1. GENERAL

(i) The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company's shares have been suspended for trading on the Stock Exchange since 30 November 2005.

(ii) 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, a director of the Company, disposed of all its shareholdings in Noble Islands International 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.

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. Wong Kui Shing, Danny, a director of the Company up to 10 June 2004 and reappointed as director and chairman of the Company on 16 September 2004.

On 1 December 2005, an ordinary resolution was passed at a special general meeting of the shareholders of the Company in respect of the issue of rights shares on the basis of two rights shares for every ten existing shares together with three bonus shares for every two fully paid rights shares. Pursuant to the underwriting agreement dated 21 October 2004 entered into between the Company and the underwriter in relation to the rights issue, Noble Islands had conditionally irrevocably undertaken to take up all its entitlement under the rights issue. Upon the completion of the rights issue on 23 December 2004, Noble Islands was holding 3,270,183,000 shares of the Company.

On 4 April 2005, a special general meeting of the shareholders of the Company a special resolution was passed at in respect of the capital reorganisation for the consolidation of every ten shares into one share. The capital reorganisation became effective on 6 April 2005 and upon effective, the 3,270,183,000 shares held by Noble Islands became 327,018,300 shares.

On 10 February 2006, subsequent to the balance sheet date, out of the 327,018,300 shares held by Noble Islands, 321,018,300 shares, representing 17.79% of the total issued share capital of the Company charged with Kingston Finance Limited were acquired by Sino Advance Holdings Limited, a company wholly owned by Mr. Xu Tieliang ("Mr. Xu"). Thereafter, Mr. Xu has become the single largest substantial shareholder of the Company.

(iii) Pursuant to a special resolution passed at the special general meeting of the Company held on 1 December 2004 and approved by the Registrar of Companies in Bermuda and registrated with the Companies Registry in Hong Kong, the Company has changed its name to "Nippon Asia Investments Holdings Limited" in English and for identification purpose, adopted "日本亞太事業投資有限公司" as its Chinese name.

1. GENERAL *(Continued)*

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

Continuing Operations:

- Investment in internet and information technology activities; and
- Natural gas business.

Discontinuing Operations:

- Manufacture and trading of silicone rubber products.

2. EARLY APPLICATION OF RECENTLY ISSUED ACCOUNTING STANDARDS

During the year, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") (herein collectively referred to as "new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has early applied HKAS 31 "Investments in joint ventures" and HKAS-Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by venturers".

HKAS 31 "Investments in joint ventures" and HKAS-Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by venturers"

HKAS 31 states that a "joint control" exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures). HKAS 31 allows the venturer to recognise its interests in jointly controlled entities using either:

(1) Proportionate consolidation – an entity may either:

  (i) combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in the consolidated financial statements; or

  (ii) include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entities in the consolidated financial statements; or

(2) Equity method – an entity will initially record its investment in jointly controlled entities at cost and adjusted thereafter for the post acquisition change in its share of net assets of the jointly controlled entities.

2. EARLY APPLICATION OF RECENTLY ISSUED ACCOUNTING STANDARDS *(Continued)*

In current year, upon early adoption of HKAS 31 and HKAS-Int 13, proportionate consolidation that combines its share of assets, liabilities, income and expenses with similar items, line by line, has been adopted by the Group. Therefore, the early adoption has resulted in a change in the accounting policy for the Group's interests in jointly controlled entities. Prior to the adoption of HKAS 31, the Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of their net assets, less any impairment losses. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated profit and loss account.

In the absence of any specific transitional requirements in HKAS 31, the new accounting policy has been applied retrospectively. The comparative figures for the consolidated balance sheet as at 31 July 2004 and the consolidated profit and loss account and consolidated cash flow statement for the year ended 31 July 2004 have been restated to conform to the new policy. The change in accounting policy in jointly controlled entities has no effect on the loss for the year ended 31 July 2005 and the reserves of the Group as at 31 July 2004.

2. EARLY APPLICATION OF RECENTLY ISSUED ACCOUNTING STANDARDS *(Continued)*

The following is a summary of the effect on early adoption of HKAS 31 and HKAS-Int 13 on the consolidated financial statements.

Consolidated balance sheet:

Effect of adopting HKAS 31 and HKAS-Int 13

	Increase/(decrease)	
	As at 31 July 2005 *HK$'000*	As at 31 July 2004 *HK$'000*
Assets		
Fixed assets	96,502	92,521
Interests in associates	21,247	24,233
Interests in jointly controlled entities	(82,260)	(60,979)
Inventories	11,897	11,587
Deposits, trade and other receivables	38,110	28,308
Cash and bank balances	35,344	30,183
	120,840	125,853
Liabilities/equity		
Trade and other payables	30,147	40,950
Tax payable	1,381	1,024
Borrowings:		
Bank loans	26,378	30,625
Other loans	49,974	49,093
Minority interests	12,960	4,161
	120,840	125,853
Translation reserve	61	–

2. EARLY APPLICATION OF RECENTLY ISSUED ACCOUNTING STANDARDS *(Continued)*

Consolidated profit and loss account:

Effect of adopting HKAS 31 and HKAS-Int 13

	Increase/(decrease) For the year ended 31 July 2005 HK$'000	31 July 2004 HK$'000
Turnover	200,928	129,986
Cost of sales	139,230	118,774
Other income	744	1,918
Selling and distribution costs	2,936	4,241
Administrative expenses	8,637	6,108
Other expenses	16,696	6,775
Finance costs	1,814	1,509
Taxation	1,504	472
Share of losses of associates	2,321	3,198
Share of profits less losses of jointly controlled entities	(21,219)	9,418
Minority interests	7,315	245

The Group has not early adopted the other new HKFRS except for those mentioned above in the financial statements for the year ended 31 July 2005. The Group has already commenced an assessment of the impact of the remaining new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on how its results of operations and financial position are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and under the historical cost convention, as modified for the revaluation of investment securities and short term listed investments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and jointly controlled entities made up to 31 July each year.

The results of operation of subsidiaries and share attributable to minority interests are accounted for in the consolidated profit and loss account. The results of operation of jointly controlled entities are accounted for by proportionate consolidation as described below.

The results of subsidiaries and jointly controlled entities acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances among group companies are eliminated on consolidation.

Subsidiaries

Subsidiaries are those in which the Company has control over the operations. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise 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 dividend received and receivable. The Company's interests in subsidiaries are stated at cost less any accumulated impairment losses.

3. PRINCIPAL 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) investment securities, 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 in respect of which a contractual arrangement is established between the participating parties and whereby the Group together with the parties undertake an economic activity which is subject to joint control and none of the parties has unilateral control over the economic activity.

