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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Oil And Gas Group Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(formerly known as Nippon Asia Investments Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock code: 00603)

Major Transaction:
Proposed acquisition
with provision of the shareholder loan
for the PRC natural gas stations business

A notice convening the special general meeting to be held at Regus, 2nd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, on Monday, 6 November 2006 (or any adjournment thereof) at 10:30 a.m. is set out on pages 112 to 113 of this circular. Form of proxy for use in the special general meeting is enclosed. Whether or not you propose to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the special general meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting thereof, should you so desire.

* For identification purposes only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Accelstar”	Accelstar Pacific Limited, a company incorporated in the British Virgin Islands with limited liability and has an authorized capital of US\$50,000 divided into 50,000 shares of US\$1.00 each
“Accelstar Group”	collectively Accelstar, Sino Petroleum, Qingyun Petro-Tech and Binzhou Natural Gas
“Acquisition”	the proposed acquisition by All Praise of the Sale Shares from the Vendor pursuant to the Sale and Purchase Agreement
“All Praise”	All Praise Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly owned subsidiary of the Company
“Annual Results”	the annual results of the Company for the year ended 31 July 2005
“Associates”	has the same meaning ascribed thereto under the Listing Rules
“Binzhou Natural Gas”	濱州賽德天然氣壓縮技術有限公司 (Binzhou Cai De Natural Gas Ltd.), a wholly foreign owned enterprise established in the Binzhou City of the PRC on 14 July 2006, which is wholly owned by Sino Petroleum
“Board”	the board of Directors, including independent non-executive Directors
“Business Day(s)”	any day (excluding a Saturday) on which banks generally are open for business in Hong Kong
“Bye-laws”	the bye-laws of the Company
“CCNGCL”	China City Natural Gas Co., Ltd, a PRC joint venture with China Petroleum Pipeline Bureau (中國石油天然氣管道局)
“Company”	China Oil And Gas Group Limited (formerly known as Nippon Asia Investments Holdings Limited), a limited liability company incorporated in Bermuda, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00603)

DEFINITIONS

“connected person”	has the meaning ascribed to it in the Listing Rules
“Consideration”	the aggregate of the Tranche 1 Consideration and the Tranche 2 Consideration
“Consideration Shares”	175,000,000 Shares to be issued by the Company to the Vendor for payment of the Tranche 2 Consideration on the Tranche 2 Completion
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group and the Accelstar Group immediately after completion of the Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Valuer”	Cushman & Wakefield (HK) Limited, the independent valuer appointed by the Company for the purpose of preparing a valuation report on the fair market value of the Natural Gas Stations in the PRC
“Interim Results”	the interim results of the Company for the six months ended 31 January 2006
“Last Trading Day”	30 November 2005, being the last trading day prior to the long suspension of trading in the Shares for a period of approximately ten months
“Latest Practicable Date”	17 October 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chu”, or the “Guarantor”	Mr. Chu Ming Ming, one of the ultimate beneficial owners of the Vendor and the legal representative of the PRC Companies, namely, Qingyun Petro-Tech and Binzhou Natural Gas, who is independent of and not connected with any connected persons of the Company

DEFINITIONS

“Mr. Jia”	Mr. Jia Bing Xong, one of the ultimate beneficial owners of the Vendor who is independent of and not connected with any connected persons of the Company, whose shareholding in the Vendor represents 29% of the entire issued share capital of the Vendor
“Natural Gas Stations”	3 gas stations to be invested and constructed by the PRC Companies in Qingyun City and Binzhou City
“PRC”	the People’s Republic of China which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Companies”	collectively Qingyun Petro-Tech and Binzhou Natural Gas
“Qingyun Petro-Tech”	慶雲管油燃氣技術有限公司 (Qingyun Petro-Tech Co. Ltd.), a wholly foreign owned enterprise established in the Qingyun City of the PRC on 23 July 2006, which is wholly owned by Sino Petroleum
“RMB”	Reminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional agreement dated 17 July 2006 entered into between All Praise and the Vendor for the sale and purchase of the Sale Shares
“Sale Shares”	comprise the Tranche 1 Sale Shares and the Tranche 2 Sale Shares, representing 80% Accelstar’s total issued share capital as at the date of the Sale and Purchase Agreement
“SGM”	a special general meeting of the Company to be convened and held at Regus, 2nd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on 6 November 2006 at 10:30 a.m. to approve the Sale and Purchase Agreement, the provision of the Shareholder Loan and the issue of the Consideration Shares
“Shareholders”	holders of Shares
“Shareholder Loan”	an interest-free shareholder loan of HK\$8,914,000 to be provided by All Praise to Accelstar within 60 days after the Tranche 1 Completion, which is repayable upon expiry of a term of 2 years from the date of advance
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Sino Petroleum”	香港中油國際有限公司 (Sino Petroleum International Ltd.), a private company incorporated in Hong Kong with limited liability on 11 April 2006, which is wholly owned by Accelstar
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tranche 1 Completion”	completion of the sale and purchase of the Tranche 1 Sale Shares under the Sale and Purchase Agreement
“Tranche 2 Completion”	completion of the sale and purchase of the Tranche 2 Sale Shares under the Sale and Purchase Agreement
“Tranche 1 Completion Date”	the date on which the Tranche 1 Completion takes place
“Tranche 2 Completion Date”	the date on which the Tranche 2 Completion takes place
“Tranche 1 Consideration”	consideration for the purchase by All Praise of the Tranche 1 Sale Shares under the Sale and Purchase Agreement in the sum of HK\$48 million to be paid in cash by All Praise to the Vendor on the Tranche 1 Completion
“Tranche 2 Consideration”	consideration for the purchase by All Praise of the Tranche 2 Sale Shares under the Sale and Purchase Agreement in the sum of HK\$10.5 million to be paid by the Company to the Vendor by way of issue of the Consideration Shares on the Tranche 2 Completion
“Tranche 1 Long Stop Date”	15 November 2006, being the date extended by All Praise and the Vendor
“Tranche 1 Sale Shares”	32,500 shares of US\$1.00 each of Accelstar representing 65% of its total issued share capital, to be purchased by All Praise from the Vendor on the Tranche 1 Completion
Tranche 2 Sale Shares”	7,500 shares of US\$1.00 each of Accelstar representing 15% of its total issued share capital, to be purchased by All Praise from the Vendor on the Tranche 2 Completion
“US\$”	United States dollars, the lawful currency of the United States of America

DEFINITIONS

“Vendor”

Topfaith Group Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is beneficially owned by Mr. Chu and Mr. Jia as to 71% and 29% respectively

“%”

per cent.

LETTER FROM THE BOARD



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(formerly known as Nippon Asia Investments Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock code: 00603)

Executive Directors:

Mr. Xu Tie-liang (*Chairman*)
Mr. Qu Guo-hua (*Chief Executive Officer*)
Mr. Zeng Xiao
Mr. Cheung Shing

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Independent Non-executive Directors:

Mr. Cheung Man Yau, Timothy
Mr. Shi Xun-zhi
Mr. Peng Long

Head Office and principal

place of business in Hong Kong:
Suite 3003, 30th Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

18 October 2006

To the Shareholders

Dear Sir or Madam,

**Major Transaction:
Proposed acquisition
with provision of the shareholder loan
for the PRC natural gas stations business**

INTRODUCTION

It was announced on 8 August 2006 that the Board intended to put forward proposals to the Shareholders in relation to the Acquisition with provision of the Shareholder Loan for the PRC Natural Gas Stations business.

The purpose of this circular is to provide you with further information regarding, among other things, (i) the Acquisition together with the provision of the Shareholder Loan, and (ii) valuation report issued by the Independent Valuer on the fair market value of the Natural Gas Stations. Further, this circular also contains a notice of SGM which shall be

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LETTER FROM THE BOARD

convened for the purpose of considering and, if thought fit, passing the resolution in relation to the Sale and Purchase Agreement, the provision of the Shareholder Loan and the issue of the Consideration Shares.

SALE AND PURCHASE AGREEMENT

Date of the Sale and Purchase Agreement

18 July 2006

Parties

- (1) All Praise;
- (2) The Vendor, the entire issued share capital of which is beneficially owned by Mr. Chu and Mr. Jia as to 71% and 29% respectively; and
- (3) The Guarantor, Mr. Chu (to guarantee the Vendor's performance of its obligations under the Sale and Purchase Agreement)

To the best knowledge of the Directors and having made all reasonable enquiries, the Vendor, Mr. Chu and Mr. Jia, its ultimate beneficial owners, are third parties independent of the Company and connected persons of the Company. The Company was acquainted with the Vendor through its business network. Unlike Mr. Chu who is a Hong Kong permanent resident, Mr. Jia is a PRC national, and under the laws of the PRC, any guarantee given by Mr. Jia as a PRC national in favour of any foreign party outside the PRC is unenforceable without having complied with PRC prescribed requirements. Therefore, as Mr. Chu holds a controlling shareholding in the Vendor and is familiar with operation of the Accelstar Group, he is willing to give the warranties regarding legality, corporate affairs, accounts, taxation, finance, loans, litigation, contracts, assets, employment, intellectual properties, and environmental matters of the Accelstar Group in favour of the Company.

The Vendor is an investment holding company while Mr. Chu and Mr. Jia are businessmen in the PRC.

Assets to be acquired

The Sale Shares, representing 80% of the total issued share capital of Accelstar.

Consideration

The Consideration, being the aggregate of the Tranche 1 Consideration and the Tranche 2 Consideration, shall be HK\$58.5 million which was agreed between the parties to the Sale and Purchase Agreement based on arm's length negotiation which was made with reference to the fair market value of the Natural Gas Stations of not less than HK\$83 million to be confirmed by the Independent Valuer. As far as the Tranche 1 Consideration is concerned, upon signing of the Sale and Purchase Agreement, a refundable deposit of HK\$7.2 million

LETTER FROM THE BOARD

was paid by All Praise to the Vendor as deposit and part payment of the Tranche 1 Consideration and the balance of the Tranche 1 Consideration in the sum of HK\$40.8 million shall be paid by All Praise to the Vendor in cash on the Tranche 1 Completion.

However, as far as the Tranche 2 Consideration is concerned, the Tranche 2 Consideration shall be satisfied by the issue and allotment of the Consideration Shares to the Vendor at an issue price of HK\$0.06 per Consideration Share on the Tranche 2 Completion. The issue of the Consideration Shares shall be subject to the Shareholders' approval at the SGM.

The issue price of HK\$0.06 per Consideration Share represents:

- (a) a discount of approximately 0% to the closing price of HK\$0.06 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 7.4% to the 5-day average closing price of approximately HK\$0.0648 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 8.4% to the 10-day average closing price of approximately HK\$0.0655 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and
- (d) a discount of approximately 66.48% to the closing price of HK\$0.179 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the closing price of HK\$0.179 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the value of the Consideration Shares would amount to approximately HK\$31,325,000. The Consideration Shares represent approximately 9.7% and 8.84% of the Company's existing share capital and enlarged share capital immediately following the Completion respectively.

The Board considers that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account that the Consideration represents a discount of 11.9% to the Company's proposed 80% share of the fair market value of the Natural Gas Stations of no less than HK\$83 million to be confirmed by the Independent Valuer given that the valuation of no less than HK\$83 million is considered by the Board to be the appropriate benchmark for the Accelstar Group which has not commenced any significant operations and has minimal assets.

LETTER FROM THE BOARD

Conditions precedent

(a) Tranche 1 Completion shall be conditional upon fulfillment of the following conditions:

- (i) All Praise being, in its absolute discretion, satisfied with the result of the valuation report on the Natural Gas Stations, prepared by the Independent Valuer which must confirm that the fair market value of the Natural Gas Stations shall not be less than HK\$83 million;
- (ii) the legal opinion to be issued by a firm of PRC lawyers acceptable to All Praise covering such legal matters, including the legality and validity of the establishment and operations of the Accelstar Group and the Natural Gas Stations, in such form and substance to the satisfaction of All Praise having been obtained;
- (iii) the passing of the relevant resolution at the SGM by the Shareholders for approving the Sale and Purchase Agreement, the provision of the Shareholder Loan and the transactions contemplated thereunder;
- (iv) the representations, warranties and undertakings given by the Vendor and the Guarantor under the Sale and Purchase Agreement remaining true and accurate and not misleading in all material aspect at the Tranche 1 Completion; and
- (v) All Praise, having satisfied, at its absolute discretion, with the results of due diligence exercise conducted by All Praise on the Accelstar Group and the Natural Gas Stations project.

The Vendor and All Praise shall use their respective best endeavours to procure that the above conditions shall be fulfilled and/or satisfied by the Tranche 1 Long Stop Date (or such other date as the parties may agree in writing). However, if the conditions are not all satisfied by All Praise on or before the Tranche 1 Long Stop Date, the Sale and Purchase Agreement shall be deemed terminated absolutely in which event the parties shall be released from all their respective obligations and liabilities under the Sale and Purchase Agreement, and the deposit paid to the Vendor together with interest earned thereon shall be returned to All Praise forthwith, other than any liabilities arising from any antecedent breach of this Sale and Purchase Agreement, and any rights or remedies which shall have accrued shall not be prejudiced or affected.

(b) Tranche 2 Completion shall be conditional upon:

- (i) the Tranche 1 Completion having taken place;
- (ii) the passing of the relevant resolution at the SGM by the Shareholders for approving the Sale and Purchase Agreement, the issue of the Consideration Shares and the transactions contemplated thereby; and
- (iii) the Stock Exchange granting the listing of and permission to deal in the Consideration Shares.

