
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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).

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

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

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders of the Company**

VEDA | CAPITAL
智略資本

A notice convening the special general meeting of China Oil And Gas Group Limited to be held at 20th Floor, Central Tower, 28 Queen's Road Central, Hong Kong, on Thursday, 15 March 2007 (or any adjournment thereof) at 10:30 a.m. is set out on pages 187 to 188 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 wish.

* 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, which has an authorized capital of US\$50,000 divided into 50,000 shares of US\$1.00 each
“Accelstar Group”	Accelstar and its subsidiaries
“Accelstar Group Acquisition”	the acquisition of 80% of the total issued share capital of Accelstar, details of which are set out in the circular of the Company dated 18 October 2006
“Acquisition”	the proposed acquisition by the Purchaser of the Sale Share and the Sale Shareholder Loan from the Vendor pursuant to the Sale and Purchase Agreement
“Anhui China Oil Co”	安徽中油管道高佳燃氣有限公司 (Anhui China Oil And Gas Co., Ltd.*), a sino-foreign joint venture enterprise established in Maanshan of the PRC, 60% of its shareholding is owned by Top Best Group while 40% of its shareholding is owned by 中石油天然氣管道燃氣投資有限公司 (China Petroleum Pipeline Urban Gas Investments Limited*), a third party independent of and not connected with the Company and any of its connected persons and their respective associates
“associates”	has the meaning ascribed to it under the Listing Rules
“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-law(s)”	the bye-law(s) of the Company
“Company”	China Oil And Gas Group Limited, a limited liability company incorporated in Bermuda, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 603)
“Completion”	completion of the sale and purchase of the Sale Share and the Sale Shareholder Loan under the Sale and Purchase Agreement

DEFINITIONS

“Completion Date”	the date on which Completion takes place
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration”	consideration for the Acquisition in the amount of HK\$196,370,793 to be satisfied by the Purchaser (i) as to HK\$10,370,793 in cash; (ii) as to HK\$96 million by issue of the Consideration Shares; and (iii) as to HK\$90 million by issue of the Convertible Note respectively
“Consideration Shares”	400,000,000 new Shares to be issued by the Company to the Vendor for part payment of the Consideration on Completion
“Conversion Share(s)”	375,000,000 new Shares to be issued upon conversion of the Convertible Note, if fully converted
“Convertible Note”	the convertible note to be issued by the Company in the principal amount of HK\$90 million with an exercise price of HK\$0.24 per Conversion Share
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group and the Vast China Group immediately after Completion
“Enlarged (Accelstar) Group”	the Group immediately after completion of the Accelstar Group 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 Board Committee”	the independent board committee of the Company constituted by the three independent non-executive Directors, namely, Mr. Cheung Man Yau, Timothy, Mr. Shi Xun-zhi and Mr. Peng Long, to advise the Independent Shareholders in relation to the Sale and Purchase Agreement, the provision of the Shareholder Loan, the issue of the Consideration Shares and the issue of the Convertible Note and the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser” or “Veda Capital”	Veda Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	the Shareholders other than Mr. Xu and his associates
“Independent Valuer”	Cushman & Wakefield (HK) Limited, the independent valuer appointed by the Purchaser for the purpose of preparing a valuation report on the fair market value of the Natural Gas Stations
“Issue Date”	the date of issue of the Convertible Note
“Last Trading Day”	11 December 2006, being the last trading day prior to the suspension of trading in the Shares
“Latest Practicable Date”	21 February 2007, being the latest practicable date before the printing of this circular for ascertaining certain information
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 March 2007, being the date extended by the Purchaser and the Vendor
“Main Natural Gas Station”	the main natural gas station operated by Anhui China Oil Co, construction of which has been substantially completed
“Maturity Date”	the day falling twenty four months from the Issue Date
“Mr. Xu” or “Guarantor”	Mr. Xu Tie-liang, the chairman and substantial shareholder of the Company, who is also the ultimate beneficial owner of the Vendor and the guarantor in respect of the Sale and Purchase Agreement
“Nanjing Acquisition”	the acquisition of the natural gas stations business from New Stamina Investments Limited by the Company under the sale and purchase agreement dated 11 December 2006, details of which are set out in the circular of the Company dated 8 January 2007
“Nanjing Conversion Shares”	275,000,000 new Shares to be issued upon conversion of the Nanjing Convertible Note, if fully converted

DEFINITIONS

“Nanjing Convertible Note”	the convertible note issued by the Company in the principal amount of HK\$66 million with an exercise price of HK\$0.24 per Nanjing Conversion Share as part of the consideration for the Nanjing Acquisition
“Natural Gas Stations”	collectively the New Natural Gas Stations and the Main Natural Gas Station
“New Natural Gas Stations”	3 gas stations to be invested and/or constructed by the PRC Companies in Maanshan
“Placing”	the placing of 360,000,000 new Shares by the Company, details of which are set out in the Placing Announcement
“Placing Announcement”	the announcement made by the Company on 27 December 2006 in relation to the Placing
“Plentigreat”	Plentigreat Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which has an authorized capital of US\$50,000 divided into 50,000 shares of US\$1.00 each
“Plentigreat Group”	Plentigreat and its subsidiaries
“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 WOFE and Anhui China Oil Co
“Purchaser”	All Praise Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional agreement dated 15 December 2006 entered into between the Purchaser and the Vendor for the sale and purchase of the Sale Share and the Sale Shareholder Loan
“Sale Share”	the entire issued share capital of Vast China as at the date of the Sale and Purchase Agreement
“Sale Shareholder Loan”	the unsecured and interest-free shareholder loan of HK\$10,370,793 advanced by the Vendor to Vast China

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held to approve the Sale and Purchase Agreement, the provision of the Shareholder Loan, the issue of the Consideration Shares, the issue of the Convertible Note and the Conversion Shares to be issued upon conversion of the Convertible Note (if any) and the transactions contemplated thereunder
“Shareholders”	holders of Shares
“Shareholder Loan”	an interest-free shareholder loan of HK\$12 million to be provided by the Purchaser to Vast China within 120 days after the Completion Date, which is repayable upon expiry of a term of 5 years from the date of advance
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Top Best Group”	Top Best Group Limited (高佳集團有限公司), a private company incorporated in Samoa with limited liability on 6 October 2003, which is wholly owned by Vast China
“Top Best Hong Kong”	Top Best Group (Hong Kong) Limited (高佳集團(香港)有限公司), a private company incorporated in Hong Kong with limited liability on 4 November 2006, which is wholly owned by Vast China
“US\$”	United States dollars, the lawful currency of the United States of America
“Vast China”	Vast China Group Limited, a company incorporated in the British Virgin Islands with limited liability, which has an authorized capital of US\$50,000 divided into 50,000 shares of US\$1.00 each
“Vast China Group”	Vast China, Top Best Hong Kong, Top Best Group, WOFE and Anhui China Oil Co

DEFINITIONS

“Vendor”	Sino Vantage Management Limited, a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is beneficially owned by Mr. Xu
“WFOE”	a wholly foreign owned enterprise to be established in Maanshan of the PRC, which will be wholly owned by Top Best Hong Kong
“%”	per cent.

** English translation of company names for identification purpose only*

LETTER FROM THE BOARD



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

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 HM 11

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 2805, 28th Floor

Sino Plaza

255-257 Gloucester Road

Causeway Bay

Hong Kong

26 February 2007

*To the Shareholders and for information only,
holder of the Nanjing Convertible Note*

Dear Sir or Madam,

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

INTRODUCTION

It was announced on 28 December 2006 that the Board intended to put forward a proposal 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; (ii) a letter of recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice on the Sale and Purchase Agreement and the transactions contemplated thereunder from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) information including the accountants' report of the Vast China Group; and (v) the valuation report on the Natural

* For identification purpose only

LETTER FROM THE BOARD

Gas Stations. Further, this circular contains a notice of SGM which shall be 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, the issue of the Consideration Shares, the issue of the Convertible Note and the Conversion Shares to be issued upon conversion of the Convertible Note (if any) and the transactions contemplated thereunder.

SALE AND PURCHASE AGREEMENT

Date of the Sale and Purchase Agreement

15 December 2006

Parties

- (1) The Purchaser, a wholly owned subsidiary of the Company;
- (2) The Vendor, the entire issued share capital of which is beneficially owned by Mr. Xu; and
- (3) The Guarantor (to guarantee the performance of the Vendor's obligations under the Sale and Purchase Agreement).

As Mr. Xu is the sole beneficial owner of the Vendor, he is willing to give the warranties regarding the Vast China Group in favour of the Company.

The Vendor is an investment holding company while Mr. Xu is the chairman of the Company. There is no previous transaction entered into between Mr. Xu and the Group which requires to be disclosed under Chapter 14A of the Listing Rules.

Assets to be acquired

- (1) The Sale Share, representing the entire issued share capital of Vast China. Vast China is wholly owned by the Vendor; and
- (2) The Sale Shareholder Loan advanced by the Vendor to Vast China.

Consideration

The Consideration shall be HK\$196,370,793 (comprising of HK\$186 million as the consideration for acquiring the Sale Share and HK\$10,370,793 as the consideration for acquiring the Sale Shareholder Loan) which was agreed between the parties to the Sale and Purchase Agreement based on arm's length negotiation and was made with reference to the fair market value of the Natural Gas Stations as at 15 December 2006 of not less than HK\$218 million to be confirmed by the Independent Valuer. A refundable interest-free cash deposit of HK\$5 million was paid by the Purchaser to the Vendor upon signing of the Sale and Purchase Agreement. Upon Completion, (i) cash consideration of HK\$5,370,793 shall be paid by the Purchaser to the Vendor; (ii) the sum of HK\$96 million shall be satisfied by the

LETTER FROM THE BOARD

issue and allotment of the Consideration Shares to the Vendor at an issue price of HK\$0.24 per Consideration Share; and (iii) the sum of HK\$90 million shall be satisfied by the issue of the Convertible Note to the Vendor. The issue of the Consideration Shares and the Convertible Note shall be subject to the Independent Shareholders' approval at the SGM.

The issue price of HK\$0.24 per Consideration Share and the exercise price of HK\$0.24 per Conversion Share represent:

- (a) a discount of approximately 27.27% to the closing price of HK\$0.33 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 8.33% to the 5-day average closing price of approximately HK\$0.2618 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (c) a premium of approximately 5.17% to the 10-day average closing price of approximately HK\$0.2282 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 64.18% to the closing price of HK\$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Based on the closing price of HK\$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the value of the Consideration Shares would amount to HK\$268,000,000. The Consideration Shares represent approximately 13.89% and 12.20% of the Company's existing share capital and enlarged share capital immediately following the Completion (assuming no Convertible Note is converted) respectively.

The Conversion Shares represent approximately 13.02% of the existing issued share capital of the Company and approximately 10.26% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

An application will be made to the listing committee of the Stock Exchange for the listing of and permission to deal in the Consideration Shares and the Conversion Shares to be issued upon conversion of the Convertible Note. The Consideration Shares and the Conversion Shares will rank *pari passu* in all respects with the existing Shares.

The basis in respect of the issue price of the Consideration Shares and the conversion price of the Convertible Note were determined between the Company and the Vendor after arm's length negotiations with reference to the Company's share price performance, i.e. the 5-day average closing price and the 10-day average closing price per Share, at the time when the Sale and Purchase Agreement was entered into between the Purchaser and the Vendor. To avoid any distortion, the Company considers that 5-day average closing price and 10-day average closing price should be more appropriate and more reliable reference points compared with than a single day closing price.

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As at the Latest Practicable Date, other than the Nanjing Convertible Note, the Company has no outstanding options, warrants or convertible instruments to subscribe for any Shares.

The Convertible Note

The terms of the Convertible Note have been negotiated on an arm's length basis, the principal terms of which are summarized below:

Principal amount

HK\$90 million.

Interest

No interest will accrue on the outstanding principal amount.

Maturity

2 years from the Issue Date.

Conversion price

HK\$0.24 per Conversion Share subject to adjustment.

The overriding principle as set out in the Stock Exchange's letter dated 5 September 2005 is that no adjustment to the exercise price or number of shares should be to the advantage of share option scheme participants without prior Shareholders' approval. The adjustment will be made to the conversion price if and only if there is an event of sub-division or consolidation of Shares, bonus issues, rights issues, capitalization of profits or reserves or capital distributions in cash or specie.

Conversion

The holder of the Convertible Note may convert the whole or any part of the principal amount of the Convertible Note outstanding into Conversion Shares at the price of HK\$0.24 per Conversion Share. The Conversion Shares will be issued upon conversion of the Convertible Note. An application will be made to the listing committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

The holder(s) of the Convertible Note is/are restricted to exercise the conversion rights attaching on the Convertible Note to the extent that no holder(s) of the Convertible Note together with parties acting in concert with it/them shall control 30% or more of the voting rights in the Company.

LETTER FROM THE BOARD

Conversion period

The Convertible Note may be converted from the date after six calendar months of the Issue Date and prior to the Maturity Date.

Ranking

The Conversion Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

Transferability

The Convertible Note is freely transferable, but may not be transferred to a connected person of the Company unless approval for such transfer is obtained from the Stock Exchange. The Company undertakes to notify the Stock Exchange if the Convertible Note or any part thereof is transferred to a connected person of the Company.

Events of default

The Convertible Note contains an event of default provision which provides that on the occurrence of certain events of default (e.g. repayment overdue, insolvency, liquidation and suspension of trading on the Stock Exchange for a continuous period of 30 trading days due to the default of the Company) specified in the Convertible Note, the holder of the Convertible Note shall be entitled to demand for immediate repayment of the principal amount outstanding under the Convertible Note.

Conditions precedent

Completion shall be conditional upon fulfillment of the following conditions:

- (i) the Purchaser being, in its absolute discretion, satisfied with the results 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 as at 15 December 2006 shall not be less than HK\$218 million;
- (ii) the legal opinion to be issued by a firm of PRC lawyers acceptable to the Purchaser covering such legal matters, including the legality and validity of the establishment and operations of the Vast China Group and the Natural Gas Stations, in such form and substance to the satisfaction of the Purchaser having been obtained;
- (iii) the passing of the relevant resolution at the SGM by the Independent Shareholders for approving the Sale and Purchase Agreement, the provision of the Shareholder Loan, the issue of the Consideration Shares, the issue of the Convertible Note and the Conversion Shares to be issued upon conversion of the Convertible Note (if any) and the transactions contemplated thereunder;

LETTER FROM THE BOARD

- (iv) the granting of listing approval in connection with the issue of the Consideration Shares and the Conversion Shares;
- (v) 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 Completion; and
- (vi) the Purchaser, having satisfied, at its absolute discretion, with the results of the due diligence exercise conducted by the Purchaser on the Vast China Group and the Natural Gas Stations project.

None of the above conditions precedent could be waived. The Vendor and the Purchaser shall use their respective best endeavours to procure that the conditions precedent shall be fulfilled and/or satisfied on the Long Stop Date (or such other date as the parties may agree in writing). As at the Latest Practicable Date, the conditions precedent (i), (ii), (v) and (vi) have been fulfilled while the other conditions precedent are yet to be fulfilled. However, if any of the conditions precedent is not satisfied by the Purchaser on or before the 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 already paid to the Vendor pursuant to the Sale and Purchase Agreement shall be returned to the Purchaser forthwith, other than any liabilities arising from any antecedent breach of the Sale and Purchase Agreement, and any rights or remedies which shall have accrued shall not be prejudiced or affected.

Completion

Subject to the satisfaction of the conditions precedent, the Completion shall take place on the third Business Day immediately after the date on which all the conditions precedent are satisfied.

After Completion, Vast China will become an indirect wholly-owned subsidiary of the Company.

Further, under the Sale and Purchase Agreement, the Purchaser undertakes with Vast China that within 120 days after the Completion Date, the Purchaser shall advance the Shareholder Loan to Vast China, which will be provided to the PRC Companies for the construction of the New Natural Gas Stations and the operation of the PRC Companies.