A jointly controlled entity is accounted for using the proportionate consolidation method under which the share of individual assets and liabilities, income and expenses and cash flows of jointly controlled entity is included in the relevant components of the consolidated financial statements. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities except when unrealised losses provide evidence of an impairment of the assets transferred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

In previous years, jointly controlled entity was accounted for under the equity method whereby the Group's share of results was included in the consolidated profit and loss account and the Group's share of net assets was included in the consolidated balance sheet. The directors are of the view that proportionate consolidation method under HKAS 31 fairly reflects the substance and economic reality of the arrangement for the jointly controlled entities and therefore the financial performance and position of the Group. As explained in note 2 above, this change in accounting policy has been applied retrospectively and the comparative figures for the previous year have been restated.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Investments in associates are accounted for in the consolidated financial statements under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investees. The consolidated profit and loss account reflects the Group's share of the results of operation of the investees.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are immediately recognised in the profit and loss account.

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly controlled entitles and associates represent the excess of the cost of the acquisition over the Group's share of the fair values of the identificable assets and liabilities 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 economic life of 20 years. In the case of jointly controlled entities and associates, 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 a subsidiary, associate or jointly controlled entity, the relevant portion of attributable goodwill, net of accumulated amortisation and any impairment losses is included in the determination of the profit or loss on disposal.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, 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 asset, the expenditure is capitalised as an additional cost of the asset.

Property, plant and equipment, other than construction in progress, are depreciated at the following annual rates sufficient to write off their costs less any accumulated impairment losses and residual values over their estimated useful lives. The principal annual rates and methods used for this purpose are as follows:

Leasehold land	Over the unexpired terms of the lease
Buildings	4% – 8% on the straight-line basis
Leasehold improvements	Over the lease terms
Plant and machinery	15% on the reducing balance basis 5% – 33.3% on the straight line basis
Pipelines	5% on the straight line basis
Motor vehicles	25% on the reducing balance basis 10 – 20% on the straight line basis
Furniture, fixtures and equipment	15% – 20% on the reducing balance basis 5% – 20% on the straight line basis
Moulds	33.3% on the straight-line basis
Tools	50% on the reducing balance basis 33.3% on the straight line basis

Construction in progress represents pipelines under construction and is stated at cost. Costs comprise direct and indirect incremental costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of or retirement of property, plant and equipment recognised in the profit and loss account is the difference between the net sale proceeds and the carrying amount of the relevant asset.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment

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.

Investment securities

Investment securities 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Short term listed investments

Short term listed investments are carried at fair value. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of the investments are recognised in the profit and loss account.

Inventories

Inventories are stated 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 design costs, raw materials, direct labour, other direct costs 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 and other 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

Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Operating leases

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 basis:

For the sales 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;

For the sales of natural gas, when the goods are delivered and title has passed;

For gas connection fee income, when the relevant connection work are completed and connection services are rendered;

Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utlilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the profit and loss account except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates or jointly controlled entities, 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the market rates of exchange ruling at that date. All exchange differences are dealt with in the profit and loss account.

The profit and loss account and balance sheets of overseas operations are translated at the average rates for the year and the rates ruling at the year end date respectively. Exchange differences arising on translation are dealt with in the exchange fluctuation reserve account.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Employee 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. Obligations for contributions to the MPF Scheme are recognised as an expense in the profit and loss account as incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Retirement benefits scheme (Continued)

The employees of the Company's subsidiaries and jointly controlled entities in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries and jointly controlled entities 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.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

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; and

(b) natural gas business.

Discontinuing Operations:

(a) manufacture and trading of silicone rubber products.

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 in current year are mainly managed in Hong Kong and the People's Republic of China. In 2004, the principal activities were 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.

4. SEGMENT INFORMATION *(Continued)*

(i) Business segments

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

31 July 2005

	Continuing operations		Discontinuing operations	
	Investment in internet and information technology activities *HK$'000*	Natural gas business *HK$'000*	Manufacture and trading of silicone rubber products *HK$'000*	Consolidated *HK$'000*
Segment turnover	–	200,928	4,090	205,018
Segment results	(106,935)	34,172	(18,845)	(91,608)
Unallocated revenue				565
Unallocated expenses				(33,345)
				(124,388)
Finance costs				(2,614)
Share of losses of associates of jointly controlled entities	–	(2,321)	–	(2,321)
Loss before taxation				(129,323)
Taxation				(3,122)
Loss before minority interests				(132,445)
Minority interests				(7,315)
Loss for the year attributable to shareholders				(139,760)
Segment assets	59,524	203,100	374	262,998
Unallocated assets				49,393
Total assets				312,391
Segment liabilities	10,186	107,880	3,663	121,729
Unallocated liabilities				6,991
Total liabilities				128,720

4. SEGMENT INFORMATION *(Continued)*

(i) Business segments *(Continued)*

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments. *(continued)*

31 July 2005

	Continuing operations		Discontinuing operations	
	Investment in internet and information technology activities	Natural gas business	Manufacture and trading of silicone rubber products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:				
Depreciation	1,382	5,547	1,127	8,056
Impairment losses of investment securities	118,223	–	–	118,223
Impairment of property, plant and equipment	–	–	4,145	4,145
Reversal of impairment of property, plant and equipment	(287)	–	–	(287)
Impairment of goodwill	1,000	694	–	1,694
Impairment of intangible asset	5,000	–	–	5,000
Impairment of interest in an associate	–	442	–	442
Capital expenditure	7,502	8,471	498	16,471

4. SEGMENT INFORMATION *(Continued)*

(i) Business segments *(Continued)*

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

31 July 2004
(As restated)

	Continuing operations		Discontinuing operations	
	Investment in internet and information technology activities *HK$'000*	Natural gas business *HK$'000*	Manufacture and trading of silicone rubber products *HK$'000*	Consolidated *HK$'000*
Segment turnover	–	129,986	23,133	153,119
Segment results	(163,526)	644	(2,692)	(165,574)
Unallocated revenue				312
Unallocated expenses				(28,936)
				(194,198)
Finance costs				(3,444)
Share of losses of associates of jointly controlled entities	–	(3,198)	–	(3,198)
Amortisation and impairment of goodwill	–	(14,372)	–	(14,372)
Loss before taxation				(215,212)
Taxation				(472)
Loss before minority interests				(215,684)
Minority interests				(245)
Loss for the year attributable to shareholders				(215,929)
Segment assets	151,793	186,832	18,144	356,769
Unallocated assets				–
Total assets				356,769

4. SEGMENT INFORMATION *(Continued)*

(i) Business segments *(Continued)*

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

31 July 2004
(As restated)

	Continuing operations		Discontinuing operations	
	Investment in internet and information technology activities *HK$'000*	Natural gas business *HK$'000*	Manufacture and trading of silicone rubber products *HK$'000*	Consolidated *HK$'000*
Segment liabilities	(11,414)	(121,692)	(7,901)	(141,007)
Unallocated liabilities				(20,000)
Total liabilities				(161,007)
Other segment information:				
Depreciation	2,071	4,574	1,383	8,028
Amortisation and impairment of goodwill	–	14,372	–	14,372
Impairment losses of investment securities	155,320	–	–	155,320
Impairment of property, plant and equipment	628	–	–	628
Capital expenditure	2,007	45,725	4,046	51,778

