On behalf of the board (the "Board") of directors (the "Director") of Nippon Asia Investments Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), I would like to present to our shareholders the report and the annual results of the Group for the year ended 31 July 2005.

For the period under review, the Group has changed its accounting policy for its interests in the jointly controlled entities in the People's Republic of China (the "PRC"), accordingly the Group has proportionately consolidated the 50% equity interest in its jointly controlled entity – China City Natural Gas Co., Ltd. ("CCNGL") into its consolidated financial statements for the year ended 31 July 2005. The Group, through 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 to operate piped natural gas business in various cities (Xining, Liling, Binzhou, Huimin and Qingyun) in China.

The change in accounting policy for the proportionate consolidation of the Group's interest in CCNGL involved substantial amount of works, efforts, and coordination of the PRC companies to accomplish, the timing on the release of the audited accounts was therefore affected, however such change shall better reveal the value of the Group investments in the natural gas business, and provide a fair picture on the financial position and assets base of the Group as a whole.

Due to the change in accounting policy, the consolidated financial statements of last corresponding period has been restated for the proportionate consolidation of 50% equity interest in CCNGL to conform with the current period's presentation and to provide comparative information.

FINANCIAL RESULTS

For the year ended 31 July 2005, the turnover of the Group was approximately HK$205 million, representing an approximately 34% increase as compared to approximately HK$153 million of last corresponding period. Such increase was mainly due to the increase in piped natural gas sales in Xining. The Group's loss attributable to shareholders was approximately HK$139.8 million for the year, representing a decrease in loss of approximately 35.2% as compared with the loss of approximately HK$215.9 million of last year . The decrease in loss attributable to shareholders for the year was mainly due to the increase in turnover derived from the natural gas business, and the gain on disposal of short term listed investments of approximately HK$23.7 million. Loss per share for the year under review was approximately HK$0.093 (2004: approximately HK$0.191 restated).

The Board does not recommend any dividend for the year ended 31 July 2005 (2004: Nil).

BUSINESS REVIEW

The Group is principally engaged in investments in internet, information technology and natural gas business. Since the disposal of its battery and silicone rubber manufacturing business, the Group has been completely out of the manufacturing segment, and will focus on the development of its natural gas business.

Manufacturing Business (discontinued)

Following the disposal of the Group's battery operation in July 2003, the industrial segment is no longer the Group's focus, while the remaining business of the manufacturing and trading of silicone rubber products, which had been severely affected by the prolonged disputes and litigation, was insignificant to the Group. The silicone rubber business had been making loss since 2004, and operation of which was only maintained at a minimal level, the Group therefore had decided to discontinue its operation, and subsequently disposed of it in February 2006 to preserve resources and stop draining out management effort and time. During the year under review, turnover of the silicone rubber business was approximately HK$4 million (2004: approximately HK$23.1 million), representing a decrease of approximately 83% and recorded a net loss of approximately HK$18.5 million (2004: approximately HK$2.7 million).

Natural Gas Business

The natural gas business is one of the focused business to develop and is the major revenue contributor to the Group. During the year under review, the performance of the natural gas business continued to grow, especially in Xining Province, the turnover of the natural gas business proportioned to the Group was approximately HK$201 million, which was approximately 98% of the Group's total turnover, representing an approximately 55% increase as compared with the proportioned turnover of the natural gas business in last corresponding period of approximately HK$130 million. The increase in turnover was mainly due to the increase in usage and demand for natural gas in Xining in the PRC. Proportioned profit of the natural gas business for the year was recorded at approximately HK$21.2 million (2004: loss of approximately HK$9.4 million).

Investment Business

During the year under review, some of the investee companies were unable to achieve their business target and suffered liquidity problems where going concerns of those investments are uncertain, as a result, an impairment loss on the long term investments of approximately HK$118.2 million (2004: HK$155.3 million) was made in this year for prudence sake.