The funding of the Consideration and the Shareholder Loan 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, should not affect its normal business operations given that the Company has sufficient working capital available for its operation irrespective of the Acquisition.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The effects of the Acquisition on the shareholding in the Company are as follows:

	As at the Latest Practicable Date	Approximate percentage (%)	Immediately after Completion and issue of the Consideration Shares but assuming no Convertible Note is converted	Approximate percentage (%)	Immediately after Completion and issue of the Consideration Shares and assuming the Convertible Note is converted in full into Conversion Shares	Approximate percentage (%)	Assuming the Nanjing Convertible Note is converted in full into Nanjing Conversion Shares	Approximate percentage (%)
Sino Advance Holdings Limited (<i>Note 1</i>)	321,018,300	11.15	321,018,300	9.79	321,018,300	8.78	321,018,300	8.17
The Vendor (<i>Note 2</i>)	–	–	400,000,000	12.20	775,000,000	21.21	775,000,000	19.72
Sub-total for the shareholdings in the Company held by Sino Advance Holdings Limited and the Vendor (<i>Note 3</i>)	321,018,300	11.15	721,018,300	21.99	1,096,018,300	29.99	1,096,018,300	27.89
New Stamina Investments Limited (<i>Note 4</i>)	–	–	–	–	–	–	275,000,000	7.00
Other public Shareholders	2,558,657,913	88.85	2,558,657,913	78.01	2,558,657,913	70.01	2,558,657,913	65.11
Total public float	2,558,657,913	88.85	2,558,657,913	78.01	2,558,657,913	70.01	2,833,657,913	72.11
TOTAL	2,879,676,213	100.00	3,279,676,213	100.00	3,654,676,213	100.00	3,929,676,213	100.00

Notes:

1. Sino Advance Holdings Limited is wholly and beneficially owned by Mr. Xu.
2. The Vendor is wholly and beneficially owned by Mr. Xu.
3. The sub-total amount of shareholdings in the Company reflects the aggregate shareholdings in the Company held by Sino Advance Holdings Limited and the Vendor as both companies are wholly and beneficially owned by Mr. Xu.
4. New Stamina Investments Limited is wholly and beneficially owned by Mr. Lo Chung (who has an interest in 19,000,000 Shares which represents 0.66% shareholding in the Company as at the Latest Practicable Date), a third party independent of and not connected with the Company's connected persons and their respective associates.

The Acquisition will not result in a change of control of the Company.

INFORMATION OF THE VAST CHINA GROUP

Vast China, a company incorporated in the British Virgin Islands on 15 August 2006, currently is an investment holding company wholly and beneficially owned by the Vendor.

Based on the information provided by the Vendor, the share capital of Vast China is wholly owned by the Vendor whereas Mr. Xu is the ultimate beneficial owner of the Vendor.

LETTER FROM THE BOARD

The Vast China Group, which consists of Vast China and all its subsidiaries, namely, Top Best Hong Kong, Top Best Group, WOFE and Anhui China Oil Co, is principally engaged in investments and construction of the Natural Gas Stations and supply of natural gas in Maanshan, Anhui of the PRC through Vast China's two operating subsidiaries Anhui China Oil Co and WOFE. The Vast China Group will become a major natural gas operator in Maanshan.

Vast China has not commenced any significant operations, save for the Sale Shareholder Loan and the investments in Anhui China Oil Co through Top Best Group for the construction and operation of the Main Natural Gas Station. Vast China does not have any material assets or liabilities as at the date of the Sale and Purchase Agreement.

To the best knowledge of the Directors and having made all reasonable enquiries, Top Best Hong Kong is an investment holding company incorporated in Hong Kong on 4 November 2006 and has not commenced any significant business operation. Top Best Hong Kong has obtained approval from the relevant government authority to invest in, construct and operate natural gas stations in Maanshan, and a WOFE will be established on or before the Completion for the construction and operation of the New Natural Gas Stations. Whereas Top Best Group is an investment holding company incorporated in Samoa on 6 November 2003 and has not commenced any significant business operation other than holding a 60% equity interest in Anhui China Oil Co.

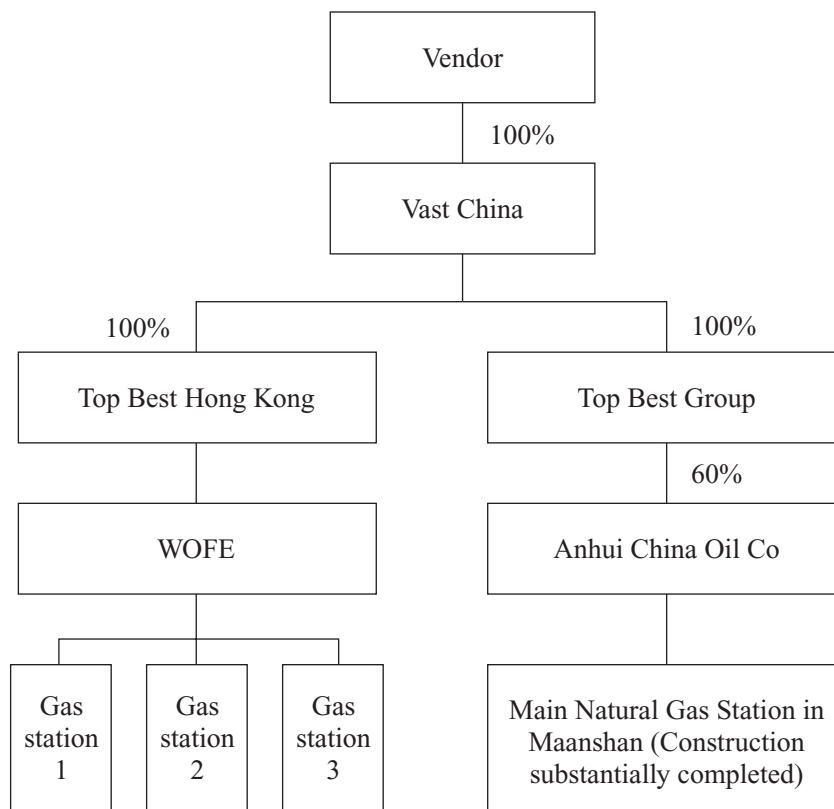
Anhui China Oil Co has obtained approval from the relevant government authority to invest in, construct and operate the Main Natural Gas Station in Maanshan. Anhui China Oil Co has the 20 years of operation permit to engage in the Natural Gas Stations business under its approval. No PRC regulatory approvals are required for change in shareholdings in Vast China 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 or the equity joint ventures.

Vast China and its subsidiaries other than Top Best Group and Anhui China Oil Co were recently incorporated. Based on the audited financial data from the accountants' report on the Vast China Group contained in Appendix II to this circular, as at 31 December 2006, the audited consolidated net assets of Vast China amount to approximately HK\$5.7 million, and the net loss for the year 2006 was approximately HK\$1.2 million mainly derived from the pre-operating expenses. Save for disclosed above, Vast China Group has not commenced any business operations, and no member of the Vast China Group has recorded any revenue or profit nor incurred any material liability prior to the date of the Sale and Purchase Agreement.

LETTER FROM THE BOARD

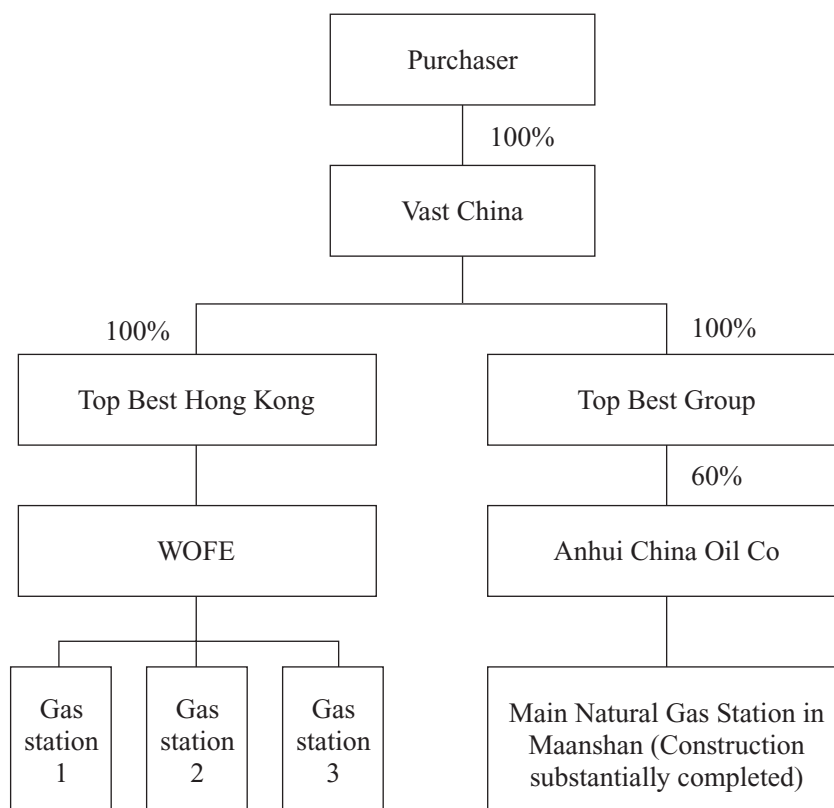
Shareholding structure of the Vast China Group as at the Latest Practicable Date and immediately upon Completion

1. As at the Latest Practicable Date



LETTER FROM THE BOARD

2. Immediately upon Completion



INFORMATION OF THE COMPANY

The Company is principally engaged in investment in the natural gas business, energy related business and information technology.

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.

In addition to the piped city natural gas business, it is the Company's intention to set up refilling gas stations networks nationwide to expand and broaden its natural gas business.

Since the approvals from the relevant PRC government have been obtained in July 2005 for the Main Natural Gas Station and in October 2006 for the New Natural Gas Stations, the Vast China Group will be able to operate natural gas stations to supply natural gas in Maanshan. The Directors are of the view that the Acquisition will enable the Company to capture the business opportunities to become a major supplier of natural gas in Maanshan.

LETTER FROM THE BOARD

Maanshan, of a size about 1,666km², has a population of approximately 1.24 million, is situated at the eastern part of Anhui adjacent to the Changjiang triangle area with convenient traffic and in a short distance west to Wuhu and north to Jiangsu, Nanjing.

Maanshan is one of the fastest growing and developing cities in Anhui. GDP of which has recorded RMB37 billion in 2005, increased by 18.6% as compared with its GDP in 2004, and it is expected to reach RMB41 billion in 2006. Mineral, steel and steel related are the major industries in Maanshan, where other industries like information technology, property, building construction are developing and growing rapidly.

The Company is interested in the natural gas investments in Maanshan since it is considered to have great growth potential with strong GDP after taking into account its rapid growth from 2004 to 2005. Moreover, Maanshan is a city well praised for its green and clean environment by virtue of the government's emphasis and effort on environmental protection along with the rapidly growing economy, where natural gas is highly encouraged and supported by the government due to its clean and affordable nature as an alternative and complementary energy to coal and petroleum. In view of the foregoing, the Company considers that there will be a great demand for natural gas in Maanshan where the Company can capture the business opportunities to become a major supplier of natural gas in Maanshan. Given the short distance between Maanshan and Nanjing (within an hour driving), it is considered to have synergy value for the Company to set up refilling gas stations networks in both Maanshan and Nanjing.

The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Sale and Purchase Agreement are entered into on normal commercial terms and are in the ordinary course of business of the Group and the terms of the Sale and Purchase Agreement together with the provision of the Shareholder Loan have been negotiated on an arm's length basis, which the Directors consider to be fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE VAST CHINA GROUP

The management discussion and analysis of the Vast China Group is based on the audited financial data from the accountants' report on the Vast China Group contained in Appendix II to this circular.

The Vast China Group is principally engaged in investment and construction of natural gas stations and supply of natural gas in Maanshan, Anhui of the PRC through Anhui China Oil Co and WOFE. During the period from 1 January 2004 to 31 December 2006 (the "Relevant Period"), save for the construction of the Main Natural Gas Station whereof pre-operating expenses of approximately HK\$1.8 million was incurred, the Vast China Group has not commenced any significant business operation, and no revenue or profit was recorded during the Relevant Period.

As at 31 December 2006, the Vast China Group had total assets of approximately HK\$16.8 million, of which approximately HK\$5.4 million represents cash balance in Anhui China Oil Co, approximately HK\$5.3 million represents the construction, plant and

LETTER FROM THE BOARD

equipment of the Main Natural Gas Station, and HK\$5.7 million represents construction payment in advance and deposit for equipments. The Vast China Group has not pledged any of its assets.

As at 31 December 2006, the Vast China Group had total liabilities of approximately HK\$11 million mainly representing the Sale Shareholder Loan of HK\$10,370,793. The Vast China Group had no bank loans, overdraft or other borrowings, and had no contingent liabilities. The gearing ratio of the Vast China Group, measured on the basis of total current liabilities being the payables of approximately HK\$0.7 million as a percentage of total equity, was 12.4%.

Save for the construction of the Main Natural Gas Station, as well as the construction of the New Natural Gas Stations which is expected to be financed by the Shareholder Loan, Vast China Group has not committed other material investment or capital expenditure as at 31 December 2006.

As at 31 December 2006, Vast China had 1 share of US1.00 each in issue, which is wholly owned by the Vendor.

FINANCIAL EFFECT OF THE ACQUISITION

After Completion, Vast China will become a wholly owned subsidiary of the Company, and the Vast China Group will be consolidated into the Group's accounts.

Since the Main Natural Gas Station has not commenced any operations, where the construction of the New Natural Gas Stations will be commenced after the Completion, save for the pre-operating expenses of approximately HK\$1.8 million, there is no effect on the earnings of the Group.

The Group's total assets will be increased by approximately HK\$193.2 million, of which approximately HK\$186.7 million represents the goodwill arising from the Acquisition, and the rest is increased by the assets of the Vast China Group.

The Group's total liabilities will be increased by approximately HK\$80.8 million as to approximately HK\$0.7 million representing the payables of the Vast China Group, and HK\$80.1 million representing the fair value of the liability component of the Convertible Note.

Save for the aforesaid, there is no other effect on the earnings, assets and liabilities of the Group.

MATERIAL ACQUISITIONS

In 2006, the Group has entered into the following acquisitions:

- (i) on 18 July 2006, the Group entered into a sale and purchase agreement for the acquisition of 80% of the total issued share capital of Accelstar from Topfaith Group Limited for a total consideration of HK\$58.5 million satisfied by the Group

LETTER FROM THE BOARD

(i) as to HK\$48 million in cash; and (ii) as to HK\$10.5 million by issue of 175,000,000 new Shares to Topfaith Group Limited respectively. This transaction was completed in November 2006. Accelstar Group is principally engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun City and Binzhou City of the PRC; and

- (ii) on 11 December 2006, the Group entered into a conditional sale and purchase agreement for the purchase of 80% of the total issued share capital of Plentigreat from New Stamina Investments Limited for a total consideration of HK\$133 million satisfied by the Group (i) as to HK\$67 million in cash; and (ii) as to HK\$66 million by issuing the Nanjing Convertible Note. The Nanjing Acquisition was completed in February 2007. Plentigreat Group is principally engaged in investment and construction of natural gas stations and supply of natural gas in Nanjing of the PRC.

Save as disclosed in this circular, no member of the Group, since 31 July 2005, has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors' report or next published accounts of the Company.

FUND RAISING FOR THE PAST 12 MONTHS

The Company has completed the placing of 540,000,000 new Shares in October 2006 pursuant to the resolution passed by the Shareholders at the special general meeting of the Company held on 16 October 2006 which generated HK\$64 million for general working capital for the Group and for finance investments in, and/or acquisition of suitable natural gas projects identified (the intended use of which remains unchanged as at the Latest Practicable Date).

Further, the Company has completed the Placing in January 2007. The new Shares were issued under the general mandate granted by the Shareholders at the annual general meeting of the Company held on 22 September 2006. The net proceeds of the Placing in the sum of HK\$103.1 million will be used as general working capital for the Group and for finance investments in, and/or acquisition of suitable natural gas projects identified (the intended use of which remains unchanged as at the Latest Practicable Date).

The Company has completed the Nanjing Acquisition in February 2007, whereupon the Company has issued the Nanjing Convertible Note pursuant to the resolution passed by the Shareholders at the special general meeting of the Company held on 25 January 2007. The Nanjing Conversion Shares will be issued by the Company upon exercise of the Nanjing Convertible Note (if any).

Save as disclosed above, the Company has not conducted any other fund raising activities in the 12 month period prior to the Latest Practicable Date.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

The Acquisition together with provision of the Shareholder Loan constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. As Mr. Xu is a connected person of the Company, the entry of the Sale and Purchase Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Sale and Purchase Agreement is subject to approval of the Independent Shareholders at the SGM.

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

SGM

The SGM will be held to consider, and if thought fit, passing the resolution to approve the Sale and Purchase Agreement, the provision of the Shareholder Loan, the issue of the Consideration Shares, the issue of the Convertible Note and the Conversion Shares to be issued upon conversion of the Convertible Note (if any) and the transactions contemplated thereunder.

Notice of the SGM is set out on pages 187 to 188 of this circular. The SGM will be held at 20th Floor, Central Tower, 28 Queen's Road Central, Hong Kong on Thursday, 15 March 2007 at 10:30 a.m. (or any adjournment thereof). Mr. Xu and his associates hold 321,018,300 Shares, representing approximately 11.15% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting for the approval of the Acquisition at the SGM. The voting will be taken by poll.

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.

LETTER FROM THE BOARD

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 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:

- (i) by the chairman of such meeting;
- (ii) 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;
- (iii) 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 the Shareholders having the right to vote at the meeting;
- (iv) 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
- (v) 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.