4. SEGMENT INFORMATION *(Continued)*

(ii) Geographical segments

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

31 July 2005

	Hong Kong HK$'000	Mainland China HK$'000	Asia (other than Mainland China) HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Consolidated HK$'000
Continuing operations:							
Segment turnover	–	200,928	–	–	–	–	200,928
Segment assets	58,110	204,514	–	–	–	–	262,624
Capital expenditure	7,502	8,471	–	–	–	–	15,973
Discontinuing operations:							
Segment turnover	4,090	–	–	–	–	–	4,090
Segment assets	374	–	–	–	–	–	374
Capital expenditure	–	498	–	–	–	–	498

31 July 2004

	Hong Kong HK$'000	Mainland China HK$'000	Asia (other than Mainland China) HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Consolidated HK$'000
Continuing operations:							
Segment turnover	–	129,986	–	–	–	–	129,986
Segment assets	138,132	200,493	–	–	–	–	338,625
Capital expenditure	2,007	45,725	–	–	–	–	47,732
Discontinuing operations:							
Segment turnover	8,780	4,089	517	3,658	5,147	942	23,133
Segment assets	18,144	–	–	–	–	–	18,144
Capital expenditure	490	3,556	–	–	–	–	4,046

5. TURNOVER, OTHER INCOME AND GAINS

Turnover represents the net amounts received and receivable for goods sold, sales of piped gas and gas connection fees by the Group. Revenue recognised during the year is as follows:

	Group	
	2005	2004 (As restated)
	HK$'000	*HK$'000*
Turnover		
Continuing operations:		
Sales of natural gas and gas connection fees income	200,928	129,986
Discontinuing operations:		
Sales of silicone rubber products	4,090	23,133
	205,018	153,119
Other income and gains		
Interest income	565	312
Gain on disposal of short term listed investments	23,742	–
Gain on partial disposal of a subsidiary	5,000	–
Gain on disposal of property, plant and equipment	–	338
Gain on disposal of investment securities (2004: after a transfer from the investment revaluation reserve of a deficit of HK$677,000)	575	2,825
Unrealised gain on changes in fair value of investment securities	2,369	–
Reversal of impairment of property, plant and equipment	287	–
Gain on exchange	294	–
Others	558	2,676
	33,390	6,151

6. LOSS FROM OPERATIONS

This has been arrived at after charging:

	Group 2005 HK$'000	Group 2004 (As restated) HK$'000
Staff costs (excluding directors' remuneration (Note 7)) :		
Salaries and wages	10,938	14,744
Retirement benefits scheme contributions	503	493
	11,441	15,237
Minimum lease payments under operating leases for leasehold land and buildings	7,110	3,902
Auditors' remuneration	1,418	1,351
Amortisation of goodwill(*)	–	1,984
Depreciation of property, plant and equipment	8,056	8,028
Impairment loss of goodwill(*)	1,694	12,388
Provision for obsolete and slow moving inventories(*)	1,000	–
Impairment loss of investment securities(*)	118,223	155,320
Bad and doubtful debts(*)	17,921	1,041
Impairment of property, plant and equipment(*)	4,145	628
Changes in fair values of short term listed investments(*)	9,297	2,850
Loss on disposal of property, plant and equipment(*)	5,962	–
Impairment of intangible asset(*)	5,000	–
Impairment of interest in an associate(*)	442	–
Other assets written off	–	516

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

7. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Group were as follows:

	Group 2005 HK$'000	2004 HK$'000
Fees	1,292	1,322
Salaries, allowances and benefits in kind	1,661	8,208
Retirement benefits scheme contributions	15	48
	2,968	9,578

Details of remuneration of directors for the year ended 31July 2005 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Wong Kui Shing, Danny	–	–	–	–
Masanori Suzuki	735	–	–	735
Eiji Sato	71	–	–	71
Wong King Shiu, Daniel	–	450	9	459
Zhou Weirong	–	–	–	–
Kan Kwok Shu	–	984	6	990
Lin Che Chu, George	–	227	–	227
Independent non-executive directors:				
Cheung Man Yau, Timothy	240	–	–	240
Chuk Che Shing	210	–	–	210
Kim Kwi Nam, Takao	36	–	–	36
Total	1,292	1,661	15	2,968

During the year, three executive directors had agreed to waive their remuneration of HK$690,600, and two independent non-executive directors had agreed to waive their remuneration of HK$120,000. There was no arrangement under which a director waived or agreed to waive any remuneration for last year.

7. DIRECTORS' REMUNERATION *(Continued)*

Details of remuneration of directors for the year ended 31 July 2004 are as follows:

	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Wogn Kui Shing, Danny	–	4,137	12	4,149
Masanori Suzuki	842	–	–	842
Eiji Sato	–	–	–	–
Wong King Shiu, Daniel	–	1,160	12	1,172
Zhou Weirong	–	–	–	–
Kan Kwok Shu	–	1,392	12	1,404
Lin Che Chu, George	–	1,519	12	1,531
Independent non-executive directors:				
Cheung Man Yau, Timothy	240	–	–	240
Chuk Che Shing	240	–	–	240
Kim Kwi Nam, Takao	–	–	–	–
Total	1,322	8,208	48	9,578

For the years ended 31 July 2005 and 2004, no remuneration were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

8. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest remunerations in the Group, three (2004: five) were directors of the Company whose emoluments are included in the disclosures in note 7 above. The emoluments of the remaining two (2004: Nil) individuals were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	886	–
Retirement benefits scheme contributions	22	–
	908	–

The number of employee whose remuneration fell within the following bands were as follows:

	Number of employees	
	2005	2004
HK$Nil to HK$1,000,000	2	–

In addition to the above, there is no share options were granted to employees under the Company's share option scheme during the year (2004: Nil) .

No emoluments were paid or payable to the above highest paid individuals as an inducement to join the Group or as compensation for loss of office during the year ended 31 July 2005 and 2004.

9. FINANCE COSTS

	Group 2005 HK$'000	2004 (As restated) HK$'000
Interest on:		
Bank loans	1,797	1,509
Other loans		
– not wholly repayable within five years	236	–
– wholly repayable within five years	35	–
Securities trading account	422	1,605
Convertible notes	360	330
	2,850	3,444
Less: capitalised in property, plant and equipment	236	–
	2,614	3,444

10. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of taxation prevailing in the countries in which the Group operates.