LETTER FROM THE BOARD

In the event that the conditions for the Tranche 2 Completion are not fulfilled on or before 30 November 2006, or such later date as may be agreed between All Praise and the Vendor in writing, the Tranche 2 Completion shall lapse, in which all the obligations of the Vendor and All Praise under the Sale and Purchase Agreement in relation to the sale and purchase of the Tranche 2 Sale Shares shall be released and they shall have no claims against each other in respect of the sale and purchase of the Tranche 2 Sale Shares.

Although the Tranche 2 Completion is conditional upon the Tranche 1 Completion having taken place, the Tranche 1 Completion will be proceeded without having the Tranche 2 Completion taken place.

Completion

Subject to the satisfaction of the other conditions, the Tranche 1 Completion shall take place on the third Business Day immediately after the date on which the last unfulfilled condition of the conditions precedent to the Tranche 1 Completion is fulfilled. However, the Tranche 2 Completion shall take place on third Business Day immediately after the date on which the last unfulfilled condition of the conditions precedent to the Tranche 2 Completion is fulfilled.

After the Tranche 1 Completion, Accelstar will become a 65% owned subsidiary of the Company while after the Tranche 2 Completion, Accelstar will become a 80% owned subsidiary of the Company, and will be consolidated into the Group's accounts. Further, the board of directors of Accelstar shall comprise three directors, one of which is appointed currently by the Vendor and two of which to be nominated by the Company to Accelstar.

Further, under the Sale and Purchase Agreement, All Praise undertakes with Accelstar that within 60 days after the Tranche 1 Completion, All Praise shall advance the Shareholder Loan to Accelstar irrespective of its proportionate shareholding in Accelstar, which will be used as capital contribution to Qingyun Petro-Tech and Binzhou Natural Gas respectively as to HK\$4 million and US\$630,000 equivalent to HK\$4,914,000 for the construction of the Natural Gas Stations and their operation.

The funding of the Tranche 1 Consideration by way of cash and the amount of the Shareholder Loan to be injected to Accelstar shall be made out of the Company's internal resources. The Board considers that the cost of the Acquisition together with the provision of the Shareholder Loan should not create any material adverse strain on the Company's financial resources and therefore, affect its normal operation.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming no further Shares are issued, the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Tranche 2 Completion is as follows:

	As at the Latest Practicable Date	Approximate percentage (%)	Immediately after Tranche 2 Completion	Approximate percentage (%)
Sino Advance Holdings Limited (Note 1)	321,018,300	17.79	321,018,300	16.22
The Vendor	–	–	175,000,000	8.84
Public shareholders	<u>1,483,657,913</u>	<u>82.21</u>	<u>1,483,657,913</u>	<u>74.94</u>
 TOTAL	 <u><u>1,804,676,213</u></u>	 <u><u>100.00</u></u>	 <u><u>1,979,676,213</u></u>	 <u><u>100.00</u></u>

Note:

1. Sino Advance Holdings Limited is wholly owned by Mr. Xu Tie-liang, the Chairman of the Company.

INFORMATION ON THE ACCELSTAR GROUP

Accelstar, a company incorporated in the British Virgin Islands on 28 September 2005, currently is an investment holding company and wholly owned by the Vendor.

Based on the information provided by the Vendor, the share capital of Accelstar is wholly owned by the Vendor. The Vendor and its ultimate beneficial owners, Mr. Chu and Mr. Jia, are independent of and not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective Associates.

Accelstar has not commenced any significant operations other than holding equity interest in Sino Petroleum. Save for the paid up capital of US\$50,000 (equivalent to the aggregate par value of the total issued shares of Accelstar) and its interest in shares of HK\$1.00 each in Sino Petroleum, representing the entire issued share capital of Sino Petroleum, Accelstar does not have any material assets or liabilities as at the date of the Sale and Purchase Agreement. As at the date of Sale and Purchase Agreement, the consolidated net asset value of Accelstar (including its investment cost in Sino Petroleum) amounted to US\$50,000 (HK\$390,000).

To the best knowledge of the Directors, Sino Petroleum is an investment holding company incorporated in Hong Kong in April 2006 and has not commenced any significant business operations other than holding the equity interests in the PRC Companies.

LETTER FROM THE BOARD

The Accelstar Group is principally engaged in investment and construction of Natural Gas Stations and supply of natural gas in Qingyun City (慶雲市) and Binzhou City (濱州市) of the PRC through its two operating subsidiaries Qingyun Petro-Tech and Binzhou Natural Gas which have not commenced any significant business operations. Qingyun Petro-Tech has obtained approval from the relevant government authority to exclusively invest in, construct and operate Natural Gas Stations in Qingyun City in June 2006, and Binzhou Natural Gas has obtained approval from the relevant government authority to invest in, construct, and operate Natural Gas Stations in Binzhou City in the PRC in July 2006. Qingyun Petro-Tech and Binzhou Natural Gas have the respective 30 and 20 years of operation permitted to engage in the Natural Gas Stations business under their respective approvals. No PRC regulatory approvals are required for change in shareholdings in Accelstar as a result of the Acquisition given there are no PRC laws currently regulating the change in the shareholding of the foreign shareholder of the PRC wholly owned enterprises.

The Group has, through its jointly-controlled entity, CCNGCL, engaged in the piped natural gas business in Xining, Liling, Binzhou, Huimin and Qingyun in China. The executive Directors, namely, Mr. Qu Guo-hua and Mr. Cheung Shing who have extensive experience in the natural gas and oil industry. Upon completion of the Acquisition, the Company will, together with their expertise and experience, also recruit more senior personnel with strong expertise and experience in the natural gas business for the management of the PRC Companies.

As all of the members of the Accelstar Group were recently incorporated and have not commenced any significant business operations. The audited financial statements of Accelstar Group for the period from 28 September 2005 (being the date of incorporation of Accelstar) to 31 August 2006 is contained in Appendix II – Accountants' Report of Accelstar Group to this circular. Based on information disclosed by the Vendor to the Company, no members of the Accelstar Group have recorded any net profits or loss (both before and after taxation and extraordinary items) nor incurred any material liability prior to the date of the Sale and Purchase Agreement.

FINANCIAL INFORMATION OF THE ACCELSTAR GROUP

The following table sets out a summary of the audited consolidated financial results of the Accelstar Group for the period from 28 September 2005 (being the date of incorporation of Accelstar) to 31 August 2006:

	For the period from 28 September 2005 to 31 August 2006 (HK\$'000)
Loss before tax	–
Loss after tax	–

LETTER FROM THE BOARD

During the relevant period, the Accelstar Group did not commence any significant business operations.

As at
31 August 2006
(HK\$)

Net assets	390,000
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As at the Latest Practicable Date, the Accelstar Group has a total unaudited consolidated net assets of HK\$390,000.

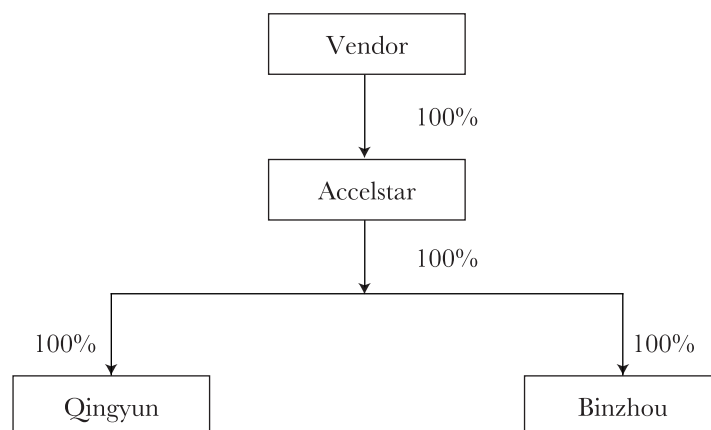
No shareholder agreement between the Company and the Vendor is necessary since the Company considers that there will be sufficient protection for the Company given that the Company will obtain control over Accelstar in the term of its 80% controlling shareholding in Accelstar and its board composition upon completion of the Acquisition.

Qingyun Petro-Tech and Binzhou Natural Gas are expected to come within a period of 4 months into substantial business operation upon completion of the injection of the Shareholder Loan by the Company to Accelstar, which will be used as capital contribution to the PRC Companies.

Binzhou Natural Gas is not the exclusive operator in the Binzhou City as there is another natural gas station being constructed in the Binzhou City. As far as the Natural Gas Stations are concerned, the Company plans to set up one natural gas station in Qingyun and two natural gas stations in Binzhou. The capital required for construction of these natural gas stations are estimated to be approximately RMB4.5 million for each station.

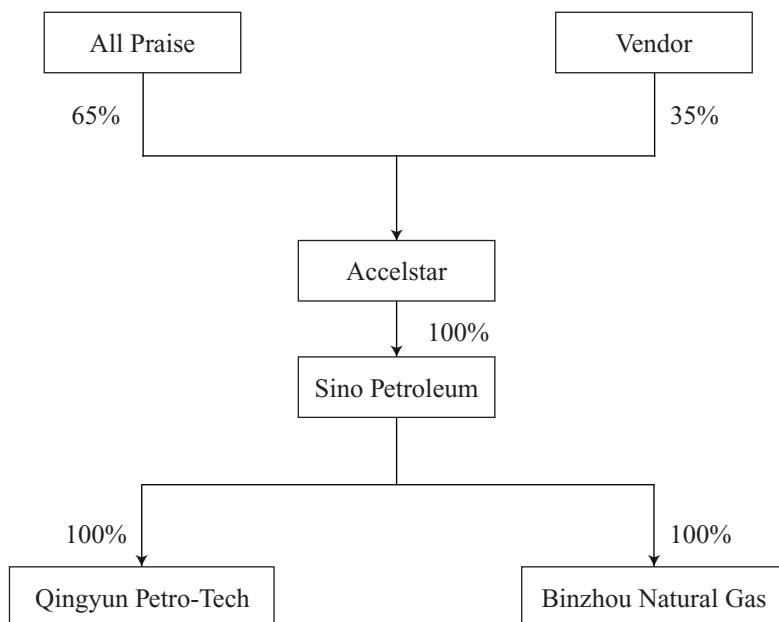
Shareholding structure of Accelstar Group as at the Latest Practicable Date, and immediately upon the Tranche 1 Completion and the Tranche 2 Completion

1. As at the Latest Practicable Date

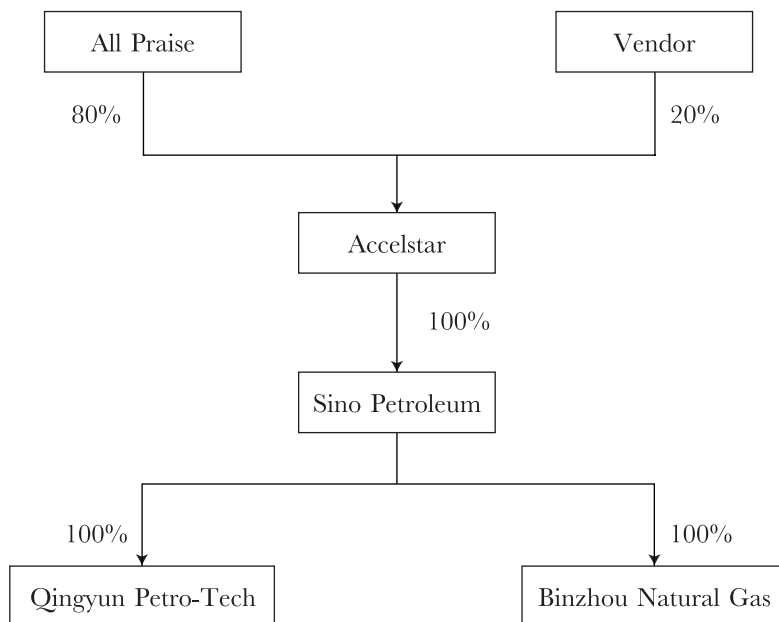


LETTER FROM THE BOARD

2. Immediately upon Tranche 1 Completion



3. Immediately upon Tranche 2 Completion



INFORMATION OF THE COMPANY

The Company is principally engaged in investment in Internet, information technology, natural gas business and other activities.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION WITH THE PROVISION OF THE SHAREHOLDER LOAN

The Company will focus its efforts on seeking more investment opportunities in the energy sector, especially in natural gas and natural gas related investments and reduce its investment in other business areas.

As the approvals from the relevant PRC government have been obtained, Accelstar is able to operate natural gas station to supply natural gas in Binzhou City, whereas Qingyun Petro-Tech enjoy the exclusive right of operating natural gas station to supply natural gas in Qingyun City. The Directors are of the view that the Acquisition will enable the Company to capture the business opportunities to become an exclusive supplier of natural gas in Qingyun City as well as a major supplier of natural gas in Binzhou City in the PRC.

The Company is interested in the natural gas investments in Qingyun City and Binzhou City since both are considered to have great growth potential with strong GDP and no competition in Qingyun City as well as no intense competition in Binzhou City, and further, natural gas business is highly encouraged for its nature of green and economic energy.

Qingyun and Binzhou are cities in Shandong province with convenience traffic to adjacent cities like Dezhou, Changzhou and Jiana. Due to the open-up for foreign investments in recent years, both cities are developing rapidly and well diversified from agriculture base into various industrial sectors such as petroleum and chemical, garment, technology, vehicle and machinery parts manufacturing, etc. Binzhou has rich natural resources including oil and natural gas, and one of the main mining zones of Shengli oil field is also situated at Binzhou City.