As at the balance sheet date, the Group maintained investments including marketable securities portfolio mainly consisting of equity securities listed in Hong Kong of approximately HK$16.6 million (2004: HK$16 million), fair value of which had been decreased by HK$9 million during the year, and the Group recorded a gain on disposal of securities of approximately HK$23.7 million (2004: nil).

The Group had been co-operating with Japanese co-investing partners in seeking investment projects with high growth of larger scale in China. However, due to the inefficient and difficulties in administration and control over the arrangement, the Group had terminated the co-investment arrangement with the Japanese co-investing partners.

Having thoroughly reviewed the Group's investments portfolio and investment strategy, the Board had decided to change the Group's investment strategy. The Group will adopt an investment approach aimed at balancing risk and return, reducing investments on those outside the Group's principal business and securities investments to preserve resources, and focusing on the Group's natural gas business for growth and expansion.

Employees and Remuneration Policy

As at 31 July 2005, the Group employed a total workforce of approximately 320 people (2004: 365) among which 8 people (2004: 29) were stationed in Hong Kong and 312 people (2004: 336) were stationed in the PRC. The staff costs for the year amounted to approximately HK$11.4 million (2004: HK$15.2 million). The employees' remuneration, promotion and salary are assessed based on work performance, working and professional experiences and the prevailing market practice.

Pledge of Assets

As at 31 July 2005, the Group had pledged a property in Hong Kong to a bank for a mortgage loan of HK$3.64 million.

Contingent Liability

As at 31 July 2005, save for the guarantee of HK$47 million given by CCNGL to a bank in connection with the loan facilities granted to one of the Group's associate natural gas company, the Group has no contingent liability.

Foreign Exchange and Interest Rate Exposure

As the Group's sales are mostly based on Renminbi, and investments are mostly made in Hong Kong Dollar, having considered the exchange rate of the said currency is fairly stable, no foreign exchange and interest rate risk management or related hedges were made, 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 of certain subsidiaries of the Company including an exclusivity arrangement. The aggregated amount claimed by the third party against the Company is approximately HK$172 million. In April 2005, the Company paid HK$3 million to settle the legal proceeding.

Golite International Limited ("Golite") was a wholly-owned subsidiary of the Company engaged in the manufacturing and trading of silicone rubber products, whose manufacturing operation was together with Golden Power Industries Limited ("Golden Power"), a disposed subsidiary of the Company engaged in the manufacturing of batteries, in Dongguan, the PRC under a feeding processing arrangement. Following the disposal of the battery business, Golite decided to detach its manufacturing operation from Golden Power, and requests were made to Golden Power on releasing the plants and machineries and trading records, but such requests were unreasonably rejected. The Company had finally through legal action retrieved most of the trading books and records, but some of the plants, machineries and stocks were still withheld by Golden Power. Inevitably, the business and operation of the silicone rubber had been severely affected by the prolonged disputes and legal proceeding, and hence started making loss since 2004. Given the circumstances and having considered the large amount of resources required for the continuing legal proceeding, the Group had decided to discontinue the silicone rubber business, and subsequent to the balance sheet date, disposed Golite to avoid incurring further losses and stop draining resources for the legal proceedings.

Following the disposal of Golite, the Group has not involved in any litigation proceeding.

LIQUIDITY AND FINANCIAL RESOURCES

Borrowings

As at 31 July 2005, the Group has total borrowings of approximately HK$82.8 million (2004: HK$99.7 million), of which HK$4 million representing the outstanding convertible notes bearing 1% interest issued on 1 November 2004 which was fully redeemed subsequent to the balance sheet date, and HK$3.64 million representing a bank loan secured by a property in Hong Kong bearing 2.95% interest per annum, which was fully repaid subsequent to the balance sheet date. While the rest being the proportionate borrowing of CCNGL, of which HK$25.1 million, and HK$1 million representing a bank loan and bank overdraft with floating interest rate for the operation of Xining natural gas companies. As at 31 July 2005, the Group's gearing ratio, measured on the basis of total current liabilities as a percentage of total shareholders' fund, was 32.2% as compared to 44.7% in the last corresponding period. Save for the aforementioned bank loan and convertible notes, the Group has no bank loans, overdraft or other bank borrowings.

