) | – | – |
| | 04.07.2002 | 0.1180 | 04.07.2002 – 03.07.2004 | 0.118 | 4,600,000 | – | – | (4,600,000) | – | – |
| (ii) Employees | 15.03.2002 | 0.0550 | 15.04.2002 – 14.03.2004 | 0.055 | 38,800,000 | – | (26,800,000) | (12,000,000) | – | 0.052 |
| | 06.01.2003 | 0.0856 | 01.02.2003 – 31.01.2005 | 0.092 | 10,000,000 | – | – | – | 10,000,000 | – |
| | 06.01.2003 | 0.0856 | 02.07.2003 – 30.06.2005 | 0.092 | 32,000,000 | – | – | – | 32,000,000 | – |
| | 20.08.2003 | 0.0370 | 21.08.2003 – 11.09.2004 | 0.044 | – | 3,000,000 | (3,000,000) | – | – | 0.044 |
| (iii) Consultants | 22.08.2002 | 0.1040 | 23.08.2002 – 15.08.2003 | 0.110 | 80,000,000 | – | – | (80,000,000) | – | – |
| | 26.08.2002 | 0.1040 | 27.08.2002 – 15.08.2003 | 0.113 | 80,000,000 | – | – | (80,000,000) | – | – |
| | 10.09.2002 | 0.1040 | 11.09.2002 – 15.08.2003 | 0.099 | 100,000,000 | – | – | (100,000,000) | – | – |
| | 20.08.2003 | 0.0370 | 21.08.2003 – 11.09.2004 | 0.044 | – | 280,000,000 | (280,000,000) | – | – | 0.044 |
| | 28.04.2004 | 0.0300 | 29.04.2004 – 11.05.2005 | 0.022 | – | 360,000,000 | – | – | 360,000,000 | – |
| (iv) Former director | 03.06.2002 | 0.1530 | 03.06.2002 – 31.05.2004 | 0.151* | 20,000,000 | – | – | (20,000,000) | – | – |
| (v) Former employees | 15.03.2002 | 0.0550 | 15.04.2002 – 14.03.2004 | 0.055 | 17,500,000 | – | (4,500,000) | (13,000,000) | – | 0.052 |
| | 04.07.2002 | 0.1180 | 04.08.2002 – 02.07.2004 | 0.118 | 8,800,000 | – | – | (8,800,000) | – | – |
| | 06.01.2003 | 0.0856 | 01.02.2003 – 31.01.2005 | 0.092 | 6,000,000 | – | – | (5,000,000) | 1,000,000 | – |
| | 06.01.2003 | 0.0856 | 02.07.2003 – 30.06.2005 | 0.092 | 7,000,000 | – | – | (4,000,000) | 3,000,000 | – |
| | 20.08.2003 | 0.0370 | 21.08.2003 – 11.09.2004 | 0.044 | – | 2,000,000 | (2,000,000) | – | – | 0.044 |
| Total | | | | | 471,190,000 | 645,000,000 | (336,190,000) | (374,000,000) | 406,000,000 | |

* The closing price refers to the closing price on the date of the board meeting at which the board proposed to grant options to the director/former director.

Notes to Financial Statements

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27. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 20 of the financial statements.

Company

| | Note | Share | Capital | Investment | Other* | Contributed | Accumulated | Total |
|---------------------------|------|----------|------------|-------------|----------|-------------|-------------|-----------|
| | | premium | redemption | revaluation | capital | | | |
| | | account | reserve | reserve | reserve | surplus | losses | |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 August 2002 | | 939,856 | 675 | (9,361) | 25,341 | 49,753 | (572,514) | 433,750 |
| Issue of shares | | 42,163 | – | – | – | – | – | 42,163 |
| Changes in fair value | | | | | | | | |
| of long term investments | | – | – | (84,580) | – | – | – | (84,580) |
| Impairment losses in long | | | | | | | | |
| term investments | | | | | | | | |
| transferred to | | | | | | | | |
| the profit and loss | | | | | | | | |
| account | | – | – | 93,291 | – | – | – | 93,291 |
| Net loss for the year | | – | – | – | – | – | (331,010) | (331,010) |
| At 31 July 2003 and | | | | | | | | |
| beginning of year | | 982,019 | 675 | (650) | 25,341 | 49,753 | (903,524) | 153,614 |
| Issue of shares | 25 | 11,956 | – | – | – | – | – | 11,956 |
| Transferred to the | | | | | | | | |
| profit and loss | | | | | | | | |
| account upon | | | | | | | | |
| disposal of long | | | | | | | | |
| term investments | | – | – | 650 | – | – | – | 650 |
| Net loss for the year | | – | – | – | – | – | (213,378) | (213,378) |
| At 31 July 2004 | | 993,975 | 675 | – | 25,341 | 49,753 | (1,116,902) | (47,158) |

The contributed surplus of the Company represents the excess of the net asset value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is currently unable to satisfy. The share premium account of the Company is distributable in the form of fully paid bonus shares.