	Group 2005 HK$'000	2004 (As restated) HK$'000
Continuing operations:		
Hong Kong Profits Tax	1,983	–
Taxation outside Hong Kong	1,504	472
	3,487	472
Discontinuing operations:		
Deferred taxation relating to the reversal of temporary differences (Note 28)	(365)	–
Taxation charge	3,122	472

10. TAXATION *(Continued)*

A reconciliation of the tax expense applicable to loss before taxation using the statutory rates for the countries in which the Company, its subsidiaries and jointly controlled entities are domiciled to the tax expense using the domestic taxation rates applicable to the loss of the consolidated companies is as follows:

	Group	
	2005	2004 (As restated)
	HK$'000	*HK$'000*
Loss before taxation	129,323	215,212
Tax calculated at the domestic tax rate of 17.5% (2004: 17.5%)	(22,632)	(37,662)
Tax effect of income not subject to taxation	(13,530)	(549)
Tax effect of expenses not deductible for tax purpose	37,549	32,801
Tax effect of tax losses not recognised	1,964	5,524
Tax effect of unrecognised temporary differences for the year	(271)	–
Effect of difference tax rates of certain subsidiaries and jointly controlled entities	42	–
Others	–	358
Taxation charge	3,122	472

11. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

12. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The loss for the year attributable to shareholders dealt with in the financial statements of the Company amounted to HK$148,530,000 (2004: loss of HK$213,378,000).

13. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 July 2005 is based on the loss for the year attributable to shareholders of HK$139,760,000 (2004: HK$215,929,000) and on the weighted average number of 1,502,285,871 (2004 (restated): 1,129,028,505) ordinary shares in issue during the year.

The calculation of basic loss per share for the year 2004 has been restated to take into account the effect of shares consolidation, rights issue and bonus issue pursuant to the rights issue in 2005.

No diluted loss per share has been presented for the years ended 31 July 2005 and 2004 as the convertible notes, warrants and options outstanding during these years had anti-dilutive effects on the basic loss per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Tools and moulds HK$'000	Total HK$'000
Cost									
At 1 August 2004, as previously reported	1,924	1,475	11,887	–	–	4,579	13,469	2,624	35,958
Proportionate consolidation of interests in jointly controlled entities	95	–	344	95,209	2,913	2,495	1,327	102	102,485
At 1 August 2004, as restated	2,019	1,475	12,231	95,209	2,913	7,074	14,796	2,726	138,443
Currency realignment	2	–	7	1,425	52	44	22	2	1,554
Additions	7,299	–	108	3,280	3,146	1,288	1,317	33	16,471
Transfers	–	–	–	3,198	(3,480)	–	232	–	(50)
Disposals	(3,416)	(348)	(1,805)	–	(76)	(3,238)	(10,157)	–	(19,040)
At 31 July 2005	5,904	1,127	10,541	103,112	2,555	5,168	6,210	2,761	137,378
Accumulated depreciation and impairment									
At 1 August 2004, as previously reported	724	–	7,187	–	–	1,919	7,393	1,807	19,030
Proportionate consolidation of interests in jointly controlled entities	18	–	130	8,972	–	503	330	11	9,964
At 1 August 2004, as restated	742	–	7,317	8,972	–	2,422	7,723	1,818	28,994
Currency realignment	1	–	3	161	–	103	6	–	274
Depreciation	180	1,127	75	4,816	–	809	1,039	10	8,056
Impairment/ (reversal of impairment)	(287)	–	2,895	–	–	–	433	817	3,858
Eliminated on disposals	(11)	–	–	–	–	(1,683)	(6,275)	–	(7,969)
At 31 July 2005	625	1,127	10,290	13,949	–	1,651	2,926	2,645	33,213
Net book value									
At 31 July 2005	5,279	–	251	89,163	2,555	3,517	3,284	116	104,165
At 31 July 2004, as restated	1,277	1,475	4,914	86,237	2,913	4,652	7,073	908	109,449

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The analysis of the net book value of properties is as follows:

	Group	
	2005	2004 (Restated)
	HK$'000	*HK$'000*
Leasehold land and building in Hong Kong:		
Long lease	3,642	–
Leasehold land and building outside Hong Kong:		
Long lease	1,637	1,277
	5,279	1,277

(b) The cost of gas pipelines of RMB66,315,000 (2004: RMB66,315,000) have been pledged to secure bank loans (Note 26).

(c) The carrying value of leasehold land and buildings in Hong Kong of HK$3,642,000 (2004: Nil) have been pledged to secure bank loan (Note 26).

15. GOODWILL

	Group
	HK$'000
Cost	
Additions upon acquisition of a subsidiary (Note 32(b))	1,000
At 31 July 2005	1,000
Accumulated amortisation and impairment	
Impairment during the year	1,000
At 31 July 2005	1,000
Net book value	
At 31 July 2005	–

Goodwill arising from acquisition of a subsidiary was impaired upon full impairment of the interest in the subsidiary.

16. INTANGIBLE ASSET

	Group Software HK$'000
Cost	
Addition upon acquisition of a subsidiary (Note 32(b))	5,000
At 31 July 2005	5,000
Accumulated impairment	
Impairment during the year	5,000
At 31 July 2005	5,000
Net book value	
At 31 July 2005	–

17. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK$'000	2004 HK$'000
Unlisted share, at cost	1	1
Amounts due from subsidiaries	466,338	422,475
Amounts due to subsidiaries	(9,494)	(2,000)
	456,845	420,476
Provision for impairment	(336,000)	(206,000)
	120,845	214,476

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

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries are as follows:

Name	Form of business structure	Place of incorporation/ registration and operations	Nominal value of issued/registered share capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Hikari Tsushin Investments Management (Hong Kong) Limited	Corporation	Hong Kong	HK$1,000,000	–	100	Provision of financial and administrative service to group companies
Alta Financial Holdings Limited	Corporation	British Virgin Islands/ Hong Kong	US$1,000	–	100	Investment holding
Hikari Tsushin Investments Holdings (BVI) Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Hikari Tsushin International Limited	Corporation	Hong Kong	HK$10,000	–	100	Property holding
Best On Development Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Goodtime Enterprise Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
China City Natural Gas Holdings Limited	Corporation	Hong Kong	HK$1	–	100	Property holding
Union Max Limited	Corporation	British Virgin Islands/ Hong Kong	US$100	–	60	Investment holding

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries are as follow: *(continued)*

Name	Form of business structure	Place of incorporation/ registration and operations	Nominal value of issued/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
Best Income Limited	Corporation	British Virgin Islands/ Hong Kong	HK$2	–	100	Investment holding
Joy Crown Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Real Million Investments Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Royal Eastern Limited	Corporation	Hong Kong	HK$2	–	100	Property holding
Top Perfect Group Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Winner Sheen Limited	Corporation	British Virgin Islands/ Hong Kong	US$1	–	100	Investment holding
Zhongda Industrial Group Inc.	Corporation	British Virgin Islands/ 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.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