The convertible note in the principal amount of HK$20 million issued to Feishang Holdings Limited in January 2004 has been fully redeemed in December 2004.

Capital Investment and Commitments

During the year under review, the Group invested HK$6 million on the acquisition of an information technology company which holds a protocol to provide solution/tools to automatically convert web based content for display in different wireless access protocol enable products, and HK$32.6 million was utilized to redeem the convertible notes issued in January 2004 and November 2004.

The memorandum of understanding made in October 2004 in relation to the proposed acquisition of a majority stake in Shanghai Holdfast Science & Technology Co., Ltd has been lapsed, accordingly the Company had no obligation, commitment or whatsoever under the memorandum of understanding.

Subsequent to the balance sheet date, in August 2005, the Company entered into a licence agreement and technical service agreement with Cubicsoft Co., Ltd, an online games software company in Korea ("Licensor"), among other things, to licence and operate certain online games in China, and the Licensor will provide maintenance and technical support to the online games operation. However, due to the practical issues that the Licensor could not perform the maintenance and technical support to the sub-licencee in the PRC, the Company thereafter entered into a termination deed with the Licensor on 4 November 2005 to terminate the licence agreement and the technical service agreement.

Subsequent to the balance sheet date, the Group entered into an agreement to acquire 80% of Accelstar Pacific Limited ("Accelstar") at the consideration of HK$58.5 million which will be satisfied by HK$48 million in cash, and issue of 175,000,000 shares of the Company as consideration shares. Accelstar and its subsidiaries are principally engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun city and Binzhou city. Both cities are in Shandong province, the PRC. Upon completion of the proposed acquisition, the Company shall provide a shareholder's loan of approximately HK$9 million to Accelstar for the construction and operation of the natural gas stations.

Save for the proposed acquisition of Accelstar, the Group did not incur or commit any material investment or capital expenditure .

Capital Structure

During the year under review, the 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 HK$18 million.

On 5 October 2004, the Company entered into a subscription agreement with ICP Inc., a venture capital company in Japan, for the subscription by ICP Inc. of convertible note of the Company in an aggregate principal amount of US$2 million (approximately HK$15.6 million). The convertible note was issued on 27 October 2004 and was fully converted into 624,000,000 shares of the Company at the conversion price of HK$0.025 per share on 21 December 2004.

On 11 October 2004, the Company entered into a subscription agreement with each of Cross Profit Capital Limited ("CPC") and icoupon Limited ("icoupon") for the subscription of convertible notes of the Company in the principal amount of HK$12 million and HK$5 million respectively, and the convertible notes were issued on 1 November 2004. The icoupon convertible notes were fully converted into 200,000,000 shares at a conversion price of HK$0.025 each in December 2004, and the CPC convertible notes was fully redeemed in July 2005.

On 11 October 2004, the Company entered into a placing agreement with Kingston Securities Limited in relation to the placing of convertible notes in an aggregate principal amount of HK$8 million and the convertible notes were issued on 1 November 2004, of which HK$4 million convertible notes was converted into 160,000,000 shares at a conversion price of HK$0.025 each and the other HK$4 million convertible notes was fully redeemed subsequent to the balance sheet date.

In October 2004, the Company proposed a rights issue on the basis of two rights shares of HK$0.025 each for every ten 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 was completed in December 2004. As a result of the Rights Issue, a total of, including the bonus shares, 5,120,920,710 shares of the Company have been issued, and net proceed of approximately HK$50 million was accordingly raised.

On 22 December 2004, the Company entered into a placing agreement with Kingston Securities Limited for the placing of 1,000,000,000 new shares of HK$0.025 each. The said placing of shares was completed in February 2005, and a net proceed of approximately HK$24.7 million was raised.