The size of Qingyun City is about 502 km² with a population of approximately 300,000, GDP of which has increased by 3.2 times in 5 years time, achieved RMB3.5 billion in 2005, and recorded RMB3.1 billion in 6 months from January to June 2006. Currently, there is no natural gas business in Qingyun City and, with the support and encourage from the local government, Qingyun Petro-Tech has been granted an exclusive right in operating natural gas station in Qingyun City.

The size of Binzhou City is about 9600 km² with a population of 3.69 million, Binzhou City recorded a GDP of RMB66.5 billion in 2005, increased by 17.8% as compared to RMB56.5 billion in 2004. Currently, there is another natural gas station being constructed, whereas the Company is planning to set up two natural gas stations in Binzhou City.

The Directors believe that the transactions contemplated under the Sale and Purchase Agreement are in the ordinary course of business of the Group and the terms of the Sale and Purchase Agreement were negotiated on an arm's length basis, which the Directors consider to be fair and reasonable and in the interests of the Group and Shareholders as a whole.

Upon completion of the Acquisition, the board of directors of Accelstar shall comprise three directors, one of which is appointed currently by the Vendor and the other two directors to be nominated by the Company to Accelstar.

LETTER FROM THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS OF THE ACCELSTAR GROUP

Set out below is a management discussion and analysis of the Accelstar Group based on the audited financial data from the accountants' report on Accelstar Group contained in Appendix II to this circular.

Accelstar Group is principally engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun and Binzhou of the PRC through its two operating subsidiaries – Qingyun Petro-tech and Binzhou Natural Gas. During the period from 28 September 2005 (being the date of incorporation of Accelstar) to 31 August 2006 (the “Relevant Period”), Accelstar Group had not commenced any significant business operation.

As at 31 August 2006, Accelstar Group had total assets of approximately HK\$650,000 representing a leasehold land acquired for the construction of the natural gas station in Qingyun, PRC, save for the leasehold land and the capital requirement for the two wholly owned foreign enterprises – Qingyun Petro-tech Co and Binzhou Natural Gas of approximately HK\$8.3 million which will be satisfied by the Shareholder Loan to be provided by All Praise after completion of the Acquisition, Accelstar Group did not incur or commit any material investment or capital expenditure during the Relevant Period. Accelstar Group has not pledged any of its assets during the Relevant Period.

As at 31 August 2006, the total liabilities of Accelstar Group were approximately HK\$260,000 representing an interest free shareholder loan provided by the Vendor. Save for the shareholder loan, Accelstar Group had no bank loans, overdraft or other borrowings, and had no contingent liabilities. The gearing ratio of Accelstar Group, measured on the basis of total current liabilities as a percentage of total shareholders' fund was 66.67%.

As at 31 August 2006, Accelstar had total 50,000 shares of US\$1.00 each in issue, which are wholly owned by the Vendor.

TRADING AND FINANCIAL 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. Accelstar Group has obtained approvals from the relevant PRC government to operate natural gas stations to supply natural gas in Qingyun and Binzhou in PRC. The Directors believe, through the Acquisition and the build up of natural gas refilling stations network, the Group can further develop and strengthen its natural gas business in Shandong province and enhance the Group earnings base.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

The Acquisition together with the provision of the Shareholder Loan shall constitute a major transaction for the Company under Rule 14.08 of the Listing Rules and would be required to be made conditional on Shareholders' approval pursuant to Rule 14.33 of the Listing Rules.

The Company will make an application to the Stock Exchange for the listing of, and permission to deal in the Consideration Shares to be issued.

THE SGM

The SGM will be held to consider and, if thought fit, pass the resolution to approve the Acquisition, the provision of the Shareholder Loan and the issue of the Consideration Shares in relation to the proposed Acquisition.

Notice of the SGM is set out on pages 112 to 113 of this circular. The SGM will be held at Regus, 2nd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on Monday, 6 November 2006 at 10:30 a.m. (or any adjournment thereof). To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, the Vendor and their respective ultimate beneficiaries are the third parties independent of the Company and any of its connected persons and their respective Associates. The Directors are of the view and confirm that the major Shareholder does not have any interest in the transactions mentioned in this circular which is different from the interest of the other Shareholders and therefore no Shareholders are required to abstain from voting for the approval of the Acquisition, the provision of the Shareholder Loan and the issue of the Consideration Shares in relation to the proposed Acquisition at the SGM.

Shareholders should note that completion of the Acquisition is conditional. Shareholders and the investing public should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Form of proxy for use at the SGM is enclosed in this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for holding of the SGM. Completion of the form of proxy will not preclude you from attending and voting at the SGM or any adjourned meeting thereof should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Acquisition together with provision of the Shareholder Loan are fair and reasonable, and the Acquisition together with provision of the Shareholder Loan is in the best interests of the Company and its Shareholders as a whole. According, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
China Oil And Gas Group Limited
Xu Tie-liang
Chairman

SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 JULY 2005 AND SIX MONTHS ENDED 31 JANUARY 2006

The following financial information has been extracted from the audited financial statements of the Company for each of the three years ended 31 July 2005 and unaudited consolidated financial statements of the Company for the six months ended 31 January 2006:

	Six months ended 31 January 2006	Year ended 31 July 2005	Year ended 31 July 2004	Year ended 31 July 2003
	(Unaudited) <i>HK\$'000</i>	(Audited & qualified) <i>HK\$'000</i>	(Audited & unqualified) <i>HK\$'000</i>	(Audited & unqualified) <i>HK\$'000</i>
Turnover	68,409	205,018	153,119	278,223
Cost of sales	(49,693)	(142,370)	(136,745)	(224,771)
Gross profit	18,716	62,648	16,374	53,452
Other income and gains, net	1,833	33,390	6,151	19,785
Selling and distribution costs	(1,840)	(3,691)	(5,281)	(15,923)
Administrative expenses	(11,799)	(45,661)	(50,507)	(76,723)
Other expenses	(4,697)	(171,074)	(175,307)	(182,767)
Loss on disposal of discontinued operations	—	—	—	(105,067)
Operating profits/(loss)	2,213	(124,388)	(208,570)	(307,243)
Finance costs	(1,368)	(2,614)	(3,444)	(1,950)
Share of profits/(loss) of associates of jointly controlled entities	90	(2,321)	(3,198)	390
Amortisation and impairment of goodwill	—	—	—	(24,265)
Profit/(loss) before taxation	935	(129,323)	(215,212)	(333,068)
Taxation	(1,085)	(3,122)	(472)	(1,778)
Loss for the period from continuing operations	(150)	—	—	—
Discontinued operations	—	—	—	—
Profit/(loss) for the period from discontinued operations	134	—	—	—
Loss for the period	(16)	(132,445)	(215,684)	(334,846)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	Six months ended 31 January 2006	Year ended 31 July 2005	Year ended 31 July 2004	Year ended 31 July 2003
	(Unaudited) <i>HK\$'000</i>	(Audited & qualified) <i>HK\$'000</i>	(Audited & unqualified) <i>HK\$'000</i>	(Audited & unqualified) <i>HK\$'000</i>
Attributable to:				
Shareholders	(1,341)	(139,760)	(215,929)	(334,777)
Minority interests	<u>1,325</u>	<u>7,315</u>	<u>245</u>	<u>(69)</u>
	<u>(16)</u>	<u>(132,445)</u>	<u>(215,684)</u>	<u>(334,846)</u>
Loss per share				
Basic	<u>(0.07 cents)</u>	<u>(9.3 cents)</u>	<u>(19.1 cents)</u>	<u>(3.9 cents)</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 JULY 2005

Consolidated Profit and Loss Account

For the year ended 31 July 2005

		2005	2004
			(As restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	5	205,018	153,119
Cost of sales		<u>(142,370)</u>	<u>(136,745)</u>
Gross profit		62,648	16,374
Other income and gains	5	33,390	6,151
Selling and distribution costs		(3,691)	(5,281)
Administrative expenses		(45,661)	(50,507)
Other expenses		<u>(171,074)</u>	<u>(175,307)</u>
Loss from operations	6	(124,388)	(208,570)
Finance costs	9	(2,614)	(3,444)
Share of losses of associates of jointly controlled entities		<u>(2,321)</u>	<u>(3,198)</u>
Loss before taxation			
– Continuing operations		(110,478)	(212,520)
– Discontinuing operations		<u>(18,845)</u>	<u>(2,692)</u>
		<u>(129,323)</u>	<u>(215,212)</u>
Taxation	10		
– Continuing operations		(3,487)	(472)
– Discontinuing operations		<u>365</u>	<u>–</u>
		<u>(3,122)</u>	<u>(472)</u>
Loss before minority interests		(132,445)	(215,684)
Minority interests		<u>(7,315)</u>	<u>(245)</u>
Loss for the year attributable to shareholders		<u>(139,760)</u>	<u>(215,929)</u>
Dividend	11	<u>–</u>	<u>–</u>
Loss per share	13		
Basic		<u>(9.3 cents)</u>	<u>(19.1 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***As at 31 July 2005*

		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>(As restated) HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	104,165	109,449
Interests in associates	19	21,247	24,233
Investment securities	20	6,269	123,523
Total non-current assets		<u>131,681</u>	<u>257,205</u>
Current assets			
Inventories	21	11,897	13,734
Short term investments	22	16,610	16,013
Deposits, trade and other receivables	23	116,279	36,700
Tax recoverable		105	–
Cash and bank balances		35,819	33,117
Total current assets		<u>180,710</u>	<u>99,564</u>
Current liabilities			
Trade and other payables	25	42,540	59,894
Borrowings	26		
– Bank loans		4,999	4,711
Convertible notes	27	4,000	20,000
Tax payable		3,369	1,030
Bank overdraft		98	–
Total current liabilities		<u>55,006</u>	<u>85,635</u>
Net current assets		<u>125,704</u>	<u>13,929</u>
Total assets less current liabilities		<u>257,385</u>	<u>271,134</u>
Non-current liabilities			
Borrowings	26		
– Bank loans		23,740	25,914
– Other loans		49,974	49,093
Deferred tax liability	28	–	365
		<u>73,714</u>	<u>75,372</u>
Minority interests		<u>12,960</u>	<u>4,161</u>
		<u>170,711</u>	<u>191,601</u>
Capital and reserves			
Share capital	29	17,347	238,046
Reserves		153,364	(46,445)
		<u>170,711</u>	<u>191,601</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Balance Sheet***As at 31 July 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	17	120,845	214,476
Investment securities	20	<u>419</u>	<u>–</u>
Total non-current assets		<u>121,264</u>	<u>214,476</u>
Current assets			
Deposits and other receivables		46,235	315
Cash and bank balances		<u>197</u>	<u>537</u>
Total current assets		<u>46,432</u>	<u>852</u>
Current liabilities			
Other payables		2,529	4,440
Convertible notes	27	<u>4,000</u>	<u>20,000</u>
Total current liabilities		<u>6,529</u>	<u>24,440</u>
Net current assets/(liabilities)		<u>39,903</u>	<u>(23,588)</u>
Total assets less current liabilities		<u>161,167</u>	<u>190,888</u>
Capital and reserves			
Share capital	29	17,347	238,046
Reserves	31	<u>143,820</u>	<u>(47,158)</u>
		<u>161,167</u>	<u>190,888</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Consolidated Statement of Changes in Equity

For the year ended 31 July 2005

Group	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Other capital reserve** <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Acc- umulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 August 2003	217,141	983,219*	675*	(650)*	25,341*	—*	(851,707)*	374,019*
Issue of shares (<i>Note 29</i>)	20,905	11,956	—	—	—	—	—	32,861
Changes in fair value of investment securities	—	—	—	(155,347)	—	—	—	(155,347)
Net gains and losses not recognised in the consolidated profit and loss account	—	—	—	(155,347)	—	—	—	(155,347)
Transferred to the consolidated profit and loss account upon disposal of investment securities	—	—	—	677	—	—	—	677
Impairment losses in investment securities transferred to the consolidated profit and loss account	—	—	—	155,320	—	—	—	155,320
Loss for the year	—	—	—	—	—	—	(215,929)	(215,929)
At 31 July 2004 and beginning of year	238,046	995,175*	675*	—*	25,341*	—*	(1,067,636)*	191,601*
Shares issued upon conversion of convertible notes	24,600	—	—	—	—	—	—	24,600
Exercise of share options	18,000	—	—	—	—	—	—	18,000
Shares issued pursuant to rights issue	51,209	—	—	—	—	—	—	51,209
Bonus shares issued pursuant to rights issue	76,814	(76,814)	—	—	—	—	—	—
Shares issued upon placement of shares	25,000	—	—	—	—	—	—	25,000
Capital reduction	(416,322)	—	—	—	—	—	416,322	—
Exchange adjustment arising from translation of financial statements of jointly controlled entities not recognised in the consolidated profit and loss account	—	—	—	—	—	61	—	61
Other capital reserve transferred to accumulated losses after expiry of warrants in 2003	—	—	—	—	(25,341)	—	25,341	—
Loss for the year	—	—	—	—	—	—	(139,760)	(139,760)
At 31 July 2005	17,347	918,361*	675*	—	—*	61*	(765,733)*	170,711

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Group	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Other capital reserve** <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Acc- umulated loss <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reserves retained by								
Company and subsidiaries	17,347	918,361	675	–	–	–	(777,123)	159,260
Jointly controlled entities	–	–	–	–	–	61	16,945	17,006
Associates	–	–	–	–	–	–	(5,555)	(5,555)
At 31 July 2005	<u>17,347</u>	<u>918,361</u>	<u>675</u>	<u>–</u>	<u>–</u>	<u>61</u>	<u>(765,733)</u>	<u>170,711</u>
Company and subsidiaries	238,046	995,175	675	–	25,341	–	(1,057,807)	201,430
Jointly controlled entities	–	–	–	–	–	–	(6,595)	(6,595)
Associates	–	–	–	–	–	–	(3,234)	(3,234)
At 31 July 2004	<u>238,046</u>	<u>995,175</u>	<u>675</u>	<u>–</u>	<u>25,341</u>	<u>–</u>	<u>(1,067,636)</u>	<u>191,601</u>

* These reserve accounts comprise the consolidated reserves of HK\$153,364,000 (2004: debit reserves of HK\$46,445,000) in the consolidated balance sheet.