OPINION OF THE INDEPENDENT BOARD COMMITTEE

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the opinion of the Independent Board Committee given to the Independent Shareholders concerning the Acquisition; and (ii) the letter from Veda Capital set out in this circular which contains the advice of Veda Capital given to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the principle factors and reasons considered by Veda Capital in arriving at its advice.

The Independent Board Committee, having taken into account the advice of Veda Capital, is of the opinion that the transactions under the Sale and Purchase Agreement together with the issue of the Consideration Shares and the issue of the Convertible Note are in the best interests of the Company and the Shareholders as a whole, and that the terms thereof are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

26 February 2007

To the Independent Shareholders

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

Dear Sir or Madam,

We refer to the circular (the “Circular”) dated 26 February 2007 of China Oil And Gas Group Limited, of which this letter forms a part. The terms used in this letter shall have the same meanings in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Sale and Purchase Agreement and to advise the Independent Shareholders of the Company whether, in our opinion, such terms are fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Veda Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of the terms of the Sale and Purchase Agreement.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 22 of the Circular, and the letter from Veda Capital Limited, as set out on pages 24 to 38 of the Circular, both of which provide details of the Sale and Purchase Agreement. Having considered the advice given by Veda Capital Limited and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Sale and Purchase Agreement and the transactions contemplated thereunder are in the best interests of the Company and the Shareholders as a whole, and that the terms and conditions thereof are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM.

Yours faithfully,

Independent Board Committee

Mr. Cheung Man Yau, Timothy
*Independent Non-Executive
Director*

Mr. Shi Xun-zhi
*Independent Non-Executive
Director*

Mr. Peng Long
*Independent Non-Executive
Director*

* For identification purpose only

LETTER FROM VEDA CAPITAL

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the provision of the Shareholder Loan, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited

Suite 11-12, 13/F, Nam Fung Tower
173 Des Voeux Road Central, Hong Kong

26 February 2007

*To the Independent Board Committee and the Independent Shareholders of
China Oil And Gas Group Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
PROPOSED ACQUISITION WITH PROVISION OF THE SHAREHOLDER LOAN
FOR THE PRC NATURAL GAS STATIONS BUSINESS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition with the provision of the Shareholder Loan, details of which are set out in the letter from the Board (the “Board Letter”) contained in this circular (the “Circular”) dated 26 February 2007 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on 28 December 2006 that on 15 December 2006, the Purchaser, a wholly owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser had conditionally agreed to acquire from the Vendor the Sale Share and Sale Shareholder Loan at the Consideration of HK\$196,370,793 which was/will be satisfied by the Purchaser as to (i) HK\$10,370,793 in cash; (ii) HK\$96 million by issue of the Consideration Shares; and (iii) HK\$90 million by issue of the Convertible Note. Mr. Xu, a substantial shareholder of the Company and the sole beneficial owner of the Vendor, has agreed to guarantee the due performance by the Vendor of its obligations under the Sale and Purchase Agreement.

LETTER FROM VEDA CAPITAL

Further, under the Sale and Purchase Agreement, the Purchaser undertakes with Vast China that within 120 days after the Completion, the Purchaser shall advance the Shareholder Loan to Vast China which will be used as capital contribution in the sum of HK\$12 million to the PRC Companies for the construction of the New Natural Gas Stations and the operations of the PRC Companies.

The Acquisition together with provision of the Shareholder Loan to Vast China constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. As Mr. Xu is a connected person of the Company, the entry of the Sale and Purchase Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Sale and Purchase Agreement, therefore, is subject to approval by the Independent Shareholders at the SGM.

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Cheung Man Yau, Timothy, Mr. Shi Xun-zhi and Mr. Peng Long, which is not involved in or has no interest in the Acquisition and thus being independent, has been established to advise the Independent Shareholders in respect of the Acquisition and the provision of the Shareholder Loan. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Acquisition and the provision of the Shareholder Loan are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition and the provision of the Shareholder Loan are in the interests of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Acquisition, the provision of the Shareholder Loan and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information including but not limited to the published information of the Group and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions contained or referred to in the Circular and all information, representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which are solely responsible, are true and accurate at the time when they were made and will continue to be accurate as at the date of the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

LETTER FROM VEDA CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Acquisition and the provision of the Shareholder Loan and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Background and reasons for the Acquisition and provision of the Shareholder Loan

The Company is principally engaged in investment in the natural gas business, energy related business and information technology. Since the Group discontinued its manufacturing business, natural gas business becomes the major business of the Group. The Group, through its jointly controlled entities, operates piped natural gas business in various cities in China. Based on the Company's latest interim report for 11 months from 1 August 2005 to 30 June 2006, the Group recorded turnover of approximately HK\$150.8 million and approximately HK\$36.7 million profit from its natural gas business.

As stated in the Board Letter, the Group will concentrate on the natural gas business and will continue to seek more investment opportunities in the energy sector, especially in natural gas and natural gas related business. In addition to the piped natural gas business, it is the Company's intention to expand and broaden its natural gas business by setting up refilling gas stations networks nationwide. As such, not only has the Group acquired 80% equity interest in Accelstar Group in November 2006, but also the Group has acquired 80% equity interest in Plentigreat Group in February 2006. Accelstar Group is principally engaged in the investment and construction of natural gas stations and supply of natural gas in Qingyun City and Binzhou City of the PRC. Plentigreat Group is principally engaged in the investment and construction of natural gas stations and supply of natural gas in Nanjing of the PRC.

Since the construction of the Main Natural Gas Station is substantially completed and Vast China has obtained approvals from the relevant PRC government authorities to invest, construct and operate the natural gas stations to supply natural gas in Maanshan, the Directors are of the view that the Acquisition will enable the Company to capture the business opportunities to become a major supplier of natural gas in Maanshan. Moreover, given the proximity of location between Nanjing and Maanshan, the Natural Gas Stations together with the stations to be built in Nanjing under the Nanjing Acquisition will form a large combined refilling gas station network in Jiangsu and Anhui which will enhance the Company's competitiveness in these areas and create synergy value on overall management, technical support and resources allocation of those natural gas stations.

Provision of the Shareholder Loan

Under the Sale and Purchase Agreement, the Purchaser undertakes to provide to Vast China the Shareholder Loan in the amount of HK\$12 million with no interest incurred thereto within 120 days after the Completion Date. The Shareholder Loan will be provided to the PRC Companies for the construction of the three New Natural Gas Stations in Maanshan and the operation of the PRC Companies. The Shareholder Loan is repayable upon expiry of a term of 5 years from the date of advance.

LETTER FROM VEDA CAPITAL

Upon completion of the Acquisition, the Vast China will become a wholly owned subsidiary of the Company. The Directors consider that the provision of the Shareholder Loan is essential for the construction and operation of the natural gas stations which are the subject matter under the Acquisition. Given the Shareholder Loan is interest free and is provided to Vast China as an inter-group internal funding, the provision of the Shareholder Loan will lower the financial costs of Vast China versus Vast China to seek for alternative debt financing from third parties. Upon consolidation of the Vast China Group into the Group's accounts, the financial effect from Shareholder Loan on the Group will be eliminated.

Based on the above, we consider that the provision of the Shareholder Loan to Vast China by the Purchaser is fair so far as the interest of the Group is taken into account.

Information on Maanshan

Maanshan, with an area of about 1,666km², has a population size of approximately 1.24 million and is situated at the southeastern part of Anhui adjacent to the Jiangsu and Yangtze delta area surrounded by Nanjing, Wuhu, Chinkiang Chaohu cities. Maanshan is one of the fastest growing and developing cities in Anhui, with its manufacturing industry and GDP per capital rank first in Anhui. The main industry in Maanshan is the steel industry and Maanshan is one of the seven largest steel mine zones in the PRC. GDP of Maanshan recorded RMB37 billion in 2005, increased by 18.6% as compared with its GDP in 2004, and the GDP is expected to reach RMB41 billion in 2006. Fixed assets investments for 2005 was approximately RMB19 billion, increased by 31.6% as compared to 2004. Trading and selling of consumer products for 2005 was approximately RMB6.4 billion, increased by 12.6% as compared to 2004. Foreign investments in Maanshan increased by 33% in 2005, invested of total US\$146 million out of US\$384 million total foreign investments approved in 2005.

As stated in the Board Letter, the Company is interested in the natural gas investments in Maanshan since it is considered to have great growth potential with strong GDP after taking into account its rapid growth from 2004 to 2005. Moreover, Maanshan is a city well praised for its green and clean environment by virtue of the government's emphasis and effort on environmental protection, where natural gas is highly encouraged and supported by the government due to its clean and affordable nature. In view of the foregoing, the Directors anticipate that there will be a great demand for natural gas in Maanshan where the Company can capture the business opportunities to become a major supplier of natural gas in Maanshan. We consider that the Acquisition falls in line with the principal business of the Group and the Group's business strategy to further develop and expand its natural gas business in the PRC. In light of the above, we concur with the view of the Directors that the Group will be benefited by the Acquisition as its core natural business would further be strengthened after the Acquisition.

LETTER FROM VEDA CAPITAL

Information on Vast China Group

Vast China is an investment holding company wholly and beneficially owned by the Vendor. The Vast China Group, which consists of Vast China and all its subsidiaries, namely, Top Best Hong Kong, Top Best Group, WOFE and Anhui China Oil Co, is principally engaged in investments and construction of the natural gas stations and supply of natural gas in Maanshan, Anhui of the PRC through Vast China's two operating subsidiaries Anhui China Oil Co and WOFE.

Vast China has obtained approvals from the relevant PRC government authorities to invest in, construct and operate the natural gas stations to supply natural gas in Maanshan. Top Best Hong Kong is an investment holding company incorporated in Hong Kong, which is wholly owned by Vast China; and a WOFE will be established by Top Best Hong Kong for the operation of 3 natural gas stations which is expected to be built and financed by the Shareholder Loan after the Completion. Top Best Group is an investment holding company, and it will, through its 60% equity interest in Anhui China Oil Co, to operate the Main Natural Gas Station where the construction of which has been substantially completed.

Consideration for the Acquisition

The Consideration shall be HK\$196,370,793 (comprising of HK\$186 million as the consideration for acquiring the Sale Share and HK\$10,370,793 as the consideration for acquiring the Sale Shareholder Loan). Based on the valuation report as contained in Appendix VI to this circular, the Vast China Group was valued at approximately HK\$256,200,000 as at 15 December 2006.

Given the Consideration represented a discount of approximately 23.4% to the value of the Vast China Group of approximately HK\$256,200,000 as at 15 December 2006, we are of the opinion that the Consideration of HK\$196,370,793 payable under the Sale and Purchase Agreement by the Group is fair and reasonable.

Form of payment of the Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration of HK\$196,370,793 was/will be satisfied as follows:

- (a) a refundable interest-free cash deposit of HK\$5 million was paid by the Purchaser to the Vendor upon signing of the Sale and Purchase Agreement; and
- (b) upon Completion,
 - (i) cash consideration of HK\$5,370,793 shall be paid by the Purchaser to the Vendor;
 - (ii) the sum of HK\$96 million shall be satisfied by the issue and allotment of the Consideration Shares to the Vendor; and

LETTER FROM VEDA CAPITAL

- (iii) the sum of HK\$90 million shall be satisfied by the issue of the Convertible Note to the Vendor.

We consider that the issue of the Consideration Shares and the Convertible Note to the Vendor is in the interests of the Company as it will not draw on the existing cash resources of the Company for the Acquisition, and the Convertible Note is with for a term of two years with no interest incurred. Further, the Convertible Note has no immediate dilution effect on the shareholdings of the Shareholders in the Company as the holder of the Convertible Note is only allowed to exercise the conversion rights attached to the Convertible Note after the expiry of a period of six calendar months after the Issue Date, whereas, the issue of Consideration Shares will have immediate dilution effect on the shareholding of the Shareholders in the Company. Please refer to the paragraph headed “Potential dilution to shareholding of the Independent Shareholders” below for information.

The Convertible Note and the Consideration Shares

The Consideration for the Sale and Purchase Agreement will be partly satisfied by way of the issue of Consideration Shares to the Vendor in the amount of HK\$96 million and the issue of Convertible Note in the principal amount of HK\$90 million to the Vendor.

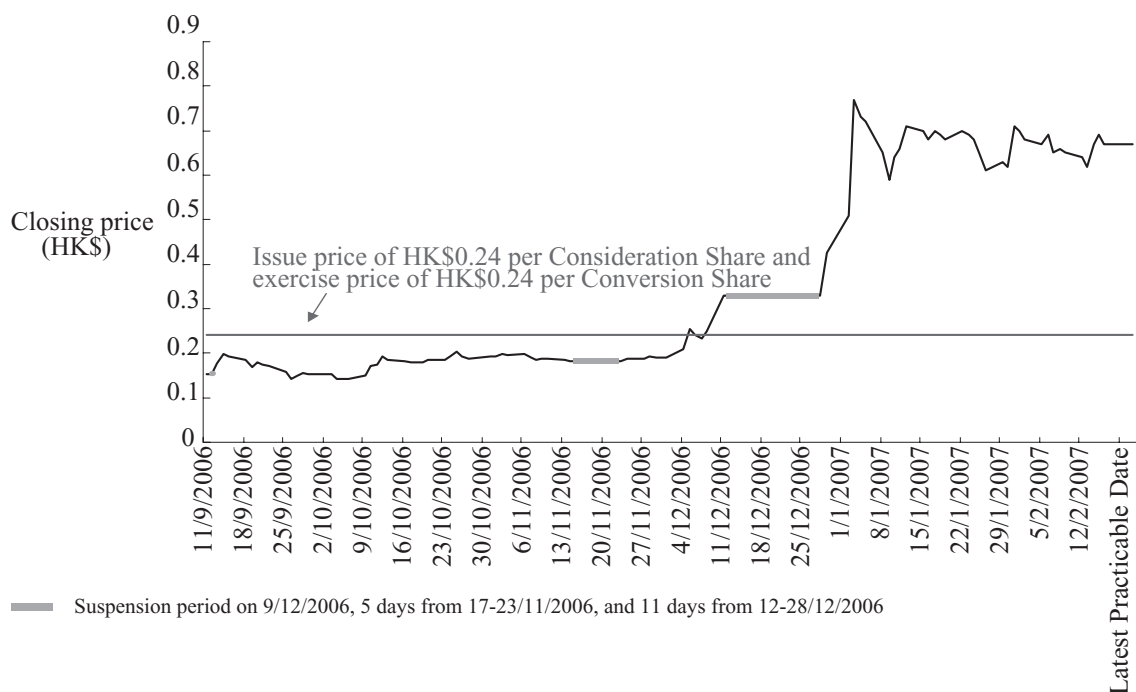
- (i) *Issue price of the Consideration Shares and conversion price of the Convertible Note*

The premium/(discount) of the issue price of each Consideration Share and conversion price of the Convertible Note of HK\$0.24 over/(to) the closing price of the Share for different periods are set out in the following table:

Date/ period	Closing price/average closing price per Share for the period (HK\$)	Premium/(Discount) of the conversion/issue price over/(to) the closing price/average closing price per Share in the respective period (%)
As at the Last Trading Day	0.33	(27.27)
5 days up to and including the Last Trading Day	0.2618	(8.33)
10 days up to and including the Last Trading Day	0.2282	5.17
One month up to and including the Last Trading Day	0.2118	13.34
Since 11 September 2006 up to and including the Last Trading Day (the “Pre-Announcement Period”)	0.1862	28.91
As at the Latest Practicable Date	0.67	(64.18)

LETTER FROM VEDA CAPITAL

The above table shows that the premium/(discount) of the conversion/issue price over/(to) the closing price/average closing price per Share in the respective period ranges from a discount of 27.27% to a premium of 28.91% during the Pre-Announcement Period.



As illustrated in the chart above, the issue/conversion price of HK\$0.24 per Share represents premium over the closing prices of the Shares throughout the Pre-Announcement Period except during 4 trading days in December 2006 close to the Last Trading Day, Since 8 December 2006, the closing price of the Shares had been on an increasing trend and rose to over the issue/conversion price of HK\$0.24 per Share.