* Following the expiry of the warrants during the year, the warrant reserve is redesignated as other capital reserve.

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28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT*Disposal of subsidiaries*

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|--------------------------------|------------------|
| Net assets disposed of: | | |
| Fixed assets | - | 85,399 |
| Other assets | - | 311 |
| Cash and bank balances | - | 51,103 |
| Inventories | - | 67,024 |
| Trade receivables | - | 30,921 |
| Prepayments, deposits and other receivables | - | 11,248 |
| Due from minority shareholders | - | 14,370 |
| Trade payables | - | (38,992) |
| Other payables and accruals | - | (41,150) |
| Tax | - | (8,734) |
| Deferred tax | - | (4,570) |
| Bank loans | - | (8,914) |
| Trust receipt loans | - | (15,949) |
| | - | 142,067 |
| Loss on disposal of subsidiaries | - | (105,067) |
| | - | 37,000 |
| Satisfied by: | | |
| Cash | - | 37,000 |

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries was as follows:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|--------------------------------|------------------|
| Cash consideration | - | 37,000 |
| Cash and bank balances disposed of | - | (51,103) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | - | (14,103) |

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29. 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 chance to acquire HK\$129 million worth of assets being the combined net asset value of those subsidiaries as at 31 March 2003 for 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 of the Company consider that the probable maximum future outflow of resources as a result of the claim is HK\$3 million, which has been provided for in the financial statements.

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| Subsidiaries | – | – | – | 32,500 |
| Subsidiaries disposed of | – | 47,600 | – | 47,600 |

In the prior year, the guarantees given to banks in connection with facilities granted to subsidiaries and subsidiaries disposed of by the Company and the Group, were utilised to the extent of approximately HK\$15,949,000.

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 July 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Land and buildings expiring: | | | | |
| Within one year | 6,512 | 3,229 | – | 230 |
| In the second to fifth years, inclusive | 6,760 | 4,114 | – | – |
| | 13,272 | 7,343 | – | 230 |

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32. COMMITMENTS

Other than the events described in notes 16 and 31 to the financial statements, the Group and the Company had no significant commitments at the balance sheet date.

33. POST BALANCE SHEET EVENTS

In addition to the events described in notes 1, 21, 25 and 26 to the financial statements, the Group had the following subsequent events:

(a) Issue of convertible notes

On 5 October 2004, the Company entered into a subscription agreement with ICP Inc, a venture capital company in Japan, to subscribe for convertible notes in a principal amount of US\$2,000,000. The notes are convertible into new shares for a period of one year up to 27 October 2005 at a conversion price of HK\$0.025 per share and is secured by cash deposit of the same amount.

On 11 October 2004, the Company entered into subscription agreements with Cross Profit Capital Limited and icoupon Limited in relation to the issue of convertible notes for a consideration of HK\$17,000,000. On the same date, the Company also entered into a placing agreement to place further convertible notes in an aggregate principal amount of HK\$8,000,000. The notes are convertible into new shares for a period of one year from the date of issue of the said notes at a conversion price of HK\$0.025 per share.

(b) Memorandum of Understanding

On 20 October 2004, the Company entered into a memorandum of understanding ("MOU") in relation to a possible acquisition of a majority stake in Shanghai Holdfast Science & Technology Co., Ltd, a company engaging in system integration, software development and solutions in Mainland China. The MOU is non-legally binding and the final and definitive agreement has not been concluded at the date of the financial statements.

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33. POST BALANCE SHEET EVENTS (Continued)

- (c) Proposed increase in authorised share capital and change of Company name

On 28 October 2004, the board of directors proposed to increase the authorised share capital of the Company from HK\$500,000,000 to HK\$1,250,000,000 by the creation of 30,000,000,000 new shares of HK\$0.025 each and to change the name of the Company from "China City Natural Gas Holdings Limited" to "Nippon Asia Investments Holdings Limited". It was also proposed that subject to the change of English name of the Company becoming effective, the Company will adopt "日本亞太事業投資有限公司" as its new Chinese name for identification purposes only.

The proposed increase in the authorised share capital and change of name of the Company are subject to the approval of the shareholders of the Company by way of ordinary and special resolutions, respectively and the Registrar of Companies in Bermuda granting approval for the proposed change of name.

- (d) Proposed rights issue

On 15 November 2004, the Company proposed a rights issue on the basis of two rights shares for every ten existing shares held on record date with bonus shares to be issued with rights shares on the basis of three bonus shares for every two fully paid rights shares at a price of HK\$0.025 per rights share (the "Rights Issue"). The Company proposed to raise funds of not less than HK\$50,000,000 in December 2004 from the Rights Issue, which will be fully underwritten. On the date of approving these financial statements, the Rights Issue has not been completed.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 November 2004.