** Other capital reserve represents reserve arising from expiry of warrants in 2003.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Cash Flow Statement***For the year ended 31 July 2005*

		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>(As restated) HK\$'000</i>
Cash flows from operating activities			
Loss before taxation		(129,323)	(215,212)
Adjustments for:			
Finance costs		2,850	3,444
Share of losses of associates of jointly controlled entities		2,321	3,198
Impairment loss of intangible asset	6	5,000	–
Impairment of interest in an associate	6	442	–
Impairment of property, plant and equipment	6	4,145	628
Reversal of impairment of property, plant and equipment	5	(287)	–
Impairment losses of investment securities	6	118,223	155,320
Bad and doubtful debts	6	17,921	1,041
Provision for obsolete and slow moving inventories	6	1,000	–
Interest income	5	(565)	(312)
Depreciation of property, plant and equipment	6	8,056	8,028
Amortisation of goodwill	6	–	1,984
Impairment of goodwill	6	1,694	12,388
Loss/(gain) on disposal of property, plant and equipment	6	5,962	(338)
Gain on disposal of investment securities	5	(575)	(2,825)
Gain on partial disposal of a subsidiary	5	(5,000)	–
Changes in fair values of short term listed investments	6	9,297	2,850
Unrealised gain on changes in fair values of investment securities	5	(2,369)	–
Other assets written off		–	516
Operating profit/(loss) before changes in working capital		38,792	(29,290)
(Increase)/decrease in short term investments		(9,894)	68,850
Decrease in inventories		1,045	8,923
(Increase)/decrease in deposits, trade and other receivables		(96,992)	20,472
(Decrease)/increase in trade and other payables		(18,617)	15,940
Cash (used in)/generated from operations		(85,666)	84,895
Taxation (paid)/refunded		(1,253)	327
Net cash (used in)/generated from operating activities		(86,919)	85,222

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

		2005	2004
			(As restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from investing activities			
Interest received		565	312
Purchases of property, plant and equipment		(16,471)	(51,778)
Proceeds from disposal of property, plant and equipment		5,159	900
Net cash outflow on acquisition of a subsidiary	32(b)	(6,000)	–
Acquisition of investment securities		–	(185,000)
Proceeds from partial disposal of a subsidiary	32(a)	5,000	–
Acquisition of interest in an associate		(96)	(5,089)
Increase in amount due from an associate		–	(211)
Proceeds from disposal of investment securities		1,975	10,536
Increase in amounts due from shareholders of jointly controlled entities		(174)	(509)
Decrease in loan receivables		–	16,094
Net cash used in investing activities		(10,042)	(214,745)
Cash flows from financing activities			
Interest paid		(2,850)	(3,444)
Cash inflow from shareholders of jointly controlled entities		1,584	–
New borrowings raised		2,415	12,108
Repayment of borrowings		(4,850)	(9,424)
Redemption of convertible notes		(32,000)	–
Proceeds from rights issue		51,209	–
Proceeds from exercise of share options		18,000	13,361
Proceeds from placing and issue of shares		25,000	19,500
Proceeds from issue of convertible notes		40,516	20,000
Net cash generated from financing activities		99,024	52,101
Net increase/(decrease) in cash and cash equivalents		2,063	(77,422)
Cash and cash equivalents at beginning of the year		33,117	110,415
Effect of foreign exchange rate changes		541	124
Cash and cash equivalents at end of the year		35,721	33,117
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		35,819	33,117
Bank overdraft		(98)	–
		35,721	33,117

Notes to the Financial Statements**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.

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.

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.

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

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

Consolidated balance sheet:

Effect of adopting HKAS 31 and HKAS-Int 13

	Increase/(decrease)	
	As at	As at
	31 July 2005	31 July 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>120,840</u>	<u>125,853</u>
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
	<u>120,840</u>	<u>125,853</u>
Translation reserve	<u>61</u>	<u>–</u>

Consolidated profit and loss account:

Effect of adopting HKAS 31 and HKAS-Int 13

	Increase/(decrease)	
	For the year ended	
	31 July 2005	31 July 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>7,315</u>	<u>245</u>

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.

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.

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 entities and associates represent the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable 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.

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.

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.

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.

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 utilised. 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.

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.

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.

(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

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

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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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>7,502</u>	<u>8,471</u>	<u>498</u>	<u>16,471</u>

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FINANCIAL INFORMATION OF THE GROUP

31 July 2004
(As restated)

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

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FINANCIAL INFORMATION OF THE GROUP

31 July 2004
(As restated)

	<u>Continuing operations</u>		<u>Discontinuing operations</u>	
	Investment in internet and information technology activities	Natural gas business	Manufacture and trading of silicone rubber products	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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

(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	Mainland China	Asia (other than Mainland China)	North America	Europe	Other countries	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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

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31 July 2004

	Hong Kong	Mainland China	Asia (other than Mainland China)	North America	Europe	Other countries	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:							
Segment 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
	<u>205,018</u>	<u>153,119</u>
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
	<u>33,390</u>	<u>6,151</u>

6. LOSS FROM OPERATIONS

This has been arrived at after charging:

	Group	
	2005	2004
	(As restated)	
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs (excluding directors' remuneration (<i>Note 7</i>)):		
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	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
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

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FINANCIAL INFORMATION OF THE GROUP

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

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Executive directors:</i>				
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
<i>Independent non-executive directors:</i>				
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.

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

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>Executive directors:</i>				
Wong 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
<i>Independent non-executive directors:</i>				
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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	886	–
Retirement benefits scheme contributions	22	–
	<u>908</u>	<u>–</u>

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	<u>2</u>	<u>–</u>

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	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(As restated)
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	<u>360</u>	<u>330</u>
	2,850	3,444
Less: capitalised in property, plant and equipment	<u>236</u>	<u>–</u>
	<u>2,614</u>	<u>3,444</u>

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

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)	
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>129,323</u>	<u>215,212</u>
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	<u>–</u>	<u>358</u>
Taxation charge	<u>3,122</u>	<u>472</u>

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

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

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

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

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 (<i>Note 32(b)</i>)	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.

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FINANCIAL INFORMATION OF THE GROUP

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		Principal activities
				Directly	Indirectly	
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
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)
	<u>82,260</u>	<u>60,979</u>
Translation reserve	<u>61</u>	<u>–</u>
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)	<u>21,219</u>	<u>(9,418)</u>

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.

- (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	<u>38,944</u>	<u>38,944</u>
Accumulated amortisation and impairment		
At beginning of the year	38,944	24,608
Amortisation charge during the year	–	1,948
Impairment during the year	<u>–</u>	<u>12,388</u>
At 31 July	<u>38,944</u>	<u>38,944</u>
Net book value		
As 31 July	<u>–</u>	<u>–</u>

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

(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.

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FINANCIAL INFORMATION OF THE GROUP

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

	2005	2004
	HK\$'000	(As restated) 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.

- (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 有限責任公司	Corporate	PRC	Trading of natural gas and gas pipeline construction	20

20. INVESTMENT SECURITIES

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

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	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments, at market value:		
Hong Kong	<u>16,610</u>	<u>16,013</u>

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)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	15,992	22,210
Other receivables	49,449	13,300
Bills receivable	24	–
Deposits and prepayments	<u>50,814</u>	<u>1,190</u>
	<u>116,279</u>	<u>36,700</u>

The aging analysis of trade receivables is as follows:

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

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

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

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

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
	<i>HK\$'000</i>	(As restated) <i>HK\$'000</i>
Trade payables	6,307	15,328
Other payables and accruals	36,233	44,566
	<u>42,540</u>	<u>59,894</u>

The aging analysis of trade payables is as follows:

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

26. BORROWINGS

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

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

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

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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)	–
	<u>4,000</u>	<u>20,000</u>
At 31 July	<u>4,000</u>	<u>20,000</u>

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 August	365	365
Reverse during the year (<i>Note 10</i>)	(365)	–
At 31 July	<u>–</u>	<u>365</u>

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
		<i>HK\$'000</i>
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 (<i>Note a</i>)	30,000,000,000	750,000
Share subdivision (<i>Note f</i>)	1,200,000,000,000	–
Share consolidation (<i>Note f</i>)	(1,125,000,000,000)	–
Ordinary shares of HK\$0.01 each at 31 July 2005	<u>125,000,000,000</u>	<u>1,250,000</u>
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	<u>500,000,000</u>	<u>12,500</u>
Ordinary shares of HK\$0.025 each at 1 August 2004	9,521,841,423	238,046
Share options exercised (<i>Note b</i>)	720,000,000	18,000
Shares issued upon conversion of convertible notes (<i>Note c</i>)	984,000,000	24,600
Shares issued upon rights issue (<i>Note d</i>)	2,048,368,284	51,209
Bonus shares issued pursuant to rights issue (<i>Note d</i>)	3,072,552,426	76,814
Placing of shares (<i>Note e</i>)	1,000,000,000	25,000
Capital reduction (<i>Note f</i>)	<u>–</u>	<u>(416,322)</u>
Ordinary shares of HK\$0.01 each at 31 July 2005	<u>17,346,762,133</u>	<u>17,347</u>

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;
- (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
	<u>984,000,000</u>

- (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.
- (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.

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.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

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)	Movements of option shares during the year				As at 31.7.2005
					As at 1.8.2004	Granted	Exercised	Lapsed	
(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					<u>406,000,000</u>	<u>790,000,000</u>	<u>720,000,000</u>	<u>59,680,000</u>	<u>70,000,000</u>

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 <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Other capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 losses after expiry of warrants in 2003 (note b)	–	–	–	(25,341)	–	25,341	–
Loss for the year	–	–	–	–	–	(148,530)	(148,530)
At 31 July 2005	<u>917,161</u>	<u>675</u>	<u>–</u>	<u>–</u>	<u>49,753</u>	<u>(823,769)</u>	<u>143,820</u>

Notes:

- (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 (<i>Note 16</i>)	5,000	–
Goodwill (<i>Note 15</i>)	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 respect of the acquisition of a subsidiary	(6,000)	–

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	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings expiring:				
Within one year	3,376	6,512	2,643	–
In the second to fifth years, inclusive	<u>400</u>	<u>6,760</u>	<u>400</u>	<u>–</u>
	<u>3,776</u>	<u>13,272</u>	<u>3,043</u>	<u>–</u>

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.
- (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 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. 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	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to an associate of a jointly controlled entity	<u>47,000</u>	<u>47,000</u>	<u>–</u>	<u>–</u>

36. CAPITAL COMMITMENTS

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

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment:		
Authorised, but not contracted for	–	–
Contracted, but not provided for	707	17,000
	<u>707</u>	<u>17,000</u>
	<u><u>707</u></u>	<u><u>17,000</u></u>

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.

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.

INDEBTEDNESS

At the close of business on 31 August 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group’s jointly-controlled entity had outstanding borrowings, after proportionate consolidation, of approximately HK\$79,295,000 (equivalent to RMB81,100,000), comprising bank loan of approximately HK\$14,666,000 (equivalent to RMB15,000,000) and other loans of approximately HK\$64,629,000 (equivalent to RMB66,100,000). The bank loan is interest bearing, repayable within two to three years and secured by gas pipelines with a cost of RMB35,347,000 together with the natural gas operation right of a jointly controlled entity. Approximately HK\$11,733,000 (equivalent to RMB12,000,000) of the other loans are unsecured, interest bearing for the period in the range of 2.28% to 2.55% per annum and repayable on the eight anniversary date from the date of borrowings. The remaining other loans of approximately HK\$52,896,000 (equivalent to RMB54,100,000) are unsecured, interest free for the period and have no indication of the repayment date.

The Enlarged Group's jointly controlled entity had also executed several corporate guarantees in the aggregate of approximately HK\$68,051,000 (equivalent to RMB69,600,000) to banks for general banking facilities granted to the associates of the jointly controlled entity.

As at 31 August 2006, the Enlarged Group did not have any other unused banking facilities.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Enlarged Group, the Enlarged Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 August 2006.

The Directors have confirmed that there has not been any material change in the indebtedness and the contingent liabilities of the Enlarged Group since 31 August 2006.

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since the date to which the latest audited financial statements of the Company were made up.

WORKING CAPITAL

The Directors are of the opinion that taking into account the present available banking facilities and the internally generated resources of the Enlarged Group, the Enlarged Group has sufficient working capital for its requirements within the next 12 months from the date of this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE GROUP

Review of operations, management analysis and discussion

Business review for the year ended 31 July 2005

The Group is principally engaged in investments in interest, 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 to return, reducing investments on those outside the Group's principal business for growth and expansion.

Business review for the six months ended 31 January 2006

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 had been completely out of the manufacturing segment. The Group, having reviewed its investments portfolio and investment strategy, had decided to change its investment approach aimed at balancing risk and return. The Group will reduce investments apart from the Group's principal business, and focus on the development of its natural gas business and investments in the energy sector, especially in natural gas related field.