LETTER FROM VEDA CAPITAL

(ii) Other principal terms of the Convertible Note

In order to assess the fairness and reasonableness of the terms of the Convertible Note, we have looked into all the recent issues (since the Last Trading Day until the Latest Practicable Date) of convertible bonds/notes (the “CN Comparables”) denominated in Hong Kong dollars by listed companies in Hong Kong for reference. We believe that the Comparables may reflect the recent trend of the terms of convertible bonds/notes in the market. Set out below is a summary of the CN Comparables:

Date of announcement	Company	Principal amount of convertible bond/note (HK\$ million)	Maturity (Years)	Transferability	Interest rate per annum (%)	Premium/ (discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement	Earliest day to convert the convertible bond/note
18 Dec 06	The Company	66	2	Freely transferable	1%	(27.27)	on date of issue
19 Dec 06	Sino Gas Group Limited (Stock code: 260)	39	2	Freely transferable	2%	18.2	on date of issue
22 Dec 06	Foundation Group Limited (Stock code: 1182)	24	3	Freely transferable	0%	(98.41)	on date of issue
9 Jan 07	China Primary Resources Holdings Limited (Stock code: 8117)	246	3	Not mentioned in the announcement	4.5%	(4.2)	on date of issue
10 Jan 07	Cosmopolitan International Holdings Ltd (Stock code: 120)	56	2	Not transfer to third parties during the first year	0%	(56.25)	14 days after date of issue
19 Jan 07	Hopson Development Holdings Limited (Stock code: 754)	1,555	3	Freely transferable	0%	36.7	14 Mar 07
23 Jan 07	Kerry Properties Limited (Stock code: 683)	2,350	5	Freely transferable	0%	35	4 Apr 07
25 Jan 07	Sino Gas Group Limited (Stock code: 260)	46.8	2	Freely transferable	2%	14.04	on date of issue
26 Jan 07	GFT Holdings Limited (Stock code: 1003)	34	2	Freely transferable	0%	(42.9)	6 months after date of issue
1 Feb 07	South Sea Petroleum Holdings Limited (Stock code: 76)	40	3	May only be transferred to associates of the subscriber or such other transferees approved in advance by the company	0%	5	on date of issue
7 Feb 07	139 Holdings Limited (Stock code: 139)	102	3	Freely transferable	2%	1.35	on date of issue
13 Feb 07	Interchina Holdings Company Limited (Stock code: 202)	111.7	2	Prior written approval from the company obtained before transfer	3.5%	(7.4)	on date of issue

LETTER FROM VEDA CAPITAL

Date of announcement	Company	Principal amount of convertible bond/note (HK\$ million)	Maturity (Years)	Transferability	Interest rate per annum (%)	Premium/ (discount) of the initial conversion price over/to the closing price of shares on the last trading day prior to the date of the corresponding announcement	Earliest day to convert the convertible bond/note
13 Feb 07	Guo Xin Group Limited (Stock code: 1215)	95	2	Prior written approval from the company obtained before transfer	3.5%	(19.1)	1 Jun 07
13 Feb 07	China Star Entertainment Limited (Stock code: 326)	168.5	5	Freely transferable	0%	6.67	on or after the 7th day after 4 months of the date of issue
15 Feb 07	Sun Innovation Holdings Limited (Stock code: 547)	5.4	1.5	Prior written approval from the company obtained before transfer	5%	15.56	on date of issue
16 Feb 07	Sun Innovation Holdings Limited (Stock code: 547)	20	1.5	Prior written approval from the company obtained before transfer	5%	24	on date of issue
	Highest	2,350	5		5%	36.70	
	Lowest	5.4	1.5		0%	(98.41)	
	Average	310	2.6		1.78%	(7.67)	
	The Company	90	2		0%	(27.27)	6 months after Issue Date

Source: The Stock Exchange of Hong Kong Limited

(a) Conversion and conversion price

The holder of the Convertible Note may convert the whole or any part of the principal amount of the Convertible Note outstanding into Conversion Shares at the price of HK\$0.24 per Conversion Share. The holder(s) of the Convertible Note is/are restricted to exercise the conversion rights attaching on the Convertible Note to the extent that no holder(s) of the Convertible Note together with parties acting in concert with it/them shall control 30% or more of the voting rights in the Company. The exercise price of the Convertible Note of HK\$0.24 per Conversion Share represents a discount of approximately 27.27% to the closing price of HK\$0.33 per Share as quoted on the Stock Exchange on the Last Trading Day.

10 out of 16 convertible notes/bonds amongst the CN Comparables could be converted on the date of issue of the respective convertible notes/bonds. One CN Comparable and the Convertible Note may be converted from the date after six calendar months of the date of issue. The other 5 CN Comparables could be first converted in less than six months from the date of issue. Consequently, the Convertible Note has the longest time amongst the CN Comparables to convert into Conversion

LETTER FROM VEDA CAPITAL

Shares and thus has no immediate dilution effect on the shareholdings of the Shareholders until at least six calendar months after the Issue Date and we consider such aspect of the Convertible Note to be in the interests of the Shareholders.

As indicated in the above table setting out the CN Comparables, the discount of approximately 27.27% represented by the conversion price of the Convertible Note to the closing price of HK\$0.33 per Share on the Last Trading Day falls within the range of premiums/discounts represented by the CN Comparables on the relevant last trading days, which ranges between a discount of 98.41% and a premium of 36.7%. In this respect, we concur with the view of the Directors that the conversion price of the Convertible Note is fair and reasonable so far as the interests of the Company and the Independent Shareholders are considered.

(b) Interest rate

As noted from latest interim report of the Company and the circular of the Company dated 8 January 2007, since January 2004, for those convertible notes which were issued by the Company, the interest rates ranged from 1% to 3% ("Previous CN Interest Range"). On the other hand, no interest will accrue on the outstanding principal amount of the Convertible Note. We also looked into the interest rates of the CN Comparables in order to assess the fairness and reasonableness of the Convertible Note. The CN Comparables carry annual interest rates ranging from 0% to 5% (the "Interest Range"). Thus, the 0% interest rate of the Convertible Note is at a better term when compared to the Previous CN Interest Range and the Interest Range.

Based on the above analysis, we consider that the interest rate of the Convertible Bonds is fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

(c) Maturity and transferability

The Convertible Note has a maturity period of two years from the date of issue, which lies within the range of maturity period of the CN Comparables from 1.5 to 5 years.

The Convertible Note is freely transferable and the Company undertakes to disclose to the Stock Exchange any transfers of the Convertible Note to any connected persons before the transfer is made. As noted from the comparison table above, 9 out of 16 of the CN Comparables are freely transferable.

Consequently, we consider that the terms of the Convertible Note in relation to maturity and transferability are normal for debt securities of similar kind.

Having considered the above, we are of the view that the principal terms of the Convertible Note are fair and reasonable and the issue of the Convertible Note as a whole is on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM VEDA CAPITAL

(iii) Comparisons of the Consideration Shares

In order to assess the fairness and reasonableness of the terms of the Consideration Shares, we have looked into all the recent circulars (since the Last Trading Day until the Latest Practicable Date) of acquisitions involving the issue of consideration shares (the “Shares Comparables”) by listed companies in Hong Kong for reference. We believe that the Shares Comparables may reflect the recent trend of the terms of issue of consideration shares in the market. Set out below is a summary of the Shares Comparables:

Date of circular	Company	Amount involved for the consideration shares (HK\$ million)	Issue price of the consideration shares (HK\$)	Premium/(discount) of the issue price over/to:		
				(i) the closing price of shares on the last trading day (%)	(ii) the 5- day average closing price of shares before the last trading day (%)	(iii) the 10- day average closing price of shares before the last trading day (%)
14 Dec 06	Union Bridge Holdings Limited (Stock code: 8047)	6	0.20	(14.89)	(14.09)	(12.36)
18 Dec 06	Uni-Bio Science Group Limited (Stock code: 690)	224	2.80	(14.11)	(14.11)	(15.15)
19 Dec 06	Panorama International Holdings Limited (Stock code: 8173)	5.5	0.0684	5.16	17.45	16.65
8 Jan 07	Big Media Group Limited (Stock code: 8167)	45	0.20	70.94	52.67	44.93
12 Jan 07	Foundation Group Limited (Stock code: 1182)	30	0.01	(98.41)	(98.28)	(98.18)
22 Jan 07	Everbest Century Holdings Limited (Stock code: 578)	38	0.38	(7.32)	(11.42)	(12.74)
24 Jan 07	China Motion Telecom International Limited (Stock code: 989)	120	0.60	(15.49)	(16.43)	(13.42)
29 Jan 07	139 Holdings Limited (Stock code: 139)	25	0.4	12.68	8.99	13.80
31 Jan 07	China Energy Development Holdings Limited (Stock code: 228)	200	1.00	(5.66)	(0.99)	7.53
5 Feb 07	FX Creations International Holdings Limited (Stock code: 8136)	10.37	0.01	(87.50)	(87.75)	(88.56)
12 Feb 07	Goldlion Holdings Limited (Stock code: 533)	63	1.40	0	0	2.2

LETTER FROM VEDA CAPITAL

Date of circular	Company	Amount involved for the consideration shares (HK\$ million)	Issue price of the consideration shares (HK\$)	Premium/(discount) of the issue price over/to:		
				(i) the closing price of shares on the last trading day (%)	(ii) the 5- day average closing price of shares before the last trading day (%)	(iii) the 10- day average closing price of shares before the last trading day (%)
12 Feb 07	Sunny Global Holdings Limited (Stock code: 1094)	35.8	0.10	0	(1.4)	(0.5)
16 Feb 07	Wing Shing International Holdings Limited (Stock code: 850)	40	0.66	(17.5)	(7.6)	(4.5)
16 Feb 07	Neo-China Group (Holdings) Limited (Stock code: 563)	450	1.80	45.2	46.3	47.06
	Highest			70.94	52.67	47.06
	Lowest			(98.41)	(98.28)	(98.18)
	Average			(9.06)	(9.05)	(8.09)
	The Company	96	0.24	(27.27)	(8.33)	5.17

Source: The Stock Exchange of Hong Kong Limited

As indicated in the above table setting out the Shares Comparables, we observed that:

- (i) the discount of approximately 27.27% represented by the issue price of each Consideration Share to the closing price of HK\$0.33 per Share on the Last Trading Day falls within the range of premiums/discounts represented by the Shares Comparables on the relevant last trading days, which ranges between a discount of 98.41% and a premium of 70.94% (the “Last Day Range”);
- (ii) the discount of approximately 27.27% represented by the issue price of each Consideration Share to the closing price of HK\$0.33 per Share on the Last Trading Day is higher than the average of the Last Day Range of a discount of 9.06%;
- (iii) the discount of approximately 8.33% represented by the issue price of each Consideration Share to the 5-day average closing price of HK\$0.2618 per Share for the last five trading days up to and including the Last Trading Day falls within the range of premiums/discounts represented by 5-day average closing prices of the Shares Comparables on the relevant last five trading days, which ranges between a discount of 98.28% and a premium of 52.67% (the “5-day Range”);
- (iv) the discount of approximately 8.33% represented by the issue price of each Consideration Share to the 5-day average closing price of HK\$0.2618 per Share is lower than the average of the 5-day Range of a discount of 9.05%;

LETTER FROM VEDA CAPITAL

- (v) the premium of approximately 5.17% represented by the issue price of each Consideration Share to the 10-day average closing price of HK\$0.2282 per Share for the last ten trading days up to and including the Last Trading Day falls within the range of premiums/discounts represented by 10-day average closing prices of the Shares Comparables on the relevant last ten trading days, which ranges between a discount of 98.18% and a premium of 47.06% (the “10-day Range”); and
- (vi) the issue price of each Consideration Share represented a premium of approximately 5.17% over the 10-day average closing price of HK\$0.2282 per Share whereas the average of the 10-day Range is a discount of approximately 8.09%.

Based on the above observation, we concur with the view of the Directors that the issue price of the Consideration Shares is fair and reasonable so far as the interests of the Company and the Independent Shareholders are considered. We also consider that the terms of the Acquisition were entered into upon normal commercial terms.

Possible financial effects of the Acquisition

(i) Earnings

The Main Natural Gas Station has not commenced operation and the construction of the New Natural Gas Stations will only commence after Completion. Save for the pre-operating expenses of approximately HK\$1.2 million, the Acquisition has no material effect on the earnings of the Group upon Completion.

(ii) Net assets

Upon Completion, the total assets of the Group will be increased by approximately HK\$193.2 million, of which as to approximately HK\$186.7 million will be accounted as goodwill arising from the Acquisition and as to the balance of approximately HK\$6.5 million will be from the assets of the Vast China Group. Upon Completion, the total liabilities of the Group will be increased by approximately HK\$80.8 million, of which as to approximately HK\$0.7 million will be from the payables of the Vast China Group and as to approximately HK\$80.1 million will be the fair value of the liability component of the Convertible Note. Consequently, the net assets of the Group will be increased by approximately HK\$112.4 million accordingly.

Having considered the benefits of improving the net assets of the Group upon Completion and the immaterial impact on the earnings of the Group, we consider that the Acquisition is fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

LETTER FROM VEDA CAPITAL

Potential dilution effect on the shareholding interests of the Independent Shareholders

Based on the shareholding structure of the Company as set out in the Board Letter, as at the Latest Practicable Date, 2,558,657,913 Shares were held by public Shareholders, representing approximately 88.85% of the issued share capital of the Company. Immediately after Completion and issue of the Consideration Shares but assuming no conversion of the Convertible Note, the public Shareholders will still hold 2,558,657,913 Shares, representing approximately 78.01% of the enlarged issued share capital of the Company with the addition of 400,000,000 Consideration Shares to be issued to the Vendor upon Completion to the total number of outstanding Shares of the Company. Immediately after Completion and issue of the Consideration Shares and assuming full conversion of the Convertible Note into Conversion Shares, the number of Shares held by the public Shareholders remains as 2,558,657,913, but their shareholdings in the Company will decrease to approximately 70.01% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares since, as the total number of issued Shares will be further increased by a total of 375,000,000 Conversion Shares.

Having considered that:

- (i) the Acquisition will enable the Group to expand its natural gas business in Maanshan which is a city in Anhui Province with strong GDP growth and where the use of natural gas is highly encouraged and supported by the government;
- (ii) the Consideration represented a discount of approximately 23.4% to the valuation of the Vast China Group as appraised by Cushman and Wakefield (HK) Ltd, an independent valuer;
- (iii) the discount represented by the conversion price of the Convertible Note to the closing price of the Share on the Last Trading Day falls within the range of premiums/discounts represented by the CN Comparables on the relevant last trading days;
- (iv) the 0% interest rate of the Convertible Note is at a better term when compared to the Previous CN Interest Range and the Interest Range;
- (v) The Convertible Note is only convertible until six calendar months after the Issue Date, thus the dilution effect on the shareholding of the Shareholders in the Company is not immediate;
- (vi) the terms of the Convertible Note in relation to maturity and transferability are normal for debt securities of similar kind;
- (vii) the discount represented by the issue price per Consideration Share to the closing price of on the Last Trading Day falls within the Last Day Range;
- (viii) the discount represented by the issue price per Consideration Share to the 5-day average closing price for the last five trading days up to and including the Last Trading Day falls within the 5-day Range;

LETTER FROM VEDA CAPITAL

- (ix) the premium represented by the issue price per Consideration Share to the 10-day average closing price for the last five trading days up to and including the Last Trading Day falls within the 10-day Range;
- (x) the issue of the Consideration Shares and Convertible Note to the Vendor will not draw on the existing cash resources of the Company for the Acquisition; and
- (xi) the improvement in net assets of the Group upon Completion,

we consider that the benefits of the Acquisition (including the issue of the Consideration Shares and Convertible Note) might outweigh the dilution effect on the shareholding held by the public Shareholders in the Company as created by the issue of the Consideration Shares and the Convertible Note. Overall, we consider that such dilution effect to public Shareholders is acceptable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, we consider that, on balance, the terms of the Acquisition and the provision of the Shareholder Loan are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Sale and Purchase Agreement were entered into upon normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition and the provision of the Shareholder Loan.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Hans Wong **Julisa Fong**
Managing Director *Director*

REPORT OF THE AUDITORS

Set out below is the reproduction of the report of the auditors for the financial statements of the Group for the year ended 31 July 2005 as extracted from the 2005 annual report of the Company (the reference to pages and note numbers set out below are the pages and note numbers of the annual report of the Company for the year ended 31 July 2005:

TING HO KWAN & CHAN

Certified Public Accountants (practising)

9th Floor, Tung Ning Building,

249-253 Des Voeux Road C., Hong Kong.

TO THE SHAREHOLDERS OF NIPPON ASIA INVESTMENTS HOLDINGS LIMITED
(FORMERLY CHINA CITY NATURAL GAS HOLDINGS LIMITED)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give 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 audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

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

We planned 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 statements are free from material misstatement. However, the evidence available to us was limited as follows:

Discontinuing operations of manufacturing and trading of silicone rubber products

As further detailed in note 24 to the financial statements, pursuant to a sale and purchase agreement made by the Group with an independent third party on 14 February 2006, the Group disposed of its entire interests in a subsidiary, Golite International Limited together with its subsidiaries (collectively referred to the “Golite group”). The Golite group is principally engaged in the business of manufacturing and trading of silicone rubber products. The total assets and liabilities of the Golite group of HK\$374,000 and HK\$3,663,000 respectively as included in the consolidated balance sheet as at 31 July 2005 and the loss of the Golite group of HK\$18,480,000 as shown in the consolidated profit and loss account for the year then ended were derived from the unaudited management accounts of the Golite group. In the absence of all necessary information and documentary evidence, we have not been able to perform audit procedures that we consider necessary to satisfy ourselves as to the truth and fairness of the financial information of the Golite group so consolidated in the financial statements of the Company. Similarly, we are unable to satisfy ourselves as to the truth and fairness of the analysis of the Golite group as shown in note 24(b) to the financial statements.