In December 2004, the authorized share capital of the Company was increased from HK$500,000,000 divided into 20,000,000,000 shares of HK$0.025 each to HK$1,250,000,000 divided into 50,000,000,000 shares of HK$0.025 each by the creation of 30,000,000,000 shares of HK$0.025 each, and in April 2005, a capital reorganization ("Capital Reorganization") became effective, under the Capital Reorganization, (i) the nominal value of each issued share was reduced from HK$0.025 to HK$0.001 by canceling HK$0.024 paid-up capital on each issued share ("Capital Reduction"), and the credit amount from the Capital Reduction of approximately HK$416.32 million was used to eliminate the accumulated losses of the Company; (ii) subdivided every unissued share into 25 shares of HK$0.001 each; and (iii) consolidated every 10 shares of HK$0.001 each into 1 new share of HK$0.01 each, as such the authorized share capital of the Company was changed from HK$1,250,000,000 comprising 50,000,000,000 shares to HK$1,250,000,000 comprising 125,000,000,000 new shares. The board lot size for trading in the shares of the Company was also changed from 2,000 shares to 20,000 new shares.

In January and February 2005, the Company entered into (i) a conditional subscription agreement and a supplemental agreement respectively with Global Capital Management Inc ("Subscriber") to which the Company would issue convertible note in the principal amount of JPY290,000,000 (equivalent to HK$21,750,000) at a conversion price of HK$0.18 per share convertible into 120,833,333 shares of HK$0.01 each in the capital of the Company (after the Capital Reorganization becoming effective) ("GC Convertible Note"); and (ii) a conditional placing agreement and a supplemental agreement with Kingston Securities Limited ("Placing Agent") which would place, on a fully underwritten basis, to independent investors convertible notes in the principal amount of HK$40,000,000 at a conversion price of HK$0.18 per share convertible into 222,222,222 shares of HK$0.01 each in the capital of the Company (after the Capital Reorganization becoming effective) ("Underwritten Convertible Notes"). On 9 May 2005, the Company entered into the revised placing agreement, and second supplemental agreement with the Subscriber and the Placing Agent to change the conversion price of the GC Convertible Note and Underwritten Convertible Notes from HK$0.18 to HK$0.09 for each conversion share. The proposed issue of the GC Convertible Note and Underwritten Convertible Notes and the change in the conversion price were not passed by the shareholders of the Company at the special general meeting held on 2 August 2005, and all the subscription agreements and placing agreements were lapsed and of no effect accordingly.

As at 31 July 2005, the Group had total assets of approximately HK$312.4 million (2004: HK$356.8 million). Current assets were approximately HK$180.7 million (2004: HK$99.6 million), and current liabilities were approximately HK$55 million (2004: HK$85.6 million). The current ratio of the Group is 3.28 (2004: 1.16) and the quick ratio is 3.06 (2004: 1).

PROSPECTS

The natural gas industry in China, which has been growing rapidly in recent years, is regarded as the star industry in the energy sector due to its clean and affordable nature. The rapid growing economy, the 2008 Olympic Games, and government's commitment on blue sky and environmental protection, all contribute to the surging demand of natural gas nationwide. We are optimistic and see enormous potential in the natural gas business.

Looking forward, the Group will concentrate on its natural gas business, and discussion has been started with our joint-venture partner – China Petroleum Pipeline Bureau (中國石油天然氣管道局), about the increase of investments in CCNGL, so as to strengthen the financial position of CCNGL for its expansion and growth. Other than the development of CCNGL, the Group will also look for other investment opportunities in the energy sector, especially in natural gas and natural gas related field. Meanwhile, the Group entered into an agreement in relation to a proposed acquisition of Natural Gas stations business in Shandong, the PRC.

Zeng Xiao
Chairman

Hong Kong, 25 August 2006