For the six months ended 31 January 2006, the turnover of the Group was approximately HK\$68.4 million, representing approximately 27.6% increase as compared to approximately HK\$53.6 million of last corresponding period. Such increase was mainly due to the increase in the sales of piped natural gas. The Group's unaudited consolidated loss attributed to shareholders was approximately HK\$16,000, representing a decrease in loss of approximately 99% as compared with loss of approximately HK\$96 million for the last corresponding period. In the absence of provision for impairment on investments, loss attributable to shareholders for the current period was largely reduced. Loss per share for the period under review was approximately HK cent 0.07 (2005: HK cent 0.85 (restated)).

Manufacturing Business (discontinued)

The business of manufacturing and trading of silicone rubber products had been severely affected by prolonged disputes and litigations, operation of which was minimal, and had been making loss since 2004; the Group therefore discontinued its operation, and disposed of it in February 2006 to preserve resources and stop draining management effort and time. During the period under review, no turnover was recorded from the silicone rubber business (2005: HK\$2.8 million).

Natural Gas Business

The Group, through CCNGCL, a joint venture with China Petroleum Pipeline Bureau (中國石油天然氣管道局) business in various cities in China (Xining, Liling, Binzhou, Huimin, and Qingyun)

During the period under review, the natural gas business was the sole revenue contributor to the Group, the proportioned turnover for the period was approximately HK\$68.4 million, representing approximately 27.6% increase as compared with last corresponding period of approximately HK\$53.6 million. The increase in turnover was mainly due to the improved sale of natural gas in Xining Province. Proportioned operating profit of the natural gas business for the period was approximately HK\$10.6 million (2005: HK\$9.7 million).

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

The following is the text of a report, prepared for inclusion of this circular, from the auditors of the Company.

17 October 2006

The Directors
China Oil And Gas Group Limited
(formerly known as Nippon Asia Investments Holdings Limited)
Suite 3003, 30th Floor,
Sino Plaza, 255-257 Gloucester Road,
Causeway Bay,
Hong Kong

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Accelstar Pacific Limited ("Accelstar") and its subsidiaries (hereinafter collectively referred to as the "Accelstar Group") including the consolidated income statement, statement of changes in equity and cash flow statement of the Accelstar Group for the period from 28 September 2005 (being date of incorporation of Accelstar) to 31 August 2006 (the "Relevant Period") and the consolidated balance sheet of the Accelstar Group and balance sheet of Accelstar as at 31 August 2006 and the notes thereto (the "Financial Information") for inclusion in this circular in connection with the proposed acquisition of 80% of the issued share capital of Accelstar (the "Acquisition") by a wholly owned subsidiary of the Company.

Accelstar was incorporated in the British Virgin Islands with limited liability on 28 September 2005 with an authorised share capital of USD50,000 divided into 50,000 ordinary shares of USD1 each. As at the date of this report, Accelstar is wholly and beneficially owned by Topfaith Group Limited, a company incorporated in the British Virgin Islands. The principal activity of Accelstar is investment holding.

As at the date of this report, Accelstar holds 100% equity interest in a newly incorporated Hong Kong company, Sino Petroleum International Limited ("Sino Petroleum"), which in turn established two wholly owned foreign enterprises registered and operating in the People's Republic of China (the "PRC") in 2006. One is Qingyun Petro-Tech Co. Ltd. 慶雲管油燃氣技術有限公司 ("Qingyun Petro-Tech") and the other is Binzhou Cai De Natural Gas Ltd. (濱州賽德天然氣壓縮技術有限公司) ("Binzhou Natural Gas"). As represented by the directors of Binzhou Natural Gas, Binzhou Natural Gas has not yet commenced its business operations since 14 July 2006, being the date of its establishment.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

BASIS OF PREPARATION

All companies comprising the Accelstar Group have prepared their first unaudited financial statements in accordance with the relevant accounting rules and regulations applicable to companies in which they were incorporated or established. The unaudited financial statements cover the period from the date of their incorporation or establishment to 31 August 2006.

No audited financial statements have been prepared for the companies comprising the Accelstar Group as they were either incorporated shortly before 31 August 2006 or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

For the purpose of this report, the Financial Information has been prepared by the director of Accelstar based on the unaudited financial statements of companies comprising the Accelstar Group for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the accounting policies adopted by Accelstar and the Company to the extent that the accounting policies are applicable, and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS

The director of Accelstar is responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the unaudited financial statements of the companies comprising the Accelstar Group for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and The Reporting Accountant" issued by the HKICPA.

We have not audited any financial statements of the companies comprising the Accelstar Group in respect of any period subsequent to 31 August 2006.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the director of Accelstar in the preparation of the Financial Information, and of whether the accounting policies are appropriate to Accelstar's and the Accelstar Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Accelstar and the Accelstar Group as at 31 August 2006 and of the results and cash flows of the Accelstar Group for the Relevant Period.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 28 SEPTEMBER 2005 (DATE OF INCORPORATION) TO 31 AUGUST 2006

	<i>Notes</i>	HK\$
Turnover	4	—
Other income and gains, net	4	—
Administrative expenses		<u>—</u>
Profit for the period attributable to equity holders of Accelstar	8	<u><u>—</u></u>
Earnings per share		<u><u>—</u></u>

The accompanying notes form part of the Financial Information.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2006

	<i>Notes</i>	HK\$
ASSETS		
Non-current assets		
Leasehold land and land use rights	9	637,000
Current assets		
Leasehold land and land use rights	9	<u>13,000</u>
Total assets		<u><u>650,000</u></u>
EQUITY		
Capital and reserves attributable to the equity holders of Accelstar		
Share capital	11	390,000
Retained profit		<u>—</u>
Total equity		<u>390,000</u>
LIABILITIES		
Current liabilities		
Amount due to ultimate holding company	12	<u>260,000</u>
Total liabilities		<u>260,000</u>
Total equity and liabilities		<u><u>650,000</u></u>
Net current liabilities		<u><u>(247,000)</u></u>
Total assets less current liabilities		<u><u>390,000</u></u>

The accompanying notes form part of the Financial Information.

Approved and authorised for issue by the director of Accelstar on 17 October 2006.

TOPFAITH GROUP LIMITED
Chu Ming Ming
Director

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

BALANCE SHEET
AS AT 31 AUGUST 2006

	<i>Notes</i>	HK\$
ASSETS		
Non-current assets		
Interests in subsidiaries	<i>10</i>	<u>650,000</u>
Total assets		<u><u>650,000</u></u>
EQUITY		
Capital and reserves attributable to the equity holders of Accelstar		
Share capital	<i>11</i>	390,000
Retained profit		<u>–</u>
Total equity		<u>390,000</u>
LIABILITIES		
Current liabilities		
Amount due to ultimate holding company	<i>12</i>	<u>260,000</u>
Total liabilities		<u>260,000</u>
Total equity and liabilities		<u><u>650,000</u></u>
Net current liabilities		<u><u>(260,000)</u></u>
Total assets less current liabilities		<u><u>390,000</u></u>

The accompanying notes form part of the Financial Information.

Approved and authorised for issue by the director of Accelstar on 17 October 2006.

TOPFAITH GROUP LIMITED
Chu Ming Ming
Director

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 28 SEPTEMBER 2005
(DATE OF INCORPORATION) TO 31 AUGUST 2006

	Attributable to the equity holders of Accelstar		
	Share capital	Retained profit	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Issued on incorporation	390,000	–	390,000
Profit for the period	–	–	–
Total equity at 31 August 2006	<u>390,000</u>	<u>–</u>	<u>390,000</u>

The accompanying notes form part of the Financial Information.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD FROM 28 SEPTEMBER 2005
(DATE OF INCORPORATION) TO 31 AUGUST 2006***HK\$***Operating activities**

Profit for the period —

Cash generated from operating activities —

Investing activities

Purchase of leasehold land and land use rights (650,000)

Cash used in investing activities (650,000)

Financing activities

Proceeds from issuance of ordinary shares 390,000

Amount due to ultimate holding company 260,000

Cash generated from financing activities 650,000

Cash and cash equivalents at 31 August 2006 —

The accompanying notes form part of the Financial Information.

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

Accelstar is a limited liability company which was incorporated in the British Virgin Islands on 28 September 2005. The registered office of Accelstar is at OMC Chambers P.O. Box 3152, Road Town, Tortola, the British Virgin Islands. The Accelstar Group is engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun City and Binzhou City of the PRC.

The ultimate holding company of Accelstar is Topfaith Group Limited, a company incorporated in the British Virgin Islands.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below.

Basis of preparation

The Financial Information set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with HKFRS, which also include Hong Kong Accounting Standards ("HKAS") and Interpretations (Int") issued by the HKICPA. The Financial Information has been prepared under the historical cost convention.

The Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Accelstar Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas which assumptions and estimates are significant to the Financial Information, are disclosed in note 3.

Impact of HKFRS issued but not yet effective for the Relevant Period

Up to the date of issue of this report, HKICPA has issued a number of the following amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in this report.

Amendments, as consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

- HKAS 1 "Presentation of Financial Statements"¹
- HKAS 27 "Consolidated and Separate Financial Statements"¹
- HKFRS 3 "Business Combinations"¹

Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement":

- The fair value option¹
- Financial guarantee contracts¹

Amendments to HKAS 19 "Actuarial gains and losses, group plans and disclosures"¹

Amendments to HKAS 21 "Net investment in a foreign operation"¹

HKFRS-Int 4 "Determining whether an Arrangement contains a Lease"¹

HKFRS 7 "Financial Instruments: Disclosures"²

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

Amendments to HKAS 1 "Presentation of Financial Statements: Capital Disclosures"²

¹ Effective for accounting periods beginning on or after 1 January 2006

² Effective for accounting periods beginning on or after 1 January 2007

Basis of consolidation

The Financial Information incorporate the financial statements of Accelstar and its subsidiaries made up to 31 August 2006.

Subsidiaries

Subsidiaries are those entities in which Accelstar, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Accelstar Group.

In Accelstar's balance sheet, the investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of subsidiaries are accounted by Accelstar on the basis of dividends received and receivable.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Accelstar Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in HK dollars, which is Accelstar's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates(unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

On consolidation, any exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire the leasehold land and land use rights for the purpose of development of natural gas stations. Leasehold land and land use rights are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement.

Impairment of assets

Leasehold land and land use rights and interests in subsidiaries are subject to impairment testing.

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any). Bank overdrafts (if any) are shown within bank and other borrowings in current liabilities on the balance sheet.

Income tax

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Accelstar Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Accelstar Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Related parties

For the purpose of these Financial Information, parties are considered to be related to the Accelstar Group if:

- (i) the party, directly, or indirectly through one or more intermediaries:
 - controls, is controlled by, or is under common control with, the Accelstar Group;
 - has an interest in the Accelstar Group that gives its significant influence over the Accelstar Group; or
 - has joint control over the Accelstar Group;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the Accelstar Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Accelstar Group, or of any entity that is a related party of the Accelstar Group.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Accelstar Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

The Accelstar Group tests at least annually whether the assets have suffered any impairment. The assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of the assets

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

are the higher of the assets' fair value less costs to sell and value in use. In calculating the recoverable amounts, it requires the use of estimates. These estimates are based on the financial budgets, market conditions and development expectations.

(b) Critical judgements in applying the entity's accounting policies

Going concern basis

As at 31 August 2006, the Accelstar Group and Accelstar had net current liabilities of HK\$247,000 and HK\$260,000 respectively. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that the Accelstar Group and Accelstar will continue to operate as a going concern. The going concern basis has been adopted on the basis of continuing financial support, which was obtained by Accelstar, from the ultimate holding company, Topfaith Group Limited.

Should the Accelstar Group and Accelstar be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets.

4. TURNOVER, OTHER INCOME AND GAINS, NET

During the Relevant Period, the Accelstar Group did not commence any business operations.

5. SEGMENT INFORMATION

No separate analysis of segment information by business or geographical segments is presented as the Accelstar Group has not yet commenced its business operations.

6. TAXATION

No provision for Hong Kong and overseas profits tax has been made as the Accelstar Group had no assessable profit arising from its operations during the Relevant Period.

No deferred tax has been provided for the Relevant Period as there are no significant temporary differences.

7. DIRECTOR'S REMUNERATION AND EMOLUMENTS OF HIGHEST PAID INDIVIDUALS

None of director or individuals received or will receive any fees or emoluments in respect of their services to the Accelstar Group or as an inducement to join or upon joining the Accelstar Group or as compensation for loss of office during the Relevant Period. In addition, there was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8. PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF ACCELSTAR

There is no profit or loss for the period attributable to equity holders of Accelstar dealt with in the financial statements of Accelstar.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

9. LEASEHOLD LAND AND LAND USE RIGHTS

The Accelstar Group

	<i>HK\$</i>
Cost	
Additions	650,000
At end of the period	650,000
Portion classified as current assets	(13,000)
Long term portion	637,000

No amortisation has been made during the Relevant Period as the leasehold land and land use rights were acquired by, and legally transferred to the Accelstar Group on 31 August 2006.

The leasehold land and land use rights represent the prepaid operating lease payments in the PRC held on leases for 50 years.

10. INTERESTS IN SUBSIDIARIES

	<i>HK\$</i>
Unlisted shares, at cost	10,000
Amount due from a subsidiary	640,000
	650,000

The amount due from a subsidiary is unsecured, interest free and has no indication of repayment terms.