For the above same reason, we have been unable to satisfy ourselves that certain disclosures which had incorporated the financial information in relation to the Golite group, as set out in notes 4, 5, 6, 10 and 14 to the financial statements; and the corresponding cash flows arising from the operations of the Golite group, as included in the consolidated cash flow statement, are fairly stated.

Any adjustments that might have been found to be necessary in respect of the matters set out above would have a consequential impact on the net assets of the Group as at 31 July 2005 and the Group’s loss and cash flows for the year then ended and their related disclosures in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- We were unable to determine whether proper books of accounts have been kept.

TING HO KWAN & CHAN
Certified Public Accountants (practising)

Hong Kong, 25 August 2006

SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 JULY 2005 AND ELEVEN MONTHS ENDED 30 JUNE 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 eleven months ended 30 June 2006:

	Eleven months ended 30 June 2006	Year ended 31 July 2005	Year ended 31 July 2004	Year ended 31 July 2003
	(Unaudited) HK\$'000	(Audited & qualified) HK\$'000	(Audited) HK\$'000	(Audited) HK\$'000
Turnover	150,825	205,018	153,119	278,223
Cost of sales	(101,168)	(142,370)	(136,745)	(224,771)
Gross profit	49,657	62,648	16,374	53,452
Other income and gains, net	29,245	33,390	6,151	19,785
Selling and distribution costs	(3,163)	(3,691)	(5,281)	(15,923)
Administrative expenses	(19,338)	(45,661)	(50,507)	(76,723)
Other expenses	(2,443)	(171,074)	(175,307)	(182,767)
Loss on disposal of discontinued operations	—	—	—	(105,067)
Operating profits/(loss)	53,958	(124,388)	(208,570)	(307,243)
Finance costs	(1,499)	(2,614)	(3,444)	(1,950)
Share of profits/(loss) of associates of jointly controlled entities	(2,421)	(2,321)	(3,198)	390
Amortisation and impairment of goodwill	—	—	—	(24,265)
Profit/(loss) before taxation	50,038	(129,323)	(215,212)	(333,068)
Taxation	(1,721)	(3,122)	(472)	(1,778)
Profit for the period from continuing operations	48,317	—	—	—
Discontinued operations				
Profit for the period from discontinued operations	3,230	—	—	—
Profit/(loss) for the period	<u>51,547</u>	<u>(132,445)</u>	<u>(215,684)</u>	<u>(334,846)</u>
Attributable to:				
Equity holders of the Company	44,910	(139,760)	(215,929)	(334,777)
Minority interests	6,637	7,315	245	(69)
	<u>51,547</u>	<u>(132,445)</u>	<u>(215,684)</u>	<u>(334,846)</u>
Earnings/(loss) per share				
Basic	<u>2.5 cents</u>	<u>(9.3 cents)</u>	<u>(19.1 cents)</u>	<u>(3.9 cents)</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 July 2005 (Audited & qualified) HK\$'000	As at 31 July 2004 (Audited) HK\$'000 (as restated)	As at 31 July 2003 (Audited) HK\$'000
Non-current assets				
Property, plant and equipment	96,543	104,165	109,449	15,401
Interests in associates	13,856	21,247	24,233	–
Interests in jointly-controlled entity	–	–	–	80,131
Investment securities	–	6,269	123,523	100,904
Available-for-sale financial assets	13,666	–	–	–
Total non-current assets	124,065	131,681	257,205	196,436
Current assets				
Inventories	5,736	11,897	13,734	2,131
Short term investments	–	16,610	16,013	87,713
Financial assets at fair value through profit or loss	44,609	–	–	–
Deposits, trade and other receivables	51,513	116,279	36,700	33,005
Tax recoverable	–	105	–	–
Cash and bank balances	116,279	35,819	33,117	81,324
	218,137	180,710	99,564	204,173
Total assets	342,202	312,391	356,769	400,609
Equity				
Share capital	18,047	17,347	238,046	217,141
Reserves	196,165	153,364	(46,445)	156,878
	214,212	170,711	191,601	374,019
Minority interests	16,463	12,960	4,161	–
Total equity	230,675	183,671	195,762	374,019
Liabilities				
Current Liabilities				
Trade and other payables	30,748	42,540	59,894	26,081
Borrowings – bank loans	–	4,999	4,711	–
Convertible notes	–	4,000	20,000	–
Tax payable	1,974	3,369	1,030	144
Bank overdraft	–	98	–	–
	32,722	55,006	85,635	26,225
Non-current liabilities				
Borrowings				
– Bank loans	14,576	23,740	25,914	–
– Other loans	64,229	49,974	49,093	–
Deferred tax liability	–	–	365	365
	78,805	73,714	75,372	365
Total liabilities	111,527	128,720	161,007	26,590
Total equity and liabilities	342,202	312,391	356,769	400,609
Net current assets	185,415	125,704	13,929	177,948
Total assets less current liabilities	309,480	257,385	271,134	374,384

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		131,681	257,205
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		180,710	99,564
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		55,006	85,635
Net current assets		125,704	13,929
Total assets less current liabilities		257,385	271,134
Non-current liabilities			
Borrowings	26		
– Bank loans		23,740	25,914
– Other loans		49,974	49,093
Deferred tax liability	28	–	365
		73,714	75,372
Minority interests		12,960	4,161
		170,711	191,601
Capital and reserves			
Share capital	29	17,347	238,046
Reserves		153,364	(46,445)
		170,711	191,601

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

		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<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	–

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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>
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	<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>
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

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FINANCIAL INFORMATION OF THE GROUP

		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>(As restated) 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*31 July 2005***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 registered 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.

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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	31 July
	2005	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	31 July
	2005	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

	Continuing operations		Discontinuing operations	
	Investment in internet and information technology activities	Natural gas business	Manufacture and trading of silicone rubber products	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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><u>(139,760)</u></u>
Segment assets	59,524	203,100	374	262,998
Unallocated assets				<u>49,393</u>
Total assets				<u><u>312,391</u></u>
Segment liabilities	10,186	107,880	3,663	121,729
Unallocated liabilities				<u>6,991</u>
Total liabilities				<u><u>128,720</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****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>

APPENDIX I**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>
				(194,198)
Finance costs				(3,444)
Share of losses of associates of jointly controlled entities	–	(3,198)	–	(3,198)
Amortisation and impairment of goodwill	–	(14,372)	–	<u>(14,372)</u>
Loss before taxation				(215,212)
Taxation				<u>(472)</u>
Loss before minority interests				(215,684)
Minority interests				<u>(245)</u>
Loss for the year attributable to shareholders				<u>(215,929)</u>
Segment assets	151,793	186,832	18,144	356,769
Unallocated assets				<u>–</u>
Total assets				<u>356,769</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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment liabilities	(11,414)	(121,692)	(7,901)	(141,007)
Unallocated liabilities				(20,000)
Total liabilities				(161,007)
Other segment information:				
Depreciation	2,071	4,574	1,383	8,028
Amortisation and impairment of goodwill	–	14,372	–	14,372
Impairment losses of investment securities	155,320	–	–	155,320
Impairment of property, plant and equipment	628	–	–	628
Capital expenditure	2,007	45,725	4,046	51,778

(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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:							
Segment turnover	–	200,928	–	–	–	–	200,928
Segment assets	58,110	204,514	–	–	–	–	262,624
Capital expenditure	7,502	8,471	–	–	–	–	15,973
Discontinuing operations:							
Segment turnover	4,090	–	–	–	–	–	4,090
Segment assets	374	–	–	–	–	–	374
Capital expenditure	–	498	–	–	–	–	498

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FINANCIAL INFORMATION OF THE GROUP

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
	HK\$'000	(As restated) 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	<u>1,504</u>	<u>472</u>
	3,487	472
Discontinuing operations:		
Deferred taxation relating to the reversal of temporary differences (<i>Note 28</i>)	<u>(365)</u>	<u>–</u>
Taxation charge	<u><u>3,122</u></u>	<u><u>472</u></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><u>129,323</u></u>	<u><u>215,212</u></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><u>3,122</u></u>	<u><u>472</u></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.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Pipelines <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Tools and moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>–</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	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
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.

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

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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 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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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.

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

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

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

(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
西寧中油燃氣有限公司 (Xining China Oil And Gas Co. Ltd.*)	Corporate	PRC	Trading of natural gas and gas pipeline construction	40
慶雲中油燃氣有限公司 (Qingyun China Oil And Gas Co., Ltd.*)	Corporate	PRC	Trading of natural gas and gas pipeline construction	49
濱州中油燃氣有限公司 (Binzhou China Oil And Gas Co., Ltd.*)	Corporate	PRC	Trading of natural gas and gas pipeline construction	49
山東惠民中油燃氣有限公司 (Shandong Huimin China Oil And Gas Co., Ltd.*)	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 (Xining Gas Pipeline Project Co., Ltd.*)	Corporate	PRC	Gas pipeline design	46.25
西寧中油久安燃氣設備有限公司 (Xining Jiuan Gas Equipments Co., Ltd.*)	Corporate	PRC	Trading of gas pipeline materials	32

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Name	Form of business structure	Place of incorporation and operation	Principal activities	Percentage of ownership interests indirectly held by the Company
青海宏利燃氣管道安裝工程 有限責任公司 (Qinghai Hongli Construction Co., Ltd.*)	Corporate	PRC	Gas pipeline construction	39.8

* English translation of company names for identification purpose only

19. INTERESTS IN ASSOCIATES

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

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

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

	2005 HK\$'000	2004 (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	—
	<u>730</u>	<u>36</u>
At 31 July	<u>730</u>	<u>36</u>
Net book value		
As 31 July	<u>—</u>	<u>694</u>

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
濱州中油燃氣 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 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Equity investments listed outside Hong Kong, at market value	6,269	3,900	419	—
Unlisted equity investments, at fair value	—	119,623	—	—
	<u>6,269</u>	<u>123,523</u>	<u>419</u>	<u>—</u>

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
		(As restated)
	<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>)	<u>(1,125,000,000,000)</u>	<u>–</u>
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
	984,000,000

- (d) In October 2004, the Company proposed a rights issue ("Rights Issue") on the basis of two rights shares of HK\$0.025 each for every ten existing ordinary shares held on 1 December 2004 with bonus shares to be issued with rights shares on the basis of three bonus shares for every two fully-paid rights shares. The Rights Issue was completed in December 2004. As a result of the Rights Issue, a total of 5,120,920,710 shares of the Company, including bonus shares, have been issued and approximately a proceed of HK\$51 million before expenses was raised.
- (e) Pursuant to the conditional agreement dated 22 December 2004 and entered into between the Company and the Placing Agent, the Company agreed conditionally to issue and the placing agent conditionally agreed to place 1,000,000,000 new ordinary shares. On 2 February 2005, the Company issued and allot 1,000,000,000 new ordinary shares in accordance with the terms of the agreement. A total consideration before expenses arising from the placing amounted to HK\$25,000,000.
- (f) On 4 April 2005, the shareholders of the Company passed a special resolution to approve the capital reorganisation of the Company consisting of the (i) reduction of the nominal value of each issued share from HK\$0.025 to HK\$0.001 by canceling paid-up capital to the extent of HK\$0.024 on each issued share ("Capital Reduction") whereas the credit amount arising from the Capital Reduction of HK\$416,322,291 has been used to eliminate the accumulated losses of the Company; (ii) subdivision of every unissued share of HK\$0.025 each into 25 unissued shares of HK\$0.001 each immediately upon the Capital Reduction becoming effective ("Unissued Share Subdivision"); and (iii) consolidation of every 10 shares of HK\$0.001 each into 1 new share of HK\$0.01 each immediately upon the Capital Reduction and the Unissued Share Subdivision becoming effective ("Share Consolidation"). Upon completion of Share Consolidation, the authorised share capital of the Company has been changed from HK\$1,250,000,000 comprising 50,000,000,000 shares to HK\$1,250,000,000 comprising 125,000,000,000 new shares.
- (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.

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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 1.8.2004	Granted	Exercised	Lapsed	As at 31.7.2005
(i) Employees	06.01.2003	0.0856	01.02.2003 – 31.01.2005	0.092	7,000,000	–	–	7,000,000	–
	06.01.2003	0.0856	02.07.2003 – 30.06.2005	0.092	24,800,000	–	–	2,480,000 (Note 3)	–
(ii) Consultants	28.04.2004	0.0300	29.04.2004 – 11.05.2005	0.022	360,000,000	–	–	36,000,000 (Note 3)	–
	17.09.2004	0.0250	20.09.2004 – 16.09.2005	0.017	–	720,000,000	720,000,000	–	–
	21.07.2005	0.0580	21.07.2005 – 20.07.2006	0.058	–	70,000,000	–	–	70,000,000
(iii) Former employees	06.01.2003	0.0856	01.02.2003 – 31.01.2005	0.092	4,000,000	–	–	4,000,000	–
	06.01.2003	0.0856	02.07.2003 – 30.06.2005	0.092	10,200,000	–	–	10,200,000	–
Total					<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 (<i>note b</i>)	–	–	–	(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>

Note:

- (a) The contributed surplus of the Company represents the excess of the net assets value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is currently unable to satisfy. The share premium account of the Company is distributable in the form of fully paid bonus shares.
- (b) On 19 December 2003, the outstanding 800,000,000 warrants lapsed upon expiry of warrants and the warrant reserve of HK\$25,341,000 was redesignated as other capital reserve as at the date of expiry and 31 July 2004. Should this capital reserve transfer to the accumulated losses upon expiry of the outstanding warrants, the balance of other capital reserve and accumulated losses as at 31 July 2004 would have been reduced by the same amount of HK\$25,341,000; and such transfer has no effect on the total equity and reserves of the Group and the Company as at 31 July 2004 and 2005. In the opinion of the directors, other capital reserve of HK\$25,341,000 arising from expiry of the outstanding warrants in 2003 was transferred to the accumulated losses in current year.

32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) PARTIAL DISPOSAL OF A SUBSIDIARY

	2005 HK\$'000	2004 HK\$'000
Net liabilities disposed of at the date of disposal		
Investment securities, at fair value	12,500	–
Amount due from immediate holding company	1	–
Amount due to a fellow subsidiary	(50,013)	–
	<u>(37,512)</u>	<u>–</u>
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	–
	<u>–</u>	<u>–</u>
Satisfied by:		
Cash consideration	5,000	–
	<u>5,000</u>	<u>–</u>
Net cash inflow arising on disposal:		
Cash consideration	5,000	–
	<u>5,000</u>	<u>–</u>

(b) ACQUISITION OF A SUBSIDIARY

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

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>707</u>	<u>17,000</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.

UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE GROUP FOR THE ELEVEN MONTHS ENDED 30 JUNE 2006

Set out below is the reproduction of the unaudited interim financial statement of the Group for the period from 1 August 2005 to 30 June 2006:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1 August 2005 to 30 June 2006

		Unaudited	Audited
		1.8.2005-	1.8.2004-
		30.6.2006	31.7.2005
			(Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations			
Turnover	2	150,825	200,928
Cost of sales		<u>(101,168)</u>	<u>(139,230)</u>
Gross profit		49,657	61,698
Other income and gains, net	3	29,245	33,891
Selling and distribution costs		(3,163)	(2,936)
Administrative expenses		(19,338)	(35,199)
Other expenses		<u>(2,443)</u>	<u>(162,512)</u>
Operating profit/(loss)		53,958	(105,058)
Share of losses of associates of jointly controlled entities		(2,421)	(2,321)
Finance costs	4	<u>(1,499)</u>	<u>(3,136)</u>
Profit/(loss) before taxation	5	50,038	(110,515)
Taxation	6	<u>(1,721)</u>	<u>(3,487)</u>
Profit/(loss) for the period/year from continuing operations		48,317	(114,002)
Discontinued operations			
Profit/(loss) for the period/year from discontinued operations	9	<u>3,230</u>	<u>(18,480)</u>
Profit/(loss) for the period/year		<u><u>51,547</u></u>	<u><u>(132,482)</u></u>
Attributable to:			
Equity holders of the Company		44,910	(139,797)
Minority interests		<u>6,637</u>	<u>7,315</u>
		<u><u>51,547</u></u>	<u><u>(132,482)</u></u>
Earnings/(loss) per share			
From continuing and discontinued operations			
– Basic	7	<u><u>2.50 cents</u></u>	<u><u>(9.30 cents)</u></u>
From continuing operations			
– Basic	7	<u><u>2.32 cents</u></u>	<u><u>(8.07 cents)</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2006

		Unaudited At 30.6.2006	Audited At 31.7.2005 (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		96,543	102,207
Leasehold land and land use rights		–	1,749
Interests in associates		13,856	21,247
Investment securities		–	6,269
Available-for-sale financial assets		<u>13,666</u>	<u>–</u>
		<u>124,065</u>	<u>131,472</u>
CURRENT ASSETS			
Leasehold land and land use rights		–	233
Inventories		5,736	11,897
Short term investments		–	16,610
Financial assets at fair value through profit or loss		44,609	–
Deposits, trade and other receivables	10	51,513	116,023
Cash and cash equivalents		<u>116,279</u>	<u>35,806</u>
		218,137	180,569
Assets classified as held for sale	9	<u>–</u>	<u>374</u>
		<u>218,137</u>	<u>180,943</u>
TOTAL ASSETS		<u><u>342,202</u></u>	<u><u>312,415</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	18,047	17,347
Reserves		<u>196,165</u>	<u>153,428</u>
		214,212	170,775
Minority interests		<u>16,463</u>	<u>12,960</u>
Total equity		<u>230,675</u>	<u>183,735</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

		Unaudited At 30.6.2006	Audited At 31.7.2005 (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	30,748	38,975
Borrowings – Bank loans (secured)		–	4,999
Convertible notes		–	3,960
Tax payable		1,974	3,369
		<u>32,722</u>	<u>51,303</u>
Liabilities directly associated with assets classified as held for sale	9	–	3,663
		<u>32,722</u>	<u>54,966</u>
NON-CURRENT LIABILITIES			
Borrowings			
– Bank loans (secured)		14,576	23,740
– Other loans (unsecured)		64,229	49,974
		<u>78,805</u>	<u>73,714</u>
TOTAL LIABILITIES		<u>111,527</u>	<u>128,680</u>
TOTAL EQUITY AND LIABILITIES		<u>342,202</u>	<u>312,415</u>
NET CURRENT ASSETS		<u>185,415</u>	<u>125,977</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>309,480</u>	<u>257,449</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 August 2005 to 30 June 2006

	Attributable to equity holders of the Company									
	Issued share capital	Share premium account	Capital redemption reserve	Convertible notes reserve	Other capital reserve	Investment fair value reserve	Exchange fluctuation reserve	Accumulated losses	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 August 2004, as previously reported	238,046	995,175	675	–	25,341	–	–	(1,067,636)	–	191,601
Effect on adopting										
HKAS 1	–	–	–	–	–	–	–	–	4,161	4,161
HKAS 17	–	–	–	–	–	–	–	50	–	50
HKAS 32	–	–	–	282	–	–	–	(243)	–	39
At 1 August 2004, as restated	238,046	995,175	675	282	25,341	–	–	(1,067,829)	4,161	195,851
Shares issued upon conversion of convertible notes	24,600	–	–	–	–	–	–	–	–	24,600
Exercise of share options	18,000	–	–	–	–	–	–	–	–	18,000
Shares issued upon rights issue	51,209	–	–	–	–	–	–	–	–	51,209
Bonus shares pursuant to rights issue	76,814	(76,814)	–	–	–	–	–	–	–	–
Issue of convertible notes	–	–	–	1,590	–	–	–	–	–	1,590
Redemption of convertible notes	–	–	–	(753)	–	–	–	–	–	(753)
Conversion of convertible notes	–	117	–	(942)	–	–	–	–	–	(825)
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 income statement	–	–	–	–	–	–	61	–	–	61
Other capital reserve transferred to accumulated losses after expiry of warrants in 2003	–	–	–	–	(25,341)	–	–	25,341	–	–
Cash inflow from shareholders of jointly controlled entities	–	–	–	–	–	–	–	–	1,484	1,484
Loss for the year, as restated	–	–	–	–	–	–	–	(139,797)	7,315	(132,482)
At 1 August 2005, as restated	17,347	918,478	675	177	–	–	61	(765,963)	12,960	183,735
Exchange difference arising from translation of financial statements of jointly controlled entities not recognised in the consolidated income statement	–	–	–	–	–	–	1,070	–	–	1,070
Exercise of share options	700	3,360	–	–	–	–	–	–	–	4,060
Increase in capital of a jointly controlled entity by capitalisation of its retained profits	–	–	–	–	11,813	–	–	(11,813)	–	–
Unrealised losses arising from changes in fair value of available-for-sale financial assets	–	–	–	–	–	(6,603)	–	–	–	(6,603)
Payment of dividend to minority interests	–	–	–	–	–	–	–	–	(3,480)	(3,480)
Cash inflow from shareholders of jointly controlled entities	–	–	–	–	–	–	–	–	346	346
Profit for the period	–	–	–	–	–	–	–	44,910	6,637	51,547
At 30 June 2006	18,047	921,838	675	177	11,813	(6,603)	1,131	(732,866)	16,463	230,675

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period from 1 August 2005 to 30 June 2006

	Unaudited 1.8.2005- 30.6.2006 <i>HK\$'000</i>	Audited 1.8.2004- 31.7.2005 (Restated) <i>HK\$'000</i>
Net cash generated from/(used in) operating activities		
Continuing operations	80,218	(80,689)
Discontinued operations	<u>134</u>	<u>(6,230)</u>
	<u>80,352</u>	<u>(86,919)</u>
Net cash used in investing activities		
Continuing operations	(2,164)	(10,042)
Discontinued operations	<u>—</u>	<u>—</u>
	<u>(2,164)</u>	<u>(10,042)</u>
Net cash generated from financing activities		
Continuing operations	2,034	99,024
Discontinued operations	<u>—</u>	<u>—</u>
	<u>2,034</u>	<u>99,024</u>
Net increase in cash and cash equivalents	80,222	2,063
Cash and cash equivalents at beginning of period/ year	35,721	33,117
Effect of foreign exchange rate changes	<u>336</u>	<u>541</u>
Cash and cash equivalents at end of period/ year	<u><u>116,279</u></u>	<u><u>35,721</u></u>
Analysis of the balances of cash and cash equivalents From continuing and discontinued operations		
Cash and bank balances	116,279	35,819
Bank overdraft	<u>—</u>	<u>(98)</u>
	<u>116,279</u>	<u>35,721</u>
Less: Discontinued operations		
Cash and bank balances	<u>—</u>	<u>13</u>
Bank overdraft	<u>—</u>	<u>(98)</u>
	<u>—</u>	<u>(85)</u>
	<u><u>116,279</u></u>	<u><u>35,806</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

On 19 October 2006 the Directors resolved to change the financial year end date of the Company from 31 July to 31 December. As a result, the condensed consolidated financial statements of the Company and its subsidiaries for the current period covered the period from 1 August 2005 to 30 June 2006 for the Company’s second interim results announcement are presented. The change is to align the financial year end date of the Company with those of the Company’s principal natural gas business in the People’s Republic of China (the “PRC”).

Changes in Accounting Policies

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards (“HKFRS”) (which term collectively includes HKAS and interpretations) that are effective for accounting periods beginning on or after 1 January 2005. Other than early adoption of HKAS 31 “Investments in joint ventures” and HKAS-Int 13 “Jointly Controlled Entities - Non Monetary Contributions by Venturers” in the last annual financial statements for the year ended 31 July 2005, the Group has adopted the following new/ revised standards and interpretations of HKFRS below, which are relevant to its operations, for the first time for the current period’s interim financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchanges Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK(SIC)-Int 15	Operating Leases - Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The impact of adopting the HKFRS is summarised as follows:

(a) *HKAS 1 “Presentation of Financial Statements”*

HKAS 1 affects certain presentation in these financial statements, including the following:

- minority interests are now presented in the consolidated income statement and within the equity in the consolidated balance sheet separately from results/equity attributable to equity holders of the Company; and
- taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the Group’s share of profits and losses of associates.

(b) *HKAS 17 “Leases”*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In case, the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and any accumulated impairment losses. In prior years, the leasehold land and land use rights were accounted for at cost less accumulated depreciation and any accumulated impairment. The new accounting policy has been applied retrospectively to the extent that results in the reclassification of certain leasehold interest in land and land use rights previously included in “Fixed assets” as “Leasehold land and land use rights” with comparatives restated to conform to the current year’s presentation.

(c) *HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”*

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 July 2005, investments of the Group were classified into investment securities and short term investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value respectively, and any impairment losses on investment securities and changes in fair value of the short term investments were recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and other financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31 July 2005 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1 August 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of accumulated losses at 1 August 2005. However, the adoption of HKAS 39 has had no material effect on the Group’s results and equity.

The effect of the changes in accounting policies on these interim financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

- all investment securities of the Group and the Company as at 31 July 2005 were redesignated into available-for-sale financial assets on 1 August 2005. The aggregate differences between the respective carrying value of each investment as at 31 July 2005 and the respective fair value at 1 August 2005 is insignificant and hence, no adjustment has been made against the accumulated losses at 1 August 2005;
- all short term investments of the Group and the Company as at 31 July 2005 were redesignated into financial assets at fair value through profit or loss on 1 August 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's short term investments as at 31 July 2005 is the same as that for the financial assets at fair value through profit or loss; and
- In prior periods, convertible notes were stated at amortised cost. Upon adoption of HKAS 32, the component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes and the amount is carried as liability on the amortised cost basis until extinguished on conversion and redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent periods.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

This change in accounting policies is applied retrospectively by way of adjustments to the opening balance of accumulated losses and comparative figures have been restated.

- (d) The adoption of HKFRS 2 has resulted in the accounting policy for share-based payments. In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivables.

With effect from 1 August 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to accumulated losses.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2. In relation to share options granted on or before 7 November 2002 and share options granted on 7 November 2002 but which had vested before 1 August 2005, the Group does not recognise and expense those share options.

No adjustments to the opening balances as at 1 August 2004 and 1 August 2005 are required as all the share options granted were vested before 1 August 2005. Therefore, the adoption of HKFRS 2 has no impact on the accumulated losses as at 31 July 2004 and 31 July 2005.

(e) HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a single sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(f) Other standards

HKAS 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, 38, HKFRS 3 and HK(SIC)-Int 15 had no material impact on the Group’s accounting policies and did not result in any changes to the amounts or disclosures in these interim financial statements.

HKAS 24 has affected the identification of related parties and some other related party disclosures.

The effects of the changes in the accounting policies described above on the results for the respective periods are as follows:

	Effect of adopting	1.8.2005- 30.6.2006 HK\$'000	1.8.2004- 31.7.2005 HK\$'000
Decrease in other income	HKAS 17	(24)	–
Increase in other income	HKAS 32	–	511
		<u>(24)</u>	<u>511</u>
Increase in administrative expenses	HKAS 17	–	26
Increase in finance costs	HKAS 32	40	522
		<u>40</u>	<u>548</u>
Decrease/increase in profit/(loss) for the period/ year		<u>64</u>	<u>37</u>
Decrease/increase in basic earnings/ (loss) per share	HKAS 17 & 32	<u>0.003 cents</u>	<u>0.002 cents</u>

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The cumulative effects of the application of the HKFRS at the respective period/ year ends are summarised below:

	Effect of adopting	At 30.6.2006 HK\$'000	At 31.7.2005 HK\$'000
Property, plant and equipment	HKAS 17	–	(1,958)
Leasehold land and land use rights	HKAS 17	–	1,982
Increase in assets		–	24
Convertible notes	HKAS 32	–	(40)
Decrease in liabilities		–	(40)
Share premium	HKAS 32	–	117
Convertible notes reserve	HKAS 32	–	177
Accumulated losses	HKAS 17 & 32	–	(230)
Increase in equity		–	64

2. SEGMENT INFORMATION

The Group is principally engaged in investments in the natural gas and other gas and energy related business. The silicone rubber business, which has been disposed of on 14 February 2006, was discontinued since the Company's interim report for the period ended 31 January 2005.

Business segments:

Segment information about the Group's continuing operations is presented below. Segment information about the Group's discontinued operations is presented in note 9.

	Investment in internet, information technology and other activities		Natural gas business		Total for continuing operations	
	1.8.2005- 30.6.2006 HK\$'000	1.8.2004- 31.7.2005 (Restated) HK\$'000	1.8.2005- 30.6.2006 HK\$'000	1.8.2004- 31.7.2005 (Restated) HK\$'000	1.8.2005- 30.6.2006 HK\$'000	1.8.2004- 31.7.2005 (Restated) HK\$'000
Segment revenue:						
Turnover	–	–	150,825	200,928	150,825	200,928
Segment results	22,946	(106,961)	36,703	34,172	59,649	(72,789)
Unallocated income					223	1,076
Unallocated expenses					(5,914)	(33,345)
Finance costs					53,958	(105,058)
Share of losses of associates of jointly controlled entities	–	–	(2,421)	(2,321)	(2,421)	(2,321)
Profit/(loss) before taxation					50,038	(110,515)
Taxation					(1,721)	(3,487)
Profit/(loss) for the period/ year before minority interests from continuing operations					48,317	(114,002)

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An analysis of the Group's segment revenue for the period/ year by geographical segment is as follows:

Geographical segments:

	Continuing operations				Discontinued operations			
	Investment in internet, information technology and other activities		Natural gas business		Silicone rubber business		Total	
	1.8.2005- 30.6.2006	1.8.2004- 31.7.2005	1.8.2005- 30.6.2006	1.8.2004- 31.7.2005	1.8.2005- 30.6.2006	1.8.2004- 31.7.2005	1.8.2005- 30.6.2006	1.8.2004- 31.7.2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Hong Kong	–	–	–	–	–	4,090	–	4,090
Mainland China	–	–	150,825	200,928	–	–	150,825	200,928
	–	–	150,825	200,928	–	4,090	150,825	205,018

3. OTHER INCOME AND GAINS, NET

	Unaudited 1.8.2005- 30.6.2006 HK\$'000	Audited 1.8.2004- 31.7.2005 (Restated) HK\$'000
Interest income	337	563
Gain on disposal of short term listed investments	–	23,742
Gain on partial disposal of a subsidiary	–	5,000
Gain on disposal of investment securities	–	575
Reversal of impairment loss on investment securities	–	2,369
Reversal of impairment of property, plant and equipment	–	287
Gain on disposal of financial assets available-for-sale through profit or loss	992	–
Fair value changes of financial assets at fair value through profit or loss	26,701	–
Dividend income from available-for-sale financial assets – listed shares		
outside Hong Kong	100	–
Gain on disposal of leasehold land and buildings	750	–
Gain on exchange	–	294
Others	365	1,061
	29,245	33,891

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4. FINANCE COSTS

	Unaudited 1.8.2005- 30.6.2006 HK\$'000	Audited 1.8.2004- 31.7.2005 (Restated) HK\$'000
Interest on:		
Bank loans	1,132	1,797
Other loans – not wholly repayable within five years	–	236
– wholly repayable within five years	–	35
Securities trading account	327	422
Convertible notes	40	882
	<u>1,499</u>	<u>3,372</u>
Less: capitalised in property, plant and equipment	<u>–</u>	<u>236</u>
	<u>1,499</u>	<u>3,136</u>

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	Unaudited 1.8.2005- 30.6.2006 HK\$'000	Audited 1.8.2004- 31.7.2005 (Restated) HK\$'000
Depreciation of property, plant and equipment	6,696	6,955
Impairment loss of goodwill	–	1,694
Impairment loss on investment securities	–	108,718
Bad and doubtful debts	–	15,644
Changes in fair values of short term listed investments	–	9,297
Loss on disposal of property, plant and equipment	1,522	3,312
Loss on exchange	127	–
Impairment of intangible assets	–	5,000
Impairment of interest in an associate	–	442
	<u>–</u>	<u>–</u>

6. TAXATION

	Continuing operations		Discontinued operations		Total	
	Unaudited 1.8.2005- 30.6.2006 HK\$'000	Audited 1.8.2004- 31.7.2005 HK\$'000	Unaudited 1.8.2005- 30.6.2006 HK\$'000	Unaudited 1.8.2004- 31.7.2005 HK\$'000	Unaudited 1.8.2005- 30.6.2006 HK\$'000	Audited 1.8.2004- 31.7.2005 HK\$'000
Current taxation:						
Hong Kong	131	1,983	–	–	131	1,983
Other jurisdictions	<u>1,590</u>	<u>1,504</u>	<u>(108)</u>	<u>(365)</u>	<u>1,482</u>	<u>1,139</u>
Total tax charge for the period/year	<u>1,721</u>	<u>3,487</u>	<u>(108)</u>	<u>(365)</u>	<u>1,613</u>	<u>3,122</u>

Hong Kong profits tax has been provided at a rate of 17.5% (for the year ended 31 July 2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxation on other jurisdictions has been calculated on the estimated assessable profits for the period/ year at the rate of taxation prevailing in the countries in which the Group operates.

No tax is attributable to associates and included in share of losses of associates on the face of the condensed consolidated income statement.