(a) The following amounts represent the Group's proportionate share of the assets, liabilities, revenues and expenses of the jointly controlled entities and are included in the consolidated balance sheet and profit and loss account:

	2005 *HK$'000*	2004 *HK$'000*
Non-current assets	117,748	116,754
Current assets	85,352	70,078
Current liabilities	(36,324)	(46,685)
Non-current liabilities	(71,556)	(75,007)
Minority interests	(12,960)	(4,161)
	82,260	60,979
Translation reserve	61	–
Turnover	200,928	129,986
Cost of sales	(139,230)	(118,774)
Other income	744	1,918
Expenses	(28,269)	(17,124)
Finance cost	(1,814)	(1,509)
Profit before tax	32,359	(5,503)
Taxation	(1,504)	(472)
Share of losses of associates	(2,321)	(3,198)
Minority interests	(7,315)	(245)
Net profit/(loss)	21,219	(9,418)

As at 31 July 2005, the Group's share of its jointly controlled entity's own capital commitments amounted to approximately HK$707,000 (2004: HK$17,000,000).

As at 31 July 2005, a guarantee of HK$47 million (2004: HK$47 million) was given by one of the jointly controlled entities to a bank in connection with facilities granted to one of its associates.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

(b) Movements in goodwill arising from the acquisition of jointly controlled entities are as follows:

	2005 *HK$'000*	2004 (As restated) *HK$'000*
Cost		
At beginning of the year and 31 July	38,944	38,944
Accumulated amortisation and impairment		
At beginning of the year	38,944	24,608
Amortisation charge during the year	–	1,948
Impairment during the year	–	12,388
At 31 July	38,944	38,944
Net book value		
As 31 July	–	–

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

(c) Details of the jointly controlled entities are as follows:

Name	Form of business structure	Place of incorporation and operation	Principal activities	Percentage of ownership interests indirectly held by the Company
China City Natural Gas Company, Limited	Corporate	People's Republic of China (the "PRC")	Investment holdings	50
西寧中油燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	40
慶雲中油燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	49
濱州中油燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	49
山東惠民中油燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	49.5
西寧中油城市燃氣工程設計諮詢有限公司	Corporate	PRC	Gas pipeline design	46.25
西寧中油久安燃氣設備有限責任公司	Corporate	PRC	Trading of gas pipeline materials	32
青海宏利燃氣管道安裝工程有限責任公司	Corporate	PRC	Gas pipeline construction	39.8

19. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
		(As restated)
	HK$'000	*HK$'000*
Share of net assets	21,473	23,328
Amount due from an associate	216	211
Goodwill	–	694
	21,689	24,233
Provision for impairment losses	(442)	–
	21,247	24,233

The amount due is unsecured, interest free and repayable on demand.

(a) Movements in goodwill arising from the acquisition of associates are as follows:

	2005	2004
		(As restated)
	HK$'000	*HK$'000*
Cost		
At beginning of the year and 31 July	730	730
Accumulated amortisation and impairment		
At beginning of the year	36	–
Amortisation charge during the year	–	36
Impairment during the year	694	–
At 31 July	730	36
Net book value		
As 31 July	–	694

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

19. INTERESTS IN ASSOCIATES *(Continued)*

(b) Details of the associates are as follows :

Name	Form of business structure	Place of incorporation	Place of operation and principal activity	Percentage of ownership interests/ voting rights/ profit share
天津濱海中油燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	25
濱州中興燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	20
湖南中油燃氣有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	20
醴陵中油燃氣有限任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	20

20. INVESTMENT SECURITIES

	Group		Company	
	2005 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*
Equity investments listed outside Hong Kong, at market value	6,269	3,900	419	–
Unlisted equity investments, at fair value	–	119,623	–	–
	6,269	123,523	419	–

As at 31 July 2004, the aggregate amount of investment securities amounted to HK$123,523,000 (including market value of listed investments of HK$3,900,000 and fair value of unlisted investments of HK$119,623,000), for which impairment loss of investment securities of HK$155,320,000 had been made in 2004. In current year, certain investment securities have been sold at a gain of HK$565,000. The directors have assessed the remaining investment securities as at 31 July 2005 and considered that all the unlisted equity investments are irrecoverable and impairment of HK$118,223,000 has been made.

21. INVENTORIES

The following is an analysis of inventories at the balance sheet date:

	Group 2005	Group 2004 (As restated)
	HK$'000	*HK$'000*
Raw materials	4,799	5,774
Work-in-progress	5,560	6,934
Finished goods and natural gas	1,538	1,026
	11,897	13,734

At the balance sheet date, full provision of HK$1,000,000 was made against inventories of discontinuing operations and such inventories were carried at zero carrying value (2004: Nil).

22. SHORT TERM INVESTMENTS

	Group 2005	Group 2004
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	16,610	16,013

As at 31 July 2005, HK$13,403,000 of the above short term investments were pledged to financial creditors to secure general facilities granted to the Group.

23. DEPOSITS, TRADE AND OTHER RECEIVABLES

	Group	
	2005	2004
		(As restated)
	HK$'000	*HK$'000*
Trade receivables	15,992	22,210
Other receivables	49,449	13,300
Bills receivable	24	–
Deposits and prepayments	50,814	1,190
	116,279	36,700

The aging analysis of trade receivables is as follows:

	Group	
	2005	2004
		(As restated)
	HK$'000	*HK$'000*
Current to 90 days	31	3,860
91 to 180 days	8	47
Over 180 days	15,953	18,303
Total	15,992	22,210

The Group allows an average credit period of 60 days (2004: 60 days) to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

24. DISCONTINUING OPERATIONS

(a) As detailed in the Company's interim report for the period ended 31 January 2005, due to prolonged disputes and litigation in connection with the silicone rubber business of a subsidiary, Golite International Limited, the Company announced the Board's decision to discontinue the Group's silicone rubber business so as to preserve resources for the Group's other suitable and value-added business or investments. The Company decided to dispose of its interest in Golite International Limited and its subsidiary (collectively referred to the "Golite group"), which are mainly engaged in the business of manufacturing and trading of silicone rubber products. On 14 February 2006, the Group entered into a sale and purchase agreement with an independent third party for disposal of its entire interest in the Golite group. Consequently, the management has consolidated the results and assets and liabilities of the Golite group based on such unaudited management accounts for the year ended 31 July 2005 as the underlying books and records of the Golite group have not been made available for audit purposes. Further details of the disposal are included in note 37 to the financial statements. As at 31 July 2005, the assets and liabilities of the Golite group as at 31 July 2005 and the results for the year then ended are summarised in note (b) below:

(b) The unaudited results of the Golite group for the year ended 31 July 2005 are presented below:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover	4,090	23,133
Cost of sales	(3,140)	(17,970)
	950	5,163
Other income	10	441
Selling and distribution costs	(755)	(1,040)
Administration expenses	(10,488)	(7,256)
Other expenses	(8,562)	–
Loss before taxation	(18,845)	(2,692)
Taxation	365	–
Loss before minority interests	(18,480)	(2,692)

24. DISCONTINUING OPERATIONS *(Continued)*

The unaudited assets and liabilities of the Golite group as at 31 July 2005 are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Assets		
Deposits, trade and other receivables	256	16,026
Tax recoverable	105	–
Cash and bank balances	13	2,118
	374	18,144
	HK$'000	*HK$'000*
Liabilities		
Trade and other payables	3,565	7,535
Deferred taxation	–	365
Bank overdraft	98	–
	3,663	7,900

The net cash outflow attributable to the discontinuing operations from operating activities for the year ended 31 July 2005 was HK$6,230,000 (2004: HK$357,000). During the year, the discontinuing operations did not contribute any cash flows to the Group in respect of investing and financing activities. In 2004, the net cash flow of discontinuing operations in respect of investing activities amounted to HK$766,000 and such operations did not generate any cash flows from financing activities.

25. TRADE AND OTHER PAYABLES

	Group	
	2005	2004
		(As restated)
	HK$'000	*HK$'000*
Trade payables	6,307	15,328
Other payables and accruals	36,233	44,566
	42,540	59,894

25. TRADE AND OTHER PAYABLES *(Continued)*

The aging analysis of trade payables is as follows:

	Group	
	2005	2004 (As restated)
	HK$'000	*HK$'000*
Current to 90 days	700	4,687
91 to 180 days	2,141	1,395
Over 180 days	3,466	9,246
Total	6,307	15,328

26. BORROWINGS

	Group	
	2005	2004 (As restated)
	HK$'000	*HK$'000*
Interest bearing:		
Bank loans – secured	28,739	30,625
Other loans – unsecured	6,714	6,596
	35,453	37,221
Non-interest bearing:		
Other loans – unsecured	43,260	42,497
	78,713	79,718

26. BORROWINGS *(Continued)*

At 31 July 2005, total current and non-current borrowings were repayable as follows:

	Group	
	2005	2004 (As restated)
	HK$'000	*HK$'000*
Within one year	4,999	4,711
Within two to five years	22,392	25,914
After five years	51,322	49,093
	78,713	79,718
Amount due within one year included in current liabilities	(4,999)	(4,711)
	73,714	75,007

Notes:

(i) The bank loans of HK$26,378,000 (2004: HK$30,625,000) are secured on gas pipelines of a jointly controlled entity for cost amounting to RMB66,315,000 (2004: RMB66,315,000) (Note 14). The remaining bank loan of HK$2,361,000 (2004: Nil) is secured on the Group's the leasehold land and buildings in Hong Kong for the carrying value of HK$3,642,086 (2004: Nil) (Note 14).

(ii) The unsecured other loans of HK$6,714,000 (2004: HK$6,596,000) are interest bearing at the rate of 5% per annum and repayable on the eight anniversary date from the date of borrowing. The remaining unsecured other loans of HK$43,260,000 (2004: HK$42,497,000) are interest free for the year and have no indication of the repayment date.

27. CONVERTIBLE NOTES

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
At 1 August	20,000	–
Issued during the year	40,516	20,000
Redeemed during the year	(32,000)	–
Converted during the year	(24,516)	–
At 31 July	4,000	20,000

27. CONVERTIBLE NOTES *(Continued)*

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 was wholly redeemed in December 2004 with the interest accrued.

In October and November 2004, the Company issued 1-year 1% convertible notes in the aggregate principal amount of US$2,000,000 (approximately HK$15,516,000) and HK$25,000,000 respectively to independent third parties, entitling the holders thereof to convert up to an aggregate of 1,624,000,000 ordinary shares of the Company at an initial conversion price of HK$0.025 per share. During the year, the convertible notes in the principal amount of US$2,000,000 was fully converted into 624,000,000 ordinary shares of the Company. In respect of the remaining convertible notes in the aggregate principal amount of HK$25,000,000, of which HK$9,000,000 was converted into 360,000,000 ordinary shares of the Company in December 2004 and HK$12,000,000 was redeemed in July 2005.

Proposed Issue of Convertible Notes

Pursuant to the conditional subscription agreement dated 26 January 2005 and supplemental agreement dated 4 February 2005 and the second supplemental agreement dated 9 May 2005 entered into between the Company and Global Capital Management Inc, the Company would issue convertible notes in the principal amount of JPY290,000,000 (equivalent to HK$21,750,000) at a conversion price of HK$0.09 per share (after the Capital Reorganisation become effective on 6 April 2005) ("GC Convertible Note"). Upon full conversion of the GC Convertible Note, the maximum number of conversion shares to be issued is 241,666,666 shares of HK$0.01 each in the capital of the Company.

In addition, the Company also entered into a conditional placing agreement on 28 January 2005 and supplemental agreement on 4 February 2005 and a revised placing agreement on 9 May 2005 with Kingston Securities Limited and pursuant to which Kingston Securities Limited would place, on a fully underwritten basis, to independent investors convertible notes of the Company in the principal amount of HK$40,000,000 at a conversion price of HK$0.09 per share convertible into 444,444,444 shares of HK$0.01 each in the capital of the Company.

The above proposed issue of convertible notes lapsed and was cancelled subsequent to the balance sheet date.

28. DEFERRED TAX LIABILITY

Details of deferred tax liability and amount charged to the consolidated profit and loss account are as follows:

	Accelerated depreciation allowances	
	2005	2004
	HK$'000	*HK$'000*
At 1 August	365	365
Reverse during the year (Note 10)	(365)	–
At 31 July	–	365

The Group has tax losses arising in Hong Kong of HK$6,469,000 (2004: HK$6,584,000) 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 making loss for some time.

29. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.025 each at 1 August 2003 and 1 August 2004	20,000,000,000	500,000
Increase of authorised share capital (Note a)	30,000,000,000	750,000
Share subdivision (Note f)	1,200,000,000,000	–
Share consolidation (Note f)	(1,125,000,000,000)	–
Ordinary shares of HK$0.01 each at 31 July 2005	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.025 each at 1 August 2003	8,685,651,423	217,141
Share options exercised	336,190,000	8,405
Placing of shares	500,000,000	12,500
Ordinary shares of HK$0.025 each at 1 August 2004	9,521,841,423	238,046
Share options exercised (Note b)	720,000,000	18,000
Shares issued upon conversion of convertible notes (Note c)	984,000,000	24,600
Shares issued upon rights issue (Note d)	2,048,368,284	51,209
Bonus shares issued pursuant to rights issue (Note d)	3,072,552,426	76,814
Placing of shares (Note e)	1,000,000,000	25,000
Capital reduction (Note f)	–	(416,322)
Ordinary shares of HK$0.01 each at 31 July 2005	17,346,762,133	17,347

The movements in share capital were as follows:

(a) Pursuant to a special resolution passed at a special general meeting of the Company held on 1 December 2004, the authorised share capital of the Company 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 shares of HK$0.025 each by the creation of 30,000,000,000 new shares of HK$0.025 each, which rank pari passu with the then existing shares of the Company.