Particulars of the subsidiaries at 31 August 2006 are as follows:

Name of subsidiaries	Nominal value of share capital/ registered capital	Place and date of incorporation/ establishment and Place of operations	Proportion of nominal value of registered capital held directly or indirectly by Accelstar	Nature of business
Sino Petroleum International Limited	HK\$10,000	Hong Kong 11 April 2006	100%	Investment holding
Qingyun Petro-Tech Co. Ltd. (慶雲管油燃氣技術有限公司)	HK\$4,000,000 (ii, iv)	The PRC 23 June 2006	100%(i)	Investment and construction of natural gas station and supply of natural gas in Qingyun City of the PRC

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

Name of subsidiaries	Nominal value of share capital/ registered capital	Place and date of incorporation/ establishment and Place of operations	Proportion of nominal value of registered capital held directly or indirectly by Accelstar	Nature of business
Binzhou Cai De Natural Gas Ltd. (濱州賽德天然氣壓縮技術有限公司)	USD630,000 (iii, iv)	The PRC 14 July 2006	100%(i)	Investment and construction of natural gas stations and supply of natural gas in Binzhou City of the PRC

Notes:

- (i) Indirectly held by Accelstar
- (ii) Up to the date of this report, HK\$650,000 of the registered capital had been paid and the remaining capital commitment in respect of the investment in the subsidiary is set out in note 13.
- (iii) Up to the date of this report, none of the capital of Binzhou Natural Gas had been paid and Binzhou Natural Gas has not yet commenced any business operations. The capital commitment in respect of the investment in Binzhou Natural Gas is set out in note 13.
- (iv) Wholly owned foreign enterprise registered in the PRC

11. SHARE CAPITAL

Authorised, issued and fully paid:

50,000 ordinary shares of USD1 each	USD50,000	Equivalent to HK\$390,000
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Accelstar was incorporated on 28 September 2005 with an authorised share capital of USD50,000 divided into 50,000 ordinary shares of USD1 each. 50,000 ordinary shares of USD1 each have been issued at the date of incorporation as subscriber's shares.

12. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company is payable to Topfaith Group Limited, which is unsecured, interest free and repayable on demand.

13. CAPITAL COMMITMENTS

The Accelstar Group

Investment:

Contracted but not provided for (notes a & b)	HK\$ 8,264,000
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As at 31 August 2006, Accelstar did not have any significant capital commitment.

APPENDIX II ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

Notes:

- (a) On 23 June 2006, a subsidiary of Accelstar, Sino Petroleum, established a wholly owned foreign enterprise "Qingyun Petro-Tech" in the PRC for the purpose of investment and construction of natural gas station and supply of natural gas in Qingyun City of the PRC. Pursuant to the memorandum of Qingyun Petro-Tech, Sino Petroleum agreed to contribute HK\$4,000,000 as registered capital to the wholly owned foreign enterprise. As at 31 August 2006, Sino Petroleum contributed HK\$650,000 of the capital to Qingyun Petro-Tech and the capital commitment in respect of the investment in Qingyun Petro-Tech amounted to HK3,350,000.
- (b) On 14 July 2006, Sino Petroleum established another wholly owned foreign enterprise "Binzhou Natural Gas" in the PRC for the purpose of investment and construction of natural gas stations and supply of natural gas in Binzhou City of the PRC. Pursuant to the memorandum of Binzhou Natural Gas, Sino Petroleum agreed to contribute USD630,000 (approximately HK\$4,914,000) of registered capital to the wholly owned foreign enterprise. As at 31 August 2006, Sino Petroleum had not yet made any contribution in respect of the investment in Binzhou Natural Gas and the capital commitment in respect of the investment in Binzhou Natural Gas amounted to HK4,914,000.

14. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Accelstar or any of the companies comprising the Accelstar Group in respect of any period subsequent to 31 August 2006.

Yours faithfully
Ting Ho Kwan & Chan
Certified Public Accountants (practising)
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

17 October 2006

The Directors
China Oil And Gas Group Limited
(formerly known as Nippon Asia Investments Holdings Limited)
Suite 3003, 30th Floor,
Sino Plaza, 255-257 Gloucester Road,
Causeway Bay,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”), comprising the unaudited pro forma income statement and unaudited pro forma balance sheet of China Oil And Gas Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and Accelstar Pacific Limited (“Accelstar”) and its subsidiaries (hereinafter collectively referred to as the “Accelstar Group” and together with the Group collectively referred to as the “Enlarged Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of 80% of interest in Accelstar might have affected the financial information presented, for inclusion in this circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 89 to 93 of this circular.

Respective Responsibilities of the directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Report on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 January 2006 or any future date; or
- the results of the Enlarged Group for the period ended 31 January 2006 or any future periods

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ting Ho Kwan & Chan
Certified Public Accountants (practising)
Hong Kong

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group, including unaudited pro forma consolidated balance sheet and income statement of the Enlarged Group, has been prepared as if the proposed acquisition of 80% of interest in Accelstar has been completed and based on the unaudited consolidated financial statements of the Group as at 31 January 2006 as extracted from its published interim report for the six months ended 31 January 2006 and the audited financial information of Accelstar and its subsidiaries (hereinafter collectively referred to as the “Accelstar Group”) for the period ended 31 August 2006 as set out in Appendix II to this circular after incorporating the appropriate unaudited pro forma adjustments as described in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the acquisition been completed on 31 January 2006, or results of the Enlarged Group that would have been attained had the acquisition been completed on 1 August 2005. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group’s future financial position and results.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group

	The Group as at 31 January 2006 HK\$'000	The Accelstar Group as at 31 August 2006 HK\$'000	Pro forma adjustments HK\$'000	<i>Notes</i>	Pro forma Enlarged Group HK\$'000
Non-current assets					
Property, plant and equipment	99,088	—	—		99,088
Leasehold land and land use rights	—	637	—		637
Interests in associates	16,205	—	—		16,205
Available-for-sale financial assets	4,319	—	—		4,319
Goodwill	<u>—</u>	<u>—</u>	58,188	(1)	<u>58,188</u>
	<u>119,612</u>	<u>637</u>			<u>178,437</u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

	The Group as at 31 January 2006 <i>HK\$'000</i>	The Accelstar Group as at 31 August 2006 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma Enlarged Group <i>HK\$'000</i>
Current assets					
Leasehold land and land use rights	–	13	–		13
Inventories	4,966	–	–		4,966
Financial assets at fair value through profit or loss	12,206	–	–		12,206
Deposits, trade and other receivables	112,692	–			112,692
Cash and cash equivalents	<u>81,811</u>	<u>–</u>	(48,000)	(1)	<u>33,811</u>
	211,675	13			163,688
Assets classified as held for sale	<u>378</u>	<u>–</u>			<u>378</u>
	<u>212,053</u>	<u>13</u>			<u>164,066</u>
Total assets	<u>331,665</u>	<u>650</u>			<u>342,503</u>
Equity					
Capital and reserves attributable to the Company's equity holders					
Share capital	18,047	390	1,750 (312) (78)	(1) (5) (3)	19,797
Reserves	155,694	–	8,750 (1,000)	(1) (2)	163,444
	173,741	390			183,241
Minority interest	<u>14,166</u>	<u>–</u>	78	(3)	<u>14,244</u>
Total equity	<u>187,907</u>	<u>390</u>			<u>197,485</u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

	The Group as at 31 January 2006 <i>HK\$'000</i>	The Accelstar Group as at 31 August 2006 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma Enlarged Group <i>HK\$'000</i>
Liabilities					
Current liabilities					
Trade and other payables	58,276	–	260	(4)	59,536
			1,000	(2)	
Tax payable	4,080	–			4,080
Amount due to ultimate holding company	–	260	(260)	(4)	–
	62,356	260			63,616
Liabilities directly associated with assets classified as held for sale	3,375	–			3,375
	65,731	260			66,991
Non-current liabilities					
Borrowings					
Bank loans	14,432	–			14,432
Other loans	63,595	–			63,595
	78,027	–			78,027
Total liabilities	143,758	260			145,018
Total equity and liabilities	331,665	650			342,503
Net current assets/ (liabilities)	146,322	(247)			97,075
Total assets less current liabilities	265,934	390			275,512

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

The following unaudited pro forma consolidated income statement has been prepared based on the published unaudited interim consolidated income statement of the Group for the six months ended 31 January 2006. As shown in the accountants' report on the Accelstar Group, no profit or loss was generated from the Accelstar Group's operations from the date of its incorporation to 31 August 2006, therefore the acquisition has no income statement effect and accordingly no unaudited pro forma adjustment has been made to the unaudited pro forma consolidated income statement of the Enlarged Group had the acquisition been completed on 1 August 2005.

	The Group HK\$'000	The Accelstar Group HK\$'000	Pro forma adjustments HK\$'000	Pro forma Enlarged Group HK\$'000
Continuing operations				
Turnover	68,409	–		68,409
Cost of sales	(49,693)	–		(49,693)
Gross profit	18,716	–		18,716
Other income and gains, net	1,833	–		1,833
Selling and distribution costs	(1,840)	–		(1,840)
Administrative expenses	(11,799)	–		(11,799)
Operating expenses	(4,697)	–		(4,697)
Operating profit	2,213	–		2,213
Share of profits of associates of jointly controlled entities	90	–		90
Finance costs	(1,368)	–		(1,368)
Profit before taxation	935	–		935
Taxation	(1,085)	–		(1,085)
Loss for the period from continuing operations	(150)	–		(150)
Discontinued operations				
Profit for the period from discontinued operations	134	–		134
Loss for the period	(16)	–		(16)
Attributable to:				
Equity holders of the Company	(1,341)	–		(1,341)
Minority interests	1,325	–		1,325
	(16)	–		(16)

Notes to the unaudited pro forma financial information

- (1) On 18 July 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with the vendor to acquire 80% interest in Accelstar at a consideration of HK\$58.5 million. The consideration will be satisfied partly by cash payment of HK\$48 million and the balance of HK\$10.5 million by the issuance and allotment of ordinary shares of the Company of HK\$0.01 each to the vendor at a price of HK\$0.06 each.

The unaudited pro forma adjustment of HK\$58.1 million represents goodwill arising from acquisition of Accelstar, which is the excess of consideration of HK\$58.5 million over the share of net identifiable assets of the Accelstar Group of HK\$312,000.

The unaudited pro forma adjustments of HK\$1,750,000 and HK\$8,750,000 represent the nominal value of 175 million ordinary shares of the Company and share premium arising from issuance of the said 175 million ordinary shares upon partial settlement of the consideration for acquisition of Accelstar respectively.

- (2) The unaudited pro forma adjustment of approximately HK\$1 million represents estimated expenses in connection with the acquisition of Accelstar.
- (3) The unaudited pro forma adjustment to reflect the minority interest in the Accelstar Group.
- (4) The unaudited pro forma adjustment to reclassify the amount due to minority interests to other payables.
- (5) The unaudited Pro forma adjustment to eliminate the Enlarged Group's cost of acquisition against share capital of the Accelstar Group.
- (6) Other than the aforesaid unaudited pro forma adjustments directly attributable to the proposed acquisition of 80% of interest in Accelstar, the Enlarged Group will have the following transaction relating to the future event and affecting the financial position and results of the Enlarged Group.

As set out in the announcement dated 12 September 2006 and pursuant to a placing agreement dated 11 September 2006, 540 million ordinary shares of the Company of HK\$0.01 each will be placed by the placing agent on behalf of the Company to at least seven independent investors at a placing price of HK\$0.12 each. The share premium arising from issuance of such shares amounts to HK\$59.4 million. The estimated expenses in connection with the placing are approximately HK\$0.8 million. The net proceeds arising from the placing of the said shares in the amount of approximately HK\$64 million are intended to be used to finance investments in and/or acquisition of natural gas projects and working capital of the Group.

The following is the text of a report, prepared for inclusion of this circular, from the reporting accountants of the Company.

17 October 2006

The Directors
China Oil And Gas Group Limited
(formerly known as Nippon Asia Investments Holdings Limited)
Suite 3003, 30th Floor,
Sino Plaza, 255-257 Gloucester Road,
Causeway Bay,
Hong Kong

Dear Sirs,

We have examined the calculation of the valuation prepared by Cushman & Wakefield (HK) Limited (the “Valuer”) in respect of the valuation on the market value of 100 per cent equity interest of the natural gas stations business held by Accelstar Pacific Limited’s subsidiaries, Qingyun Petro-Tech Co. Ltd. (慶雲管油燃氣技術有限公司) and Binzhou Cai De Natural Gas Ltd. (濱州賽德天然氣壓縮技術有限公司), as at 1 September 2006, as set out in Appendix IV to this circular.

The valuation including the assumptions, for which the directors of the Company and the Valuer are solely responsible, has been prepared based on the discounted cash flows. The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the expected operation periods of the natural gas stations. Consequently, we have not reviewed, considered or conducted any work on the appropriateness and the validity of the assumption and express no opinion on the appropriateness and validity of the assumptions on which the discounted cash flows, and thus the valuation, are based.

We conducted our work in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). We examined the arithmetical accuracy of the valuation. Our work has been undertaken solely to assist the directors of the Company in evaluating whether the valuation, so far as the calculation is concerned, has been properly compiled. Our work does not constitute any valuation on the market value of 100 per cent equity interest of the natural gas stations business held by the subsidiaries of Accelstar Pacific Limited.

Based on the foregoing, in our opinion, the valuation, so far as the calculation is concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company and the Valuer set out in the “Valuation Methodology” and “Valuation Assumptions And Considerations” Section of the valuation.