7. EARNINGS /(LOSS) PER SHARE

From continuing and discontinued operations

The calculation of basic earnings per share for the period ended 30 June 2006 is based on the net profit attributable to equity holders of the Company of HK\$44,910,000 (for the year ended 31 July 2005: loss of HK\$139,797,000 (restated)) and on the weighted average of 1,797,260,045 (31 July 2005: 1,502,285,871) ordinary shares in issue.

From continuing operations

Basic profit per share for the continuing operations based on the profit for the period ended 30 June 2006 from continuing operations of HK\$41,680,000 (for the year ended 31 July 2005: loss of HK\$121,317,000 (restated)) and the denominators used are the same as those detailed above for basic earnings/ (loss) per share.

No diluted earnings per share has been presented for the period ended 30 June 2006 as there are no outstanding potential ordinary shares. In 2005, no diluted loss per share has been presented for the year ended 31 July 2005 as the convertible notes and options outstanding during the year had anti-dilutive effect on the basic loss per share.

8. DIVIDEND

No interim dividend was paid to shareholders during the period (for the year ended 31 July 2005: Nil).

9. DISCONTINUED OPERATIONS

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 ("Golite"), the Company announced the Board's decision to discontinue the silicone rubber business (the "discontinued operations") of the Group so as to preserve resources for the Group's other suitable and value-added business or investments. The Company therefore decided to dispose of its interests in Golite and its subsidiary (collectively referred as to the "Golite Group"). The assets and liabilities of the discontinued operations have since then been classified as a disposal group held for sale and are presented separately in the balance sheet. On 14 February 2006, the Group entered into a sale and purchase agreement with an independent third party for disposal of the entire interest in the Golite Group and the disposal was completed on the same date.

The profit/(loss) for the period/ year from the discontinued operations is analysed as follows:

	Unaudited 1.8.2005- 14.2.2006 <i>HK\$'000</i>	Unaudited 1.8.2004- 31.7.2005 <i>HK\$'000</i>
Net profit/(loss) of the silicone rubber business for the period/ year	134	(18,480)
Gain on disposal of silicone rubber business	3,096	–
	<u>3,230</u>	<u>(18,480)</u>

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The results of the silicone rubber business for the period from 1 August 2005 to 14 February 2006 (date of disposal of the discontinued operations) are as follows:

	Unaudited 1.8.2005- 14.2.2006 <i>HK\$'000</i>	Unaudited 1.8.2004- 31.7.2005 <i>HK\$'000</i>
Revenue	–	4,090
Cost of sales	–	(3,140)
Other income and gains	48	10
Selling and distribution costs	–	(755)
Administrative expenses	(22)	(10,488)
Other expenses	–	(8,562)
Profit/(loss) before taxation	26	(18,845)
Taxation	108	365
Profit/(loss) for the period/ year	<u>134</u>	<u>(18,480)</u>

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The major classes of assets and liabilities of the discontinued operations classified as held for sale are as follows:

	Unaudited At 30.6.2006 HK\$'000	Unaudited At 31.7.2005 HK\$'000
Assets		
Deposits, trade and other receivables	–	256
Tax recoverable	–	105
Cash and bank balances	–	13
	<u>–</u>	<u>374</u>
Liabilities		
Trade and other payables	–	3,565
Bank overdraft	–	98
	<u>–</u>	<u>3,663</u>

10. DEPOSITS, TRADE AND OTHER RECEIVABLES

Included in deposits, trade and other receivables are trade receivables with the following aging analysis:

	Unaudited At 30.6.2006 HK\$'000	Audited At 31.7.2005 HK\$'000
Aging:		
Current to 90 days	70	31
91 - 180 days	10	8
Over 180 days	<u>32,863</u>	<u>15,953</u>
Total	<u>32,943</u>	<u>15,992</u>

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following aging analysis:

	Unaudited At 30.6.2006 HK\$'000	Audited At 31.7.2005 HK\$'000
Aging:		
Current to 90 days	1,560	700
91 - 180 days	4,805	2,141
Over 180 days	<u>7,790</u>	<u>3,466</u>
Total	<u>14,155</u>	<u>6,307</u>

12. CONVERTIBLE NOTES

In January 2004, the Company issued a 3% convertible note due on 14 July 2005 in the principal amount of HK\$20 million to an independent third party and the note was wholly redeemed in December 2004 with interest accrued.

In October and November 2004, the Company issued 1-year 1% convertible notes in the aggregate principal amount of USD2 million and HK\$25 million respectively to independent third parties, entitling the holders 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 ended 31 July 2005, the convertible notes in the principal amount of USD2 million was fully converted into 624,000,000 ordinary shares of the Company. In respect of the convertible notes in the aggregate principal amount of HK\$25 million, HK\$9 million of which was converted into 360,000,000 ordinary shares of the Company in December 2004 and HK\$12 million of which was redeemed in July 2005.

The remaining convertible notes with the aggregate amount of HK\$4 million were due on 3 November 2005 and remained outstanding as at 30 June 2006. After the maturity date of the convertible notes, the notes had been classified as other payables and were repayable on demand. On 15 August 2006, the notes were fully redeemed and repaid with interest accrued.

The fair value of the liability component and equity component of the convertible notes was determined at the issuance date. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. Interest expenses on the convertible notes are calculated using the effective interest method by applying the effective interest rate in the region of 5% to 5.125% to the liability component. The residue amount, representing the value of the equity component, is included in reserves.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity components as follows:

	Unaudited At 30.6.2006 HK\$'000	Audited At 31.7.2005 (Restated) HK\$'000
Liabilities component at the beginning of the period	3,960	19,960
Nominal value of convertible notes issued during the period/year	–	40,516
Equity component	–	(1,589)
	3,960	58,887
Interest expenses	40	882
Interest paid	–	(360)
Conversion of convertible notes	–	(23,691)
Redemption of convertible notes	–	(31,758)
	4,000	3,960
Liability component at the end of the period/ year	(4,000)	–
Classified as other payables upon maturity of convertible notes	–	3,960
	–	3,960

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		Unaudited At 30.6.2006 Amount HK\$'000		Audited At 31.7.2005 Amount HK\$'000
	Number of shares		Number of shares	
Authorised:				
Ordinary shares of HK\$0.01 each	125,000,000,000	1,250,000	125,000,000,000	1,250,000
Issued and fully paid:				
At beginning of the period/year	1,734,676,213	17,347	9,521,841,423	238,046
Exercise of share options	70,000,000	700	720,000,000	18,000
Shares issued upon conversion of convertible notes	–	–	984,000,000	24,600
Shares issued upon rights issue	–	–	2,048,368,284	51,209
Bonus shares issued pursuant to rights issue	–	–	3,072,552,426	76,814
Placing of shares	–	–	1,000,000,000	25,000
Capital reduction	–	–	–	(416,322)
Share consolidation	–	–	(15,612,085,920)	–
At end of the period/year	1,804,676,213	18,047	1,734,676,213	17,347

14. LITIGATION

Golite International Limited (“Golite”) was 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 of on 14 February 2006.

15. CONTINGENT LIABILITIES

	Unaudited At 30.6.2006 HK\$'000	Audited At 31.7.2005 HK\$'000
Guarantees given to banks in connection with facilities granted to associates of a jointly controlled entity	67,630	47,000

16. POST BALANCE SHEET EVENTS**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.

On 15 November 2006, upon fulfillment of the conditions as stated in the sale and purchase agreement by both parties, the wholly owned subsidiary had completed Tranche 1 of the acquisition by payment of HK\$48 million in cash to acquire 65% of the total issued share capital of Accelstar. Tranche 2 of the acquisition to acquire the remaining 15% of the interest in Accelstar was completed on 17 November 2006. The consideration of HK\$10.5 million of Tranche 2 has been satisfied by issue of 175,000,000 ordinary shares of the Company to the vendor at an issue price of HK\$0.06 per ordinary share.

On 16 November 2006, the Company entered into a preliminary sale and purchase agreement (“Preliminary Agreement”) with Sino Vantage Management Limited, a company wholly owned by Mr. Xu Tie-liang, the Chairman and executive Director of the Company, to acquire Vast China Group Limited (“Vast China”), a company holding natural gas stations business in Anhui, the PRC. Due to the time constraint for finishing the accountants report of Vast China group, with uncertainty on the timing for the completion of the acquisition, a cancellation agreement was entered by the parties on 21 November 2006 to cancel the Preliminary Agreement and the proposed acquisition, and obligations of the parties under the Preliminary Agreement were released accordingly.

17. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of this interim financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective.

	Effective for accounting periods beginning on or after
Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1 “Presentation of Financial Statements”	1 January 2006
– HKAS 27 “Consolidated and Separate Financial Statements”	1 January 2006
– HKFRS 3 “Business Combinations”	1 January 2006
Amendments to HKAS 39 “Financial Instruments: Recognition and Measurement”:	
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments to HKAS 19 “Actuarial Gains and Losses, Group Plans and Disclosures”	1 January 2006
Amendments to HKAS 21 “Net Investment in a Foreign Operation”	1 January 2006
HKFRS-Int 4 “Determining whether an Arrangement contains a Lease”	1 January 2006
HKFRS 7 “Financial Instruments: Disclosures”	1 January 2007
Amendments to HKAS 1 “Presentation of Financial Statements: Capital Disclosures”	1 January 2007

The Group has not early adopted the above standards, interpretations and amendments in the interim financial statements for the period ended 30 June 2006. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to Group’s accounting policies and presentation of the financial statements will be resulted.

18. COMPARATIVE AMOUNTS

As further explained in note 1 to the interim financial statements, due to the adoption of new and revised HKFRS during the current period, the accounting treatment and presentation of certain items and balances in the interim financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current period's presentation.

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 November 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in investments in the natural gas and other gas and energy related business. Since the Group has changed its accounting policy and consolidated the result of China City Natural Gas Co., Ltd (“CCNGCL”), a joint venture company of the Group that principally engaged in the natural gas business in the PRC, the Group has decided to change the year end date from 31 July to 31 December to match the year end date of CCNGCL. Such change is necessary for the facilitation of a timely and smooth audit, and better internal and accounting controls for the Group and CCNGCL as a whole.

Given the year end date changed to 31 December, accordingly, 30 June becomes the interim date of the Group, thus the period under review in this interim report is 11 months from 1 August 2005 to 30 June 2006. In order to provide relevant and sensible comparisons with the 12 months audited result for the period from 1 August 2004 to 31 July 2005, some comparisons made for the income statements are normalized to 12 months.

The Group has significantly reduced investments apart from the Group’s principal business to preserve resources and focus on the development of its natural gas business or investments in energy and natural gas related projects.

Business Review

For the 11 months period ended 30 June 2006, the turnover of the Group was approximately HK\$150.8 million, representing approximately 24.9% decrease (12 months normalized: 18.1%) as compared to approximately HK\$200.9 million of last year audited accounts. Such change is due to the decrease in the natural gas construction and installation income. The Group’s unaudited consolidated profit attributed to equity holders of the Company was approximately HK\$44.9 million, representing an increase in profit of approximately 132.1% (12 months normalized: 135%) compared with loss of approximately HK\$139.8 million in the last year audited accounts. With a strict costs control and in the absence of the provision for impairment on investments, the profitability of the natural gas business was truly reflected, and the Group’s profit attributable to equity holders of the Company for the period was, turning around from loss-making, largely improved. Profit per share for the period under review was approximately HK cents 2.5 (2005: Loss HK cents 9.3 (restated)).

Manufacturing Business (discontinued)

Since the disposal of its battery and silicone rubber manufacturing business, the Group had been completely out of the manufacturing segment.

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 finally 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\$4.1 million).

Natural Gas Business

The Group, through CCNGCL, a joint venture formed with China Petroleum Pipeline Bureau (“CPP”), a wholly owned subsidiary of China National Petroleum Corporation (“CNPC”), to invest and operate natural gas businesses in various cities (Xining, Liling, Binzhou, Huimin, and Qingyun) in the PRC.

Natural gas is the main business that the Group is focusing on, and is the main revenue contributor to the Group during the period under review, unaudited consolidated turnover of which for 11 months is approximately HK\$301 million and proportioned turnover to the Group was approximately HK\$150.8 million, representing a decrease of approximately 24.9% (12 months normalized: 18.1% decrease) as compared with last year audited accounts of approximately HK\$200.9 million, due to large amount of construction and installation income was recognised and recorded in the last year audited accounts, while the income from the construction and installation for the period under review is relatively decreased, the sales of natural gas was stably increased, and the proportioned operating profit of the natural gas business for the period was increased by 7.4% (12 months normalized: 17.17% increase) from HK\$34.2 million in last year audited accounts to approximately HK\$36.7 million for the 11 months under review.

Liquidity and Financial Resources

As at 30 June 2006, bank balances and cash on hand of the Group was approximately HK\$116.3 million (2005: HK\$35.8 million), and the Group maintained a securities portfolio consisting of equity securities listed in Hong Kong of approximately HK\$44.6 million (2005: HK\$16.6 million). The increase in the value of the marketable portfolio is due to the overall appreciation of the marketable securities, and by virtue of the bullish capital market, the Group, as at 30 June 2006, recorded a unrealised gain of approximately HK\$29 million from the appreciated marketable securities. As at 30 June 2006, the Group had total borrowings amounting to approximately HK\$78.8 million (2005: HK\$82.7 million), mainly being the borrowings of CCNGCL, of which HK\$14.6 million representing a bank loan with floating interest rate for the operation of Xining natural gas companies, and HK\$64.2 million representing a construction loan for the construction of pipeline network in Xining Province. Save for the abovementioned, the Group had no bank loans, overdraft or other borrowings. The Group’s gearing ratio, measured on the basis of total current liabilities as a percentage of total equity, was 14.2% (2005: 29.9%). As at 30 June 2006, the Group had total assets of approximately HK\$342.2 million (2005: HK\$312.4 million). Current assets were approximately HK\$218.1 million (2005: HK\$180.9 million), and current liabilities were approximately HK\$32.7 million (2005: HK\$55 million). The current ratio of the Group was 6.7 (2005: 3.3) and the quick ratio was 6.5 (2005: 3.0).

Capital Commitment

In August 2005, the Group entered into a license agreement and a technical service agreement with Cubicsoft Co., Ltd., an online game software company in Korea (“Licensor”), among other things, to licence and operate certain online games in China with the maintenance and technical support to be provided by the Licensor. However, due to the impracticality in performing the maintenance and technical support to the sub-licencee in the PRC, the Company thereafter entered into a termination deed with the Licensor on 4 November 2005 to terminate the licence agreement and the technical service agreement.

In November 2006, the Company entered into a preliminary sale and purchase agreement (“Preliminary Agreement”) with Sino Vantage Management Limited, a company wholly owned by Mr. Xu Tie-liang, the Chairman and executive Director of the Company, to acquire Vast China Group Limited (“Vast China”), a company holding natural gas stations business in Anhui, the PRC. Due to the time constraint for finishing the accountants report of Vast China group, with uncertainty on the timing for the completion of the acquisition, a cancellation agreement was entered by the parties to cancel the Preliminary Agreement and the proposed acquisition, and obligations of the parties under the Preliminary Agreement were released accordingly. The acquisition of the Anhui natural gas stations project will be seriously reconsidered when and where appropriate, as the Group will be benefited from the acquisition, where business of which is fundamentally in line with the Group’s principal natural gas business and it is the Group’s intention to setting up a national wide natural gas stations refilling network to capture the business potential in traffic, and the process could be accelerated through acquisitions.

In July 2006, the Group entered into an agreement to acquire 80% interest of Accelstar Pacific Limited (“Accelstar”) at the consideration of HK\$58.5 million which has been satisfied by HK\$48 million in cash, and issue of 175,000,000 shares of the Company as consideration shares (the “Accelstar Acquisition”). Accelstar and its subsidiaries are principally engaged in investment and construction of natural gas stations and supply of natural gas in Qingyun and Binzhou, the PRC. The Accelstar Acquisition was completed in November 2006, the Company shall provide a shareholder’s loan of approximately HK\$9 million to Accelstar (“Shareholders Loan”) for the construction and operation of the natural gas stations, whereas construction of which is expected to be commenced in January 2007 after all the technical design and construction plan be finalized and approved.

Save for the Shareholders Loan mentioned above, the Group did not incur or commit any material investment or capital expenditure.

Capital Structure

During the period under review, the Group issued 70,000,000 shares as a result of the exercise of share options in October 2005.

Subsequent to 30 June 2006, the Company, in September 2006, entered into a placing agreement with Guotai Junan Securities (Hong Kong) Limited to place 540,000,000 new shares of the Company at HK\$0.12 per share (the “Placement”). The Placement was completed in October 2006, and as result of the Placement, the Company issued 540,000,000 new shares and raised a net proceed of approximately HK\$64 million. The Accelstar Acquisition was completed in November 2006, and the Company issued 175,000,000 new shares to Topfaith Group Limited as consideration shares for the Accelstar Acquisition.