(b) During the year ended 31 July 2005, 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;

29. SHARE CAPITAL *(Continued)*

(c) On 21 December 2004, the following convertible notes were converted into ordinary shares of the Company by the notes holders at the conversion price of HK$0.025 per share. The ordinary shares arising from conversion rank pari passu with the then existing shares of the Company:

Principal amount of convertible notes converted	Number of ordinary shares issued upon conversion
US$2,000,000	624,000,000
HK$5,000,000	200,000,000
HK$4,000,000	160,000,000
	984,000,000

(d) In October 2004, the Company proposed a rights issue ("Rights Issue") on the basis of two rights shares of HK$0.025 each for every ten existing ordinary shares held on 1 December 2004 with bonus shares to be issued with rights shares on the basis of three bonus shares for every two fully-paid rights shares. The Rights Issue was completed in December 2004. As a result of the Rights Issue, a total of 5,120,920,710 shares of the Company, including bonus shares, have been issued and approximately a proceed of HK$51 million before expenses was raised.

(e) Pursuant to the conditional agreement dated 22 December 2004 and entered into between the Company and the Placing Agent, the Company agreed conditionally to issue and the placing agent conditionally agreed to place 1,000,000,000 new ordinary shares. On 2 February 2005, the Company issued and allot 1,000,000,000 new ordinary shares in accordance with the terms of the agreement. A total consideration before expenses arising from the placing amounted to HK$25,000,000.

(f) On 4 April 2005, the shareholders of the Company passed a special resolution to approve the capital reorganisation of the Company consisting of the (i) reduction of the nominal value of each issued share from HK$0.025 to HK$0.001 by canceling paid-up capital to the extent of HK$0.024 on each issued share ("Capital Reduction") whereas the credit amount arising from the Capital Reduction of HK$416,322,291 has been used to eliminate the accumulated losses of the Company; (ii) subdivision of every unissued share of HK$0.025 each into 25 unissued shares of HK$0.001 each immediately upon the Capital Reduction becoming effective ("Unissued Share Subdivision"); and (iii) consolidation of every 10 shares of HK$0.001 each into 1 new share of HK$0.01 each immediately upon the Capital Reduction and the Unissued Share Subdivision becoming effective ("Share Consolidation"). Upon completion of Share Consolidation, the authorised share capital of the Company has been 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.

29. SHARE CAPITAL *(Continued)*

(g) During the year ended 31 July 2004, 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.

(h) During the year ended 31 July 2004, 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.

30. SHARE OPTION SCHEME

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.

30. SHARE OPTION SCHEMES *(Continued)*

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 sheet 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, 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 29). 59,680,000 option shares (including an aggregate of 382,000,000 option shares adjusted to 38,200,000 option shares upon the Capital Reorganisation became effective on 6 April 2005) were lapsed upon expiry of the exercise period. At 31 July 2005, the Company had outstanding options to subscribe for 70,000,000 shares under the Scheme.

Subsequent to the balance sheet date, 70,000,000 shares were allotted and issued upon the exercise of the subscription rights by the option holders; and as at the date of approving of these financial statements, there is no outstanding share options.

30. 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$ (Note 1)	Exercise period	Closing price before date of grant HK$ (Note 2)	As at 1.8.2004	Movements of option shares during the year Granted	Exercised	Lapsed	As at 31.7.2005
(i) Employees	06.01.2003	0.0856	01.02.2003 – 31.01.2005	0.092	7,000,000	–	–	7,000,000	–
	06.01.2003	0.0856	02.07.2003 – 30.06.2005	0.092	24,800,000	–	–	2,480,000 (Note 3)	–
(ii) Consultants	28.04.2004	0.0300	29.04.2004 – 11.05.2005	0.022	360,000,000	–	–	36,000,000 (Note 3)	–
	17.09.2004	0.0250	20.09.2004 – 16.09.2005	0.017	–	720,000,000	720,000,000	–	–
	21.07.2005	0.0580	21.07.2005 – 20.07.2006	0.058	–	70,000,000	–	–	70,000,000
(iii) Former employees	06.01.2003	0.0856	01.02.2003 – 31.01.2005	0.092	4,000,000	–	–	4,000,000	–
	06.01.2003	0.0856	02.07.2003 – 30.06.2005	0.092	10,200,000	–	–	10,200,000	–
Total					406,000,000	790,000,000	720,000,000	59,680,000	70,000,000

Notes:

(1) The exercise prices of HK$0.0856 per share and HK$0.03 per share were adjusted to HK$0.0604 per share and HK$0.025 per share respectively as a result of the Rights Issue completed in December 2004. Upon the Capital Reorganisation became effective on 6 April 2005, the exercise prices of HK$0.0604 per share and HK$0.025 per share were adjusted to HK$0.604 and HK$0.25 respectively.

(2) The closing prices were recorded immediately before the date of grant, without taking effect of the Rights Issue.

(3) Upon the Capital Reorganisation became effective on 6 April 2005, the outstanding options in respect of a total of 24,800,000 shares and 360,000,000 shares were adjusted to 2,480,000 shares and 36,000,000 shares respectively.

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

31. RESERVES

Company

	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Other capital reserve *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 August 2003	982,019	675	(650)	25,341	49,753	(903,524)	153,614
Issue of shares	11,956	–	–	–	–	–	11,956
Transferred to the profit and loss account upon disposal of investments in securities	–	–	650	–	–	–	650
Loss for the year	–	–	–	–	–	(213,378)	(213,378)
At 31 July 2004 and beginning of year	993,975	675	–	25,341	49,753	(1,116,902)	(47,158)
Bonus shares pursuant to rights issue	(76,814)	–	–	–	–	–	(76,814)
Capital reduction	–	–	–	–	–	416,322	416,322
Other capital reserve was transferred to accumulated loses after expiry of warrants in 2003 *(note b)*	–	–	–	(25,341)	–	25,341	–
Loss for the year	–	–	–	–	–	(148,530)	(148,530)
At 31 July 2005	917,161	675	–	–	49,753	(823,769)	143,820

Note:

(a) The contributed surplus of the Company represents the excess of the net assets 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.