Our work in connection with the valuation has been undertaken solely for the purpose of reporting under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and for no other purpose. We accept responsibility solely to the directors of the Company. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,

Ting Ho Kwan & Chan

Certified Public Accountants (practising)

Hong Kong

The following is the text of a letter from the Board in connection with the discounted cash flows:



17 October 2006

The Stock Exchange of Hong Kong Limited
11th Floor,
One International Finance Centre,
1 Harbour View Street,
Central, Hong Kong.

Dear Sirs,

We refer to the valuation prepared by Cushman & Wakefield (HK) Limited (the “Valuer”) in respect of the valuation on the market value of 100% equity interest of the natural gas stations held by Accelstar Pacific Limited’s subsidiaries, 慶雲管油燃氣技術有限公司 and 濱州賽德天然氣壓縮技術有限公司 as at 1 September 2006 as appendix IV to our circular to be despatched to our shareholders.

We note that the valuation including the assumptions, for which our directors and the Valuer are solely responsible, has been prepared based on the discounted cash flows made by the Company.

In this regard, we hereby confirm that our directors have made the said discounted cash flows after due and careful enquiry.

For and on behalf of the board of directors of
China Oil And Gas Group Limited
Xu Tie-liang

* For identification purposes only

The following is the text of a letter, prepared for the purpose of incorporation in this circular received from Cushman & Wakefield (HK) Ltd., an independent valuer, in connection with its valuation as at 1 September 2006 of Natural Gas Stations business of Accelstar Pacific Limited, of which 80% per cent equity interest is to be acquired by All Praise. All Praise is a wholly-owned subsidiary of the Company. As described in section “Documents Available for Inspection” in Appendix V, a copy of the following letter is available for public inspection.

Cushman & Wakefield (HK) Limited

高緯物業顧問有限公司

Company Licence No. C-002429

6/F, Henley Building

5 Queen's Road Central, Hong Kong

Tel: (852) 2956 3888

Fax: (852) 2956 2323

Web: www.cushwakeasia.com

17 October 2006

The Board of Directors
China Oil And Gas Group Limited
(formerly known as Nippon Asia Investments Holdings Limited)
Suite 3003, 30/F
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with the instructions from China Oil and Gas Group Limited (“the Company”), we have conducted a valuation on the market value of the natural gas stations business of Accelstar Pacific Limited (“Accelstar”), of which 80 per cent equity interest is to be acquired by All Praise, the wholly-owned subsidiary of the Company. We confirm that we have carried out an inspection, made relevant enquiries and searches, and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the above-mentioned equity interest as at 1 September 2006 (the “date of valuation”).

The purpose of this report is to express an independent opinion on the market value of 100 per cent equity interest of Natural Gas Stations business as at the valuation date. It is our understanding that this report will be used in connection with the major transaction: proposed acquisition with provision of the shareholder loan for the PRC natural gas stations business, which is required to be disclosed and approved according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It is inappropriate to use this report other than its intended use as stated herein.

This executive summary letter describes the company background of Accelstar, identifies the business appraised, describes the basis of valuation and assumptions, explains the valuation methodology adopted, and presents our conclusion of the market value of the natural gas stations business.

BASIS OF VALUATION

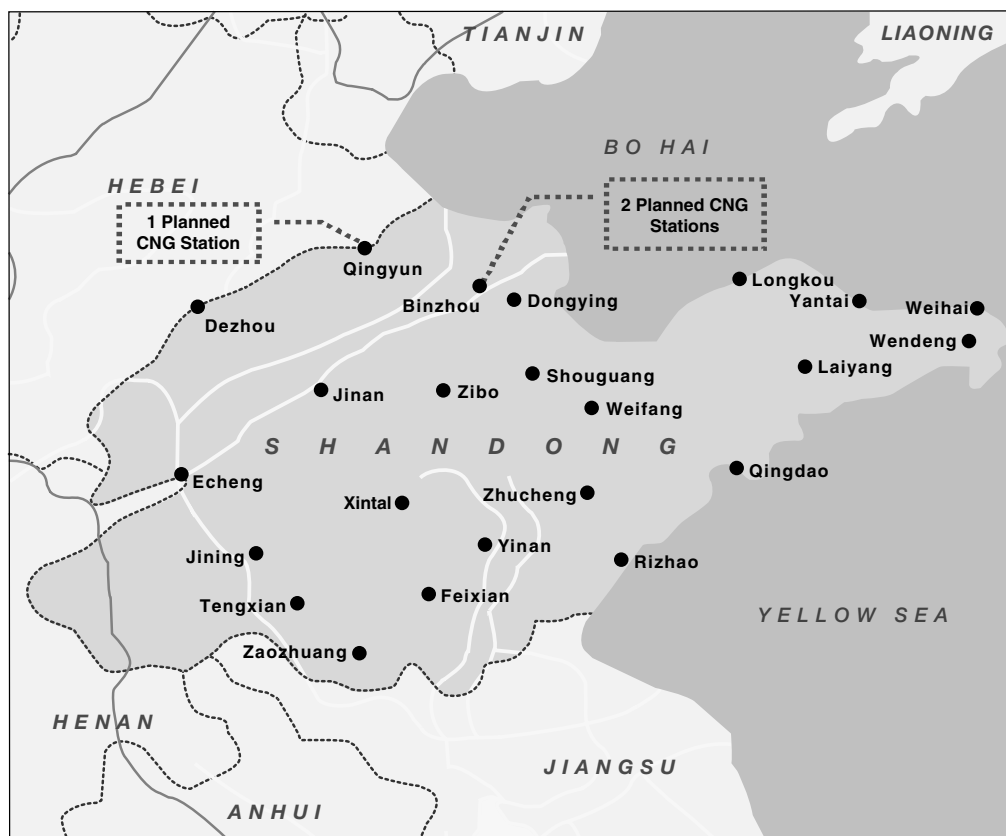
Our valuation of the equity interest represents the market value based on the subject premise of going concern since after the completion of all structures and required facilities. We adopted the definition of market value under “The HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises” (First Edition 2004) published by the Hong Kong Institute of Surveyors effective from 31 August 2004. Market value is defined as intended to mean “the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

BACKGROUND OF ACCELSTAR GROUP

Accelstar, a company incorporated in the British Virgin Islands on 28 September 2005, currently is an investment holding company wholly-owned by Topfaith Group Limited (hereinafter known as the “vendor”). Save for the paid up capital of US\$50,000 (equivalent to the aggregate par value of the total issued shares of Accelstar) and its interest in 10,000 shares of HK\$1.00 each in Sino Petroleum, representing the entire issued capital of Sino Petroleum, Accelstar does not have any material assets or liabilities as at 17 July 2006, the date of the Sale and Purchase Agreement entered into between All Praise and the Vendor for the sale and purchase of the Sale Shares. The investment in Sino Petroleum is the only business operation of Accelstar. The Accelstar Group has two wholly-owned subsidiaries, namely Qingyun Petro-Tech and Binzhou Natural Gas. The Accelstar Group is principally engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun County and Binzhou City.

In June 2006, Qingyun Petro-Tech has obtained the approval and exclusive right to invest, construct and operate natural gas stations in Qingyun County and Binzhou Natural Gas has also obtained the approval to invest, construct and operate natural gas stations in Binzhou City. Qingyun Petro-Tech and Binzhou Natural Gas obtained the 30-year and 20-year rights for operation of natural gas stations in Qingyun County and Binzhou City respectively (Please refer to Illustration 1).

Illustration 1



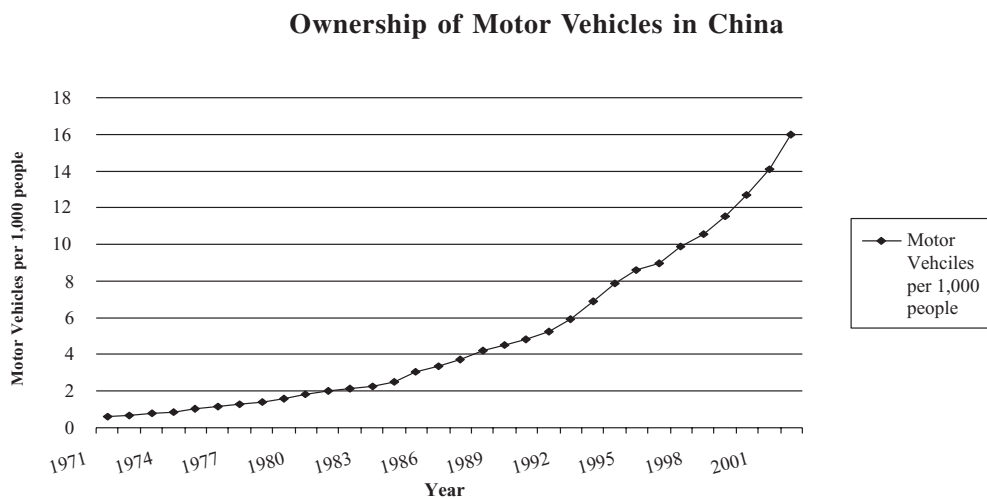
In order to set up the natural gas stations business in Qingyun County and Binzhou City, the Company has planned to construct 2 stations in Binzhou City and 1 station in Qingyun County. In addition, the Company has acquired a parcel of land with a total area of 18,554 sq.m. in Qingyun County and already obtained the concerning Land Use Right Certificate (i.e. Qing Tu Guo Yong (2006) Di No. 0207). The land parcel in Qingyun County was granted to Qingyun Petro-Tech for a term of 50 years expiring on 30 August 2056 for industrial uses. In Binzhou City, the Company will rent two parcels of land to set up the stations.

NATURAL GAS STATIONS BUSINESS

From 2000 to 2005, China's real GDP grew at an average annual rate of 9.2% causing the country's demand for oil to skyrocket by an average of 7.8% per annum. The sharp growth has caused China's share of global oil consumption to soar. Nowadays, China is the second-largest oil consumer behind the United States, and accounts for 8.3% of global oil consumption. In recent years, China has increased its awareness of the scarcity of oil resources and environmental issues, China began to promote the use of alternative energy. Energy saving and use of alternative energy has become one of the five objectives in the National Eleventh Five-Year Plan in China.

The continuing growth of GDP and household expenditure on durable goods reflects the continuous increase in ownership of motor vehicles. From 1971 to 2002, the average growth of ownership of motor vehicles per 1,000 people in China is 11.3% (Please refer to Illustration 2). The increase in ownership of motor vehicles reflects the increase in demand for energy.

Illustration 2



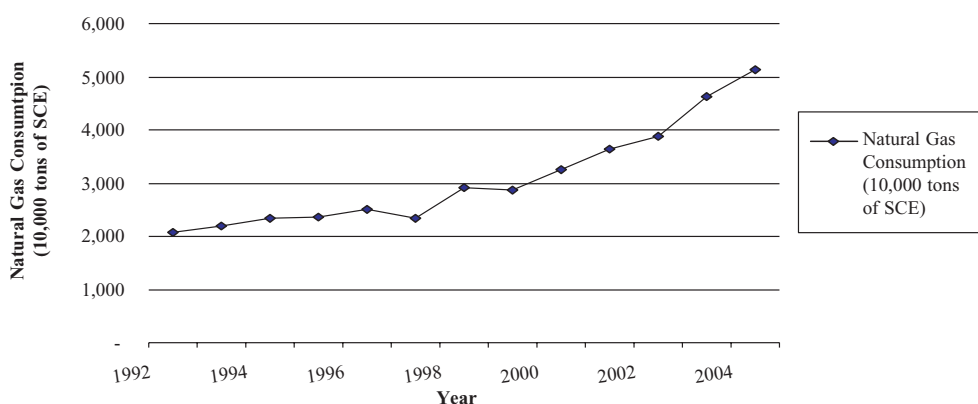
Source: International Monetary Fund

Illustration 3

Energy Type	Fuel	CNG
Heating Value	8,190 kcal/litre	8,800 kcal/litre
Thermal Efficiency	91%	98%
Average Energy Consumption per 100 miles	10 litre	8.6NM ³

Illustration 4

Natural Gas Consumption (1992-2004)

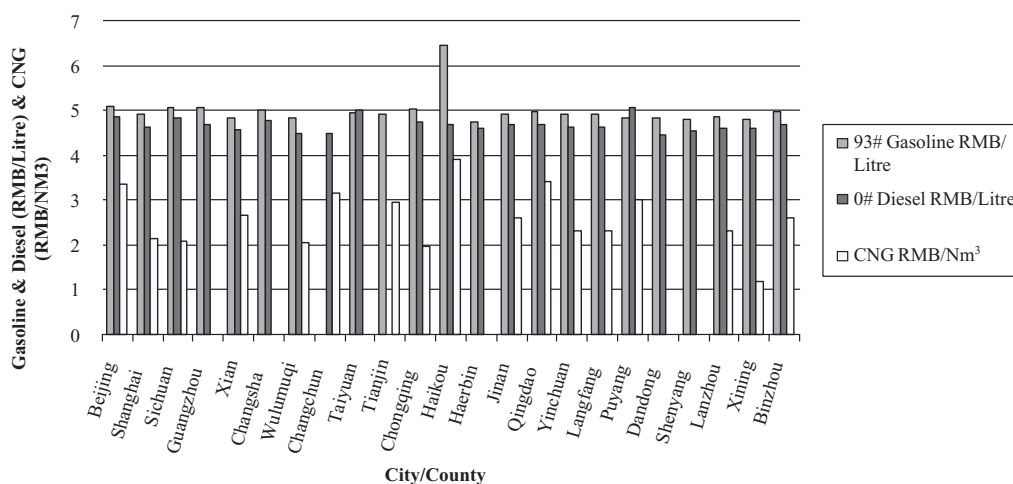


Source: National Bureau of Statistics

Compressed Natural Gas (CNG) is one of the alternative energies other than oil and has been widely used all over the world. The sharp increase in oil prices indirectly promotes the use for natural gas, especially for motor vehicles users. The average annual growth in consumption of natural gas between 1992 and 2004 is approximately 8.1% (Please refer to Illustration 4). Comparatively, the cost and selling price of compressed natural gas is far below the price of gasoline and diesel in all cities and areas in China. In view of the latest prices of gasoline, diesel and CNG in major cities in China, the average prices of #93 gasoline, #0 diesel and CNG are RMB4.99/litre, RMB4.68/litre and RMB2.59/NM³ respectively (Please refer to Illustration 5). For general motor vehicle, the average fuel consumption for running 100 miles is approximately 10 litres, whereas the CNG enabled motor vehicles require only 8.6NM³ per 100 miles. The actual cost saving for a motor vehicle running 100 miles between Gasoline and CNG is approximately 55.4% (Please refer to Illustration 3). However, there are about 127,000 nos. of motor vehicles in China which can use CNG, but there are only about 415 stations providing CNG filling services in China.

Illustration 5

Prices of Gasoline, Diesel and CNG in China (Aug 2006)



Source: China Alternative Fuel Vehicles and our local research

SOURCE OF INFORMATION

For the purpose of valuation, we were furnished with data and information provided by their directors and their management and the Company as well as the local transport bureaus.

The information we have obtained includes, but is not limited to, the following:–

- Company background and future operation plan of the natural gas stations business
- Natural gas stations sites information
- Construction information of the natural gas stations
- Import cost of compressed natural gas
- Selling Price of compressed natural gas
- No. of public and private vehicles

SCOPE OF WORK AND VALUATION METHODOLOGY

Our scope of valuation covers the 100 per cent equity interest of the natural gas stations business of Accelstar. In the valuation of the business, we have adopted the Income Approach.

Income Approach - Income Approach also known as Income Capitalisation Approach. A general way of estimating a value indication of a business ownership interest, or security, using one or more methods wherein a value is estimated by converting anticipated benefits into capital value. The conversion of expected periodic monetary benefits of ownership (such as periodic income and sale proceeds) into an indication of value is based on the principle that an informed buyer would pay no more for an asset than an amount equal to the present worth of anticipated future benefits from the same or equivalent asset with similar risk and growth potential. The discounted cash flow (DCF) approach is commonly applied when adopting the Income Approach to value. The DCF approach takes into account the time value of money, and evaluates the value of an investment by arriving at a Total Net Present Value (NPV). The NPV is the aggregate of the free cash flow of each period discounted at an appropriate discount rate.

VALUATION ASSUMPTIONS AND CONSIDERATIONS

In our valuation, a number of assumptions have to be established in order to sufficiently support our concluded value of the equity interest of the natural gas stations business under the changing business environment. We consider these assumptions to have significant sensitivity effects in this valuation. The major assumptions adopted in this appraisal are as follows:

- No new ordinances or/and regulations will be promulgated by the PRC government or regulatory bodies which will negatively affect or discontinue the natural gas stations business in Binzhou City and Qingyun County;
- No major changes in the current taxation laws in the PRC, and the rates of tax payable remain unchanged;
- No significant change in the management of the Company in the foreseeable future;
- No new alternative energy, except the types we have known, will be introduced to the markets in Binzhou City and Qingyun County;
- The licences held by Accelstar will last till the end of the expiry dates specified on respective licence agreements;
- No material change of the political, economical and social environments of Binzhou City and Qingyun County; and
- No significant fluctuation in the currency exchange rate in the future.

We have considered, but not limited to, the following factors to conduct our valuation and arrive our opinion of market value:

- total number of vehicles in Binzhou City and Qingyun County;
- daily energy consumption of the vehicles;
- estimated possible retailing price of CNG;
- import cost of CNG;
- growth rate of ownership of motor vehicles;
- the number and growth rate of CNG enabled vehicles;
- permitted operating periods of the natural gas stations business;
- capital expenditure on the gas filling stations;
- operating costs of the gas filling stations;
- capacity of the gas filling stations;
- loan facilities and;
- taxation

SENSITIVITY ANALYSIS

A sensitivity analysis based on various discount rates has been performed and is set out as below:

DCF Valuation Discount Rate	Market Value (HK\$)
11.6%	100,500,000
12.1%	94,200,000
12.6%	88,500,000
13.1%	83,200,000
13.6%	78,300,000

OPINION OF MARKET VALUE

In conclusion, based on our aforesaid investigation, analysis and valuation methodology employed, we are of the opinion that as at 1st September 2006, the market value of 100 per cent equity interest of the natural gas stations business held by the subsidiaries of Accelstar Group was **HK\$88,500,000 (HONG KONG DOLLARS EIGHTY EIGHT MILLION FIVE HUNDRED THOUSAND)**. In valuing the subject natural gas stations business, we have adopted an exchange rate of Renminbi (RMB) 1 to HK\$0.9789 which was prevailing as at the date of valuation.

The conclusion of value is based on generally accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Furthermore, while the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, All Praise, Accelstar or Cushman & Wakefield (HK) Ltd.

We confirm that this valuation is in compliance with “The HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises” (First Edition 2004) published by the Hong Kong Institute of Surveyors effective from 31 August 2004, which are valuation standards generally accepted and followed by professional practitioners in Hong Kong.

We have not investigated the title to or any liabilities against the asset appraised. We hereby certify that we have neither present nor prospective interests in the Company, All Praise, Accelstar or the value reported.

Yours faithfully,
For and on behalf of
Cushman & Wakefield (HK) Ltd
Vincent K. C. Cheung
Registered Professional Surveyor (GP Division)
MBA BSc(Hons) MRICS MHKIS
Associate Director

Note: Mr. Vincent K. C. Cheung holds a Master of Business Administration and he is a Registered Professional Surveyor with over 9 years’ experience in assets valuations in Hong Kong, the PRC and Asia Pacific Region. Mr. Cheung is a member of The Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. Mr. Cheung is one of the valuers on the list of property valuers for undertaking valuation for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers as well as a Registered Business Valuer of the Hong Kong Business Valuation Forum. He has extensive experience in the valuations of various types of assets in different industries, such as energy, transportation, natural resources exploitation, agricultural, pharmaceuticals and biotechnology, telecommunication and media for the listed and private companies in Hong Kong and overseas. In the past 3 years, he has been participated in the valuations of various petrol and gas related businesses in China and he is currently engaged in a valuation of oil and gas filling stations in Hong Kong for an international oil company.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised</i>	<i>HK\$</i>
<u>125,000,000,000</u> shares of HK\$0.01 each	<u>1,250,000</u>
<i>Issued and fully paid or credited as fully paid:</i>	
1,804,676,213 shares of HK\$0.01 each	18,046,762
Consideration Shares to be issued pursuant to the Acquisition Agreement	
<u>175,000,000</u> shares of HK\$0.01 each	<u>1,750,000</u>
<u>1,979,676,213</u>	<u>19,796,762</u>

All of the shares in issue rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of issue.

The Consideration Shares shall rank pari passu with all the Shares in issue in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of issue.

3. DISCLOSURE OF INTERESTS**(a) Interests of Directors and chief executive of the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the

Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Capacity	Nature of interest	Number of ordinary shares held	Total interest as % of the issued share capital	Interests in underlying shares (share options)	Total interests (including underlying shares) as % of issued share capital
Mr. Xu Tie-liang	Beneficial Owner	Corporate	321,018,300	17.79%	Nil	17.79%

Note: The 321,018,300 Shares are held by Sino Advance Holdings Limited, a company of which is wholly and beneficially owned by Mr. Xu Tie-liang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company has an interest or short position in any shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Directors' interests in assets and contracts

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 July 2005, being the date to which the latest published audited accounts of the Company were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company subsisting at the Latest Practicable Date and which is significant in relation to the business of the Company.

(c) Directors' and management shareholders' interests in competing business

As at the Latest Practicable Date, none of the Directors or the controlling Shareholders of the Company and their respective Associates has any interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 8.10 of the Listing Rules.

(d) Substantial Shareholders' and other Shareholders' interests

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executive of the Company, no other person has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name of Shareholder	Class of Shares	Number of Shares held	Approximate percentage of total issued share capital of the Company
Sino Advance Holdings Limited (<i>Note 1</i>)	Ordinary	321,018,300	17.79%

Note:

1. Sino Advance Holdings Limited is wholly owned by Mr. Xu Tie-liang, the Chairman of the Company.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered or proposed to enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. MATERIAL CONTRACTS

Save as disclosed below, the Company has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular which are or may be material:

- (i) the Sale and Purchase Agreement; and
- (ii) the agreement dated 11 September 2006 made between the Company and Guotai Junan (Hong Kong) Securities Limited for placing of new Shares.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions, letters or advice contained or referred to in this circular:

Name	Qualification
Cushman & Wakefield (HK) Limited	A firm of registered professional surveyors and real estate, machinery and equipment valuers in Hong Kong
Ting Ho Kwan & Chan	Certified Public Accountants

The above experts have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their opinion or letters, as the case may be, and references to their name, opinion or letters in the form and context in which they appear.

As at the Latest Practicable Date, the above experts are not beneficially interested in any shareholding in the Company nor have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did they have any interest, either direct or indirect, in any assets of the Company which have been, since 31 July 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of or leased to, or are proposed to be acquired or disposed of or leased to, the Company

8. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

As at the Latest Practicable Date, so far as is known to the Directors, the Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial and trading position or prospect of the Company since 31 July 2005, being the date to which the latest published audited accounts of the Company were made up.

9. PROCEDURES TO DEMAND FOR A POLL AT GENERAL MEETING

Pursuant to Bye-law 66 of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting;
- (b) by at least three Shareholders present in person or by a duly authorized corporate representative or by proxy for the time being entitled to vote at the meeting;
- (c) by a Shareholder or Shareholders present in person or by a duly authorized corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting;

- (d) by a Shareholder or Shareholders present in person or by a duly authorized corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or
- (e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

10. MISCELLANEOUS

- (a) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis;
- (b) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the SGM;
- (c) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda;
- (d) The head office and principal place of business of the Company in Hong Kong is Suite 3003, 30th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong;
- (e) The company secretary of the Company is Miss Chan Yuen Ying Stella who is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators;
- (f) The qualified accountant of the Company is Mr. To Kwan, CPA Australia, HKICPA;
- (g) The Company's Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and
- (h) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office of the Company at Suite 3003, 30/F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (c) the written consents referred to under the section headed “Experts and Consents” in this appendix;
- (d) the annual reports of the Company for years ended 31 July 2004 and 31 July 2005 respectively and the interim report of the Company for the six months ended 31 January 2006;
- (e) the accountants’ report from Ting Ho Kwan & Chan on unaudited pro forma financial information of the Accelstar Group, the text of which is set out in Appendix III to this circular; and
- (f) the valuation report in respect of the Natural Gas Stations, from Cushman & Wakefield (HK) Limited, the text of which is set out in Appendix IV to this circular.

NOTICE OF SGM



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(formerly known as Nippon Asia Investments Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock code: 00603)

NOTICE IS HEREBY GIVEN that a special general meeting of China Oil And Gas Group Limited (“Company”) will be held at Regus, 2nd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on Monday, 6 November 2006 at 10:30 a.m. for the purpose of considering, and if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) (i) the Sale and Purchase Agreement (the “Sale and Purchase Agreement”) dated 18 July 2006 entered into among All Praise Investments Limited, Topfaith Group Limited (“Topfaith”) and Mr. Chu Ming Ming, a copy of which has been produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved;
- (ii) the provision by the Company to Accelstar Pacific Limited (“Accelstar”) of an interest-free shareholder loan (the “Shareholder Loan”) of HK\$8,914,000 which is repayable upon expiry of a term of 2 years from the date of advance pursuant to the Sale and Purchase Agreement be and is hereby approved;
- (iii) the allotment and issue to Topfaith of 175,000,000 new shares of HK\$0.01 each of the Company (“Shares”) pursuant to the Sale and Purchase Agreement be and are hereby approved; and
- (b) the directors of the Company be and are hereby authorized to (i) do all such acts, matters and things as they may in their absolute discretion consider necessary, expedient or desirable to give effect to and implement the Sale and Purchase Agreement and the transactions contemplated thereunder as well as the provision of the Shareholder Loan in accordance with the terms and conditions of the Sale and Purchase Agreement and to waive compliance from or make and agree such variations to any of the terms and conditions of the Sale and Purchase Agreement as they may in their discretion consider to be necessary or desirable and in the interest of the Company; (ii) allot and issue 175,000,000 new Shares to Topfaith pursuant thereto; and (iii) advance the Shareholder Loan to Accelstar pursuant thereto.”

* For identification purposes only

NOTICE OF SGM

By Order of the Board
Xu Tie-liang
Chairman

Hong Kong, 18 October 2006

Notes:

1. A member entitled to attend and vote at the above meeting may appoint one or, if he is the holder of two or more shares, more than one proxy to attend and vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed with a circular of the Company dated 18 October 2006.
2. In order to be valid, the form of proxy, together with any power of attorney or authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of 46/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
4. As at the date of this notice, the board of directors (the "Directors") of the Company comprised of seven Directors, including four executive Directors, namely, Mr. Xu Tie-liang, Mr. Qu Guo-hua, Mr. Zeng Xiao and Mr. Cheung Shing, and three independent non-executive Directors, namely, Mr. Cheung Man Yau, Mr. Shi Xun-zhi and Mr. Peng Long.