(b) On 19 December 2003, the outstanding 800,000,000 warrants lapsed upon expiry of warrants and the warrant reserve of HK$25,341,000 was redesignated as other capital reserve as at the date of expiry and 31 July 2004. Should this capital reserve transfer to the accumulated losses upon expiry of the outstanding warrants, the balance of other capital reserve and accumulated losses as at 31 July 2004 would have been reduced by the same amount of HK$25,341,000; and such transfer has no effect on the total equity and reserves of the Group and the Company as at 31 July 2004 and 2005. In the opinion of the directors, other capital reserve of HK$25,341,000 arising from expiry of the outstanding warrants in 2003 was transferred to the accumulated losses in current year.

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) PARTIAL DISPOSAL OF A SUBSIDIARY

	2005 HK$'000	2004 HK$'000
Net liabilities disposed of at the date of disposal		
Investment securities, at fair value	12,500	–
Amount due from immediate holding company	1	–
Amount due to a fellow subsidiary	(50,013)	–
	(37,512)	–
Disposed portion (40% interest)	(15,005)	–
Loss of minority interests taken up by the Group	10,005	–
Gain on partial disposal of a subsidiary	5,000	
	–	–
Satisfied by:		
Cash consideration	5,000	–
Net cash inflow arising on disposal:		
Cash consideration	5,000	–

(b) ACQUISITION OF A SUBSIDIARY

	2005 HK$'000	2004 HK$'000
Fair value of assets acquired		
Intangible asset (Note 16)	5,000	–
Goodwill (Note 15)	1,000	–
Total consideration is satisfied by cash	6,000	–
Net cash outflow arising on acquisition:		
Cash consideration	(6,000)	–
Net outflow of cash and cash equivalents in repsect of the acquisition of a subsidiary	(6,000)	–

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) ACQUISITION OF A SUBSIDIARY *(Continued)*

The goodwill arising on the acquisition of the subsidiary is attributable to the anticipated profitability of the subsidiary arising from the holding of computer software.

The subsidiary did not contribute any turnover and result from operation to the Group for the year between the date of acquisition and the balance sheet date.

33. OPERATING LEASE ARRANGEMENTS

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

At 31 July 2005, the Group and the Company had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group		Company	
	2005 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*
Land and buildings expiring:				
Within one year	3,376	6,512	2,643	–
In the second to fifth years, inclusive	400	6,760	400	–
	3,776	13,272	3,043	–

34. LITIGATION

(i) 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 aggregate amount claimed by the third party against the Company is approximately HK$172 million. On 4 April 2005, the Company has paid HK$3 million to settle the legal proceedings.

34. LITIGATION *(Continued)*

(ii) Golite International Limited ("Golite") is a wholly-owned subsidiary of the Group 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 Group 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 mad 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. Golite was disposed subsequent to the balance sheet date.

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2005 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*
Guarantees given to banks in connection with facilities granted to an associate of a jointly controlled entity	47,000	47,000	–	–

36. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	Group	
	2005 *HK$'000*	2004 *HK$'000*
Property, plant and equipment:		
Authorised, but not contracted for	–	–
Contracted, but not provided for	707	17,000
	707	17,000

The above commitments represent the Group's share of its jointly controlled entities' own capital commitments as at 31 July 2005 and 2004.

The Company had no significant commitments at the balance sheet date.

37. POST BALANCE SHEET EVENTS

Lapse of the proposed issue of convertible notes

Pursuant to the conditional subscription agreement dated 26 January 2005 and supplemental agreement dated 4 February 2005 entered into between the Company and Global Capital Management Inc ("GC"), 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 ("GC Convertible Note").

In addition, the Company also entered into a conditional placing agreement on 28 January 2005 and supplemental agreement on 4 February 2005 with Kingston Securities Limited and pursuant to which Kingston Securities Limited would place, on a fully underwritten basis, to independent investors convertible notes of the Company in the principal amount of HK$40,000,000 at a conversion price of HK$0.18 per share.

The relevant resolutions for the approval of the above subscription agreement, placing agreement and the relevant supplemental agreements for the issue of convertible notes had been passed at the special general meeting held on 4 April 2005.

On 9 May 2005, a second supplemental agreement made between the Company and GC to amend the terms of the GC Convertible Note by i) altering the conversion price of HK$0.18 per share become a new conversion price of HK$0.09, ii) requiring prior written consent of the Company for the assignment or transfer of the GC Convertible Note by the holder of the GC Convertible Note to any third parties; and iii) extending the long stop date from 27 April 2005 to 8 August 2005.

On the same day, a revised placing agreement dated 9 May 2005 entered between the Company and Kingston Securities Limited, to amend the terms of the underwritten convertible notes by altering the conversion price of HK$0.18 per share become a new conversion price of HK$0.09 and extending the long stop date from 27 April 2005 to 8 August 2005 for fulfillment of the conditions precedent of the placing agreement where additional time is required for procuring placees by the placing agent.

Since the terms of the subscription agreement and the placing agreement as mentioned above were changed, a special general meeting was convened on 2 August 2005 and resolutions should be proposed to consider and approve the second supplemental agreement and the revised placing agreement.

On 2 August 2005, the resolutions in relation to the proposed changes in the terms of the abovesaid agreements were not passed by way of poll at the special general meeting and as a result, the proposed issue of convertible notes lapsed accordingly.

37. POST BALANCE SHEET EVENTS *(Continued)*

Disposal of leasehold land and buildings

Subsequent to the balance sheet date, the Group disposed of the leasehold land and buildings situated in Hong Kong and the PRC with net book value of HK$3,642,000 and of HK$1,414,000 for a total consideration of HK$4,500,000 and of HK$1,448,000 respectively.

Disposal of discontinuing operations

On 14 February 2006, the Group entered into a sale and purchase agreement with Mr. Xu Yi Wu and Mr. Huang Nan Hua (collectively as “Buyer”) in respect of the disposal of its interests in Golite International Limited which was engaged in the business of manufacturing and trading of silicone rubber products and was classified as discontinuing operations in current year. The Buyer is independent third party with the Company or any of its subsidiaries, the consideration is HK$100,000 in cash and the completion took place in February 2006.

Proposed acquisition of a subsidiary engaged in the business of PRC natural gas station

On 18 July 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement for acquisition of 80% of the total issued share capital of a company, Accelstar Pacific Limited (“Accelstar”), at a consideration of HK$58.5 million. Pursuant to the agreement, the wholly owned subsidiary of the Company also undertook to advance an interest free loan of HK$8,914,000 to Accelstar for the purpose of construction and operations of the PRC natural gas stations. Accelstar is engaged in the business of investment and construction of natural gas stations and supply of natural gas in Qingyun City and Binzhou City of the PRC through its two subsidiaries in China.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the early application of HKAS 31 “Investments in joint ventures” and HKAS Int-13 “Jointly Controlled Entities – Non–Monetary Contributions by ventures” during the year, the change in the accounting policy for the Group’s interests in the jointly controlled entities, the presentation of certain items and balances in relation to the jointly controlled entities have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform to the current year’s presentation.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 August 2006.