Save for the abovementioned, the Group did not enter into any agreement or whatsoever in relation to fund raising and issue of shares of the Company.

Pledge of Assets

As at 30 June 2006, the Group had not pledged any of its assets.

Contingent Liability

As at 30 June 2006, save for the guarantee of HK\$67.6 million given by CCNGCL to banks in connection with loan facility granted to associates of a jointly controlled entity, the Group had no contingent liability.

Foreign exchange and interest rate exposure

As the Group’s sales are mostly based on Renminbi, and investments are mostly made in Hong Kong Dollar, having considered the exchange rate of the said currency is fairly stable, no foreign exchange and interest rate risk management or related hedges were made, proper policy will be in place when the Board considers appropriate.

Employees and Remuneration Policy

As at 30 June 2006, the Group employed a total workforce of approximately 280 people (2005: 320 people) among which 7 people (2005: 8 people) were stationed in Hong Kong and 273 people (2005: 312) were stationed in the PRC. The staff costs for the period amounted to approximately HK\$12 million (2005: HK\$11.4 million). The employees’ remuneration, promotion and salary are assessed based on work performance, working and professional experiences and the prevailing market practice.

FINANCIAL AND TRADING PROSPECTS

The natural gas industry in China is growing rapidly in recent years, as natural gas is an affordable energy complementary to petroleum, whereas it is clean and environmental friendly. Given its clean and affordable nature, the demand for natural gas in China is surging due to the rapid growing economy, the coming Olympic Games, and the increase of awareness and government support in environmental protection. We are optimistic and see enormous potential in the natural gas business.

Since the construction of the Main Natural Gas is substantially completed and Vast China has obtained approvals to operate natural gas stations to supply natural gas in Maanshan, the Acquisition will enable the Company to capture the business opportunities to become a major supplier of natural gas in Maanshan, and given the proximity of distance between Nanjing and Maanshan, the Natural Gas Stations together with the stations to be built in Nanjing under the Nanjing Acquisition will form a large combined refilling gas station network in Jaingsu and Anhui which will enhance the Company's competitiveness in these areas and create synergy value on overall management, technical support and resources allocation.

The Group will concentrate on the natural gas business. The refilling gas stations business is largely cash based business with relatively short return period, which can strengthen the Group's financial position and earning base, and the Group will continue seeking more piped natural gas projects in suitable cities to sustain stable growth in the long run.

INDEBTEDNESS

(a) The Group

At the close of business on 31 December 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group together with the Group's jointly-controlled entity had outstanding borrowings, after proportionate consolidation, of approximately HK\$70,653,000 (equivalent to RMB71,100,000), comprising bank loan of approximately HK\$9,937,000 (equivalent to RMB10,000,000) and other loans of approximately HK\$60,716,000 (equivalent to RMB61,100,000). The bank loan is interest bearing, repayable within two years and secured by gas pipelines with a book value of RMB35,347,000 together with the natural gas operation right of a jointly controlled entity. Approximately HK\$14,538,000 (equivalent to RMB14,630,000) 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 and approximately HK\$27,695,000 (equivalent to RMB27,870,000) of the other loans are unsecured, interest free for the period and repayable within three years. The remaining other loans of approximately HK\$18,483,000 (equivalent to RMB18,600,000) are unsecured, interest free for the period and have no indication of the repayment date.

The Group's jointly controlled entity had also executed several corporate guarantees in the aggregate of approximately HK\$69,164,000 (equivalent to RMB69,600,000) to banks for general banking facilities granted to the associates of the jointly controlled entity.

(b) The Vast China Group

At the close of business on 31 December 2006, the Vast China Group had outstanding borrowing from the sole shareholder of approximately HK\$10,371,000, which is unsecured, interest free and repayable on demand.

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

Save as aforesaid 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 December 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 December 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 of cash balances of the Group and its expected internally generated funds, the Group has sufficient working capital for its requirements for at least the next twelve months from the date of this Circular.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

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

26 February 2007

The Board of Directors
China Oil And Gas Group Limited
Suite 2805, 28/F.,
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 Vast China Group Limited ("Vast China") and its subsidiaries (collectively, the "Vast China Group") including the combined income statements, combined statements of changes in equity and combined cash flow statements of the Vast China Group for each of the years ended 31 December 2004, 2005 and 2006 (the "Relevant Period") and the combined balance sheets of the Vast China Group as at 31 December 2004, 2005 and 2006 and the notes thereto (the "Financial Information") for inclusion in the circular of China Oil And Gas Group Limited (the "Company") dated 26 February 2007 (the "Circular") in connection with the proposed acquisition of the entire interest in Vast China by the Company (the "Acquisition").

Vast China was incorporated in the British Virgin Islands on 15 August 2006 as a company with limited liability and authorised share capital of USD50,000 divided into 50,000 ordinary shares of USD1 each. Pursuant to a group reorganisation (the "Reorganisation") which was completed on 15 August 2006, Vast China became the holding company of the subsidiaries now comprising the Vast China Group, details of which are set out in Section A below. Vast China has not carried on any business since the date of its incorporation save for the Reorganisation and investments in and loans to subsidiaries.

No audited financial statements have been prepared for the companies comprising the Vast China Group, except for 安徽中油管道高佳燃气有限公司 (Anhui China Oil And Gas Co., Ltd.*) ("Anhui China Oil Co"), as they were either incorporated shortly or dormant before 31 December 2006 or are investment holding companies and have not carried on any business since their respective dates of incorporation or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

The statutory financial statements of Anhui China Oil Co for the years ended 31 December 2005 and 2006, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China ("PRC"),

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

were audited by the PRC statutory auditors, 安徽江南會計師事務所 (Anhui Jiangnan Certified Public Accountants*). Since Anhui China Oil Co. was incorporated on 12 August 2005, no statutory Financial Statements was prepared for the year ended 31 December 2004.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The Financial Information as set out below has been prepared based on the audited financial statements or, where appropriate, unaudited financial statements of the companies now comprising the Vast China Group, on the basis set out in Section A below, after making such adjustments as are appropriate. The director of Vast China (the "Director") is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit. 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 audited financial statements or, where appropriate, the unaudited financial statements of the companies comprising the Vast China Group for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("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. Those standards on auditing require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the Reporting Accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the Reporting Accountants considers internal control relevant to the Vast China Group's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Vast China Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Director, as well as evaluating the overall presentation of the Financial Information.

* *English translation of company names for identification purpose only*

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purposes of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the combined results, changes in equity and cash flows of the Vast China Group for each of the years ended 31 December 2004, 2005 and 2006 and of the combined state of the affairs of the Vast China Group as at 31 December 2004, 2005 and 2006.

A. BASIS OF PRESENTATION

Vast China became the holding company of the following companies now comprising the Vast China Group pursuant to the Reorganisation which was completed on 15 August 2006. The combined income statements, combined statements of changes in equity and combined cash flow statements of the Vast China Group as set out in Section B include the results of operations of the following companies comprising the Vast China Group for the Relevant Period as if the current group structure had been in existence throughout the entire Relevant Period. The combined balance sheets of the Vast China Group as at 31 December 2004, 2005 and 2006 as set out in Section B have been prepared to present the state of affairs of the following companies comprising the Vast China Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, Vast China had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of the Company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Attributable equity interest		Principal activities
			Directly	Indirectly	
Top Best Group Limited	Samoa 06/11/2003	US\$1,000	100%	–	Investment holding (Note 1)
安徽中油管道 高佳燃气有限公司 (Anhui China Oil And Gas Co., Ltd.*)	The PRC 12/08/2005	RMB18,000,000	–	60%	Construction of natural gas station and supply of gas in Maanshan, the PRC
Top Best Group (Hong Kong) Limited	Hong Kong 04/11/2006	HK\$1	100%	–	Investment holding

* English translation of company name for identification purpose only

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

Note 1 Top Best Group Limited did not commence any business activity for the year ended 31 December 2004.

B. FINANCIAL INFORMATION

(1) COMBINED INCOME STATEMENTS

	<i>Notes</i>	For the years ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	6	–	–	–
Other income	6	–	21	43
Administrative expenses		–	(615)	(1,259)
Loss for the year	7	–	(594)	(1,216)
Attributable to:				
Equity holder of Vast China		–	(356)	(730)
Minority interests		–	(238)	(486)
		–	(594)	(1,216)
Loss per share	10	–	(356)	(730)

The accompanying notes form part of the Financial Information.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

(2) COMBINED BALANCE SHEETS

	<i>Notes</i>	As At 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS				
Non-current assets				
Property, plant and equipment	11	—	330	5,665
Current assets				
Deposits and other receivables	13	—	203	5,758
Cash and cash equivalents	14	7	16,732	5,408
		7	16,935	11,166
Total assets		<u>7</u>	<u>17,265</u>	<u>16,831</u>
EQUITY				
Capital and reserves attributable to the equity holder of Vast China				
Share capital	18	—	—	—
Reserves		—	(360)	(701)
		—	(360)	(701)
Minority interests		—	6,673	6,446
Total equity		<u>—</u>	<u>6,313</u>	<u>5,745</u>
LIABILITIES				
Current liabilities				
Shareholder's loan	15	7	10,371	10,371
Trade and other payables	16	—	581	715
Total liabilities		<u>7</u>	<u>10,952</u>	<u>11,086</u>
Total equity and liabilities		<u>7</u>	<u>17,265</u>	<u>16,831</u>
Net current assets		<u>—</u>	<u>5,983</u>	<u>80</u>
Total assets less current liabilities		<u>—</u>	<u>6,313</u>	<u>5,745</u>

The accompanying notes form part of the Financial Information.

Approved and authorised for issue by the Director of Vast China on 21 February 2007.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

(3) BALANCE SHEET AS AT 31 DECEMBER 2006

	<i>Notes</i>	<i>HK\$'000</i>
ASSETS		
Non-current assets		
Interests in subsidiaries	12	<u>10,371</u>
Total assets		<u>10,371</u>
EQUITY		
Capital and reserves attributable to the equity holder of Vast China		
Share capital	18	—
Reserve		<u>—</u>
Total equity		<u>—</u>
LIABILITIES		
Current liabilities		
Shareholder's loan	15	<u>10,371</u>
Total liabilities		<u>10,371</u>
Total equity and liabilities		<u>10,371</u>
Net current liabilities		<u>(10,371)</u>
Total assets less current liabilities		<u>—</u>

The accompanying notes form part of the Financial Information.

Approved and authorised for issue by the Director of Vast China on 21 February 2007.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

(4) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holder of Vast China				
	Share capital	Accumulated losses	Exchange fluctuation reserve	Minority interests	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2004	–	–	–	–	–
Profit/(loss) for the year	–	–	–	–	–
At 31 December 2004	–	–	–	–	–
At 1 January 2005	–	–	–	–	–
Exchange difference arising from translation of financial statements of a subsidiary	–	–	(4)	–	(4)
Funds injected by minority interests	–	–	–	6,911	6,911
Loss for the year	–	(356)	–	(238)	(594)
At 31 December 2005	–	(356)	(4)	6,673	6,313
At 1 January 2006	–	(356)	(4)	6,673	6,313
Exchange difference arising from translation of financial statements of a subsidiary	–	–	389	259	648
Loss for the year	–	(730)	–	(486)	(1,216)
At 31 December 2006	–	(1,086)	385	6,446	5,745

The accompanying notes form part of the Financial Information.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

(5) COMBINED CASH FLOW STATEMENTS

	<i>Notes</i>	For the years ended 31 December		
		2004	2005	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating activities				
Loss for the year		–	(594)	(1,216)
Adjustments for:				
Depreciation of property, plant and equipment	7	–	–	57
Interest income		–	(21)	(43)
		<u>–</u>	<u>(21)</u>	<u>(43)</u>
Changes in working capital:				
Deposits and other receivables		–	(615)	(1,202)
Trade and other payables		–	(203)	(5,555)
		<u>–</u>	<u>581</u>	<u>134</u>
Net cash used in operating activities		<u>–</u>	<u>(237)</u>	<u>(6,623)</u>
Cash flows from investing activities				
Purchase of property, plant and equipment	11	–	(330)	(5,392)
Interest received		–	21	43
		<u>–</u>	<u>21</u>	<u>43</u>
Net cash used in investing activities		<u>–</u>	<u>(309)</u>	<u>(5,349)</u>
Cash flows from financing activities				
Shareholder's loan	15	7	10,371	–
Funds injected by the minority shareholder		–	6,907	–
		<u>–</u>	<u>6,907</u>	<u>–</u>
Cash generated from financing activities		<u>7</u>	<u>17,278</u>	<u>–</u>
Net increase/(decrease) in cash and cash equivalents		7	16,732	(11,972)
Cash and cash equivalents at beginning of the year		–	–	16,732
Effect of foreign exchange rate changes		–	–	648
		<u>–</u>	<u>–</u>	<u>648</u>
Cash and cash equivalents at end of the year	14	<u>7</u>	<u>16,732</u>	<u>5,408</u>

The accompanying notes form part of the Financial Information.

C. NOTES TO THE FINANCIAL INFORMATION**1. General Information**

Vast China Group Limited ("Vast China") is a limited liability company which was incorporated in the British Virgin Islands on 15 August 2006. The registered office of Vast China is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, the British Virgin Islands. Vast China and its subsidiaries (together the "Vast China Group") are engaged in investment holding, construction of natural gas station and supply of natural gas in Maanshan, the PRC.

As at 31 December 2006, the ultimate holding company of Vast China is Sino Vantage Management Limited, a company incorporated in the British Virgin Islands.

2. Basis of preparation of the financial information

The Financial Information presents the combined results, cash flows and financial position of the Vast China Group for each of the years ended 31 December 2004, 2005 and 2006 on the basis that Vast China, for the purpose of this report, is regarded as a continuing entity and that the Reorganisation had been completed as at the beginning of the Relevant Period and that the business of the Vast China Group had been conducted by Vast China throughout the Relevant Period as they are related to entities under common control.

The Financial Information set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("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 Vast China 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 4 to the Financial Information.

3. Summary of principal accounting policies

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

The adoption of new/revised HKFRS

From 1 January, 2005, the Vast China Group has adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 24	Related Party Disclosures
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HK(SIC)-Int 15	Operating Leases – Incentives

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

The adoption of new/revised HKAS 1, 7, 8, 10, 12, 16, 17, 24, 36, 37 and HK(SIC)-Int 15 had no material effect on the Vast China Group's accounting policies.

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.

HKFRS 7 "Financial Instruments: Disclosures" ¹

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

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

Initial assessment has indicated that the adoption of these HKFRS would not have a significant impact on the Vast China Group's Financial Information in the year of initial application. The Vast China Group will be continuing with the assessment of the impact of these HKFRS and other significant changes may be identified as a result.

Subsidiaries

Subsidiaries are entities controlled by the Vast China Group. Control exists when the Vast China Group has the power, directly or indirectly, to govern the financial and operating policies of the entities, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Merger accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Vast China Group, whether directly or indirectly through subsidiaries, are presented in the combined balance sheets and statements of changes in equity within equity, separately from equity attributable to the equity shareholder of Vast China. Minority interests in the results of the Vast China Group are presented on the face of the combined income statements as an allocation of the total profit or loss for the year between minority interests and the equity shareholder of Vast China Group.

Where losses attributable to the minority exceed the minority interests in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Vast China Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Vast China Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Vast China Group has been recovered.

Property, plant and equipment

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

All other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Vast China Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Furniture and fixtures	5 – 12 years
Motor vehicles	8 years

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the year the item is derecognised.

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

Impairment of assets

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 identified cash flows (cash-generating units).

Deposits and other receivables

Deposits and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, except for the following receivables:

- (i) Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any impairment losses for bad and doubtful debts, and
- (ii) Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any impairment losses for bad and doubtful debts.

Impairment losses on deposits and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective interest rate, i.e. the effective interest rate computed at initial recognition.

Trade and other payables

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for the following payables:

- (i) Interest free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at their outstanding amount, and
- (ii) Short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Vast China Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Segment reporting

A segment is a distinguishable component of the Vast China Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Vast China Group operates in a single business segment, construction of natural gas station and supply of natural gas in Maanshan, the PRC. Accordingly, no segmental analysis is presented.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Vast China Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Foreign currency translation*Functional and presentation currency*

Items included in the financial statements of each of the Vast China Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information are presented in HK dollars, which is Vast China'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, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

The results of foreign operations are translated into HK dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into HK dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Vast China Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Vast China Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the country, in which the entity operates, are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

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 combined Financial Information. 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 Vast China Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Vast China Group. It can also be a present obligation arising from past events that are not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Cash and cash equivalents

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

For the purpose of cash flow statement, bank overdrafts which are repayable on demand form an integral part of the Vast China Group's cash management are included as a component of cash and cash equivalents.

Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Vast China Group's 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

A party is related to the Vast China Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Vast China Group;
 - has an interest in the Vast China Group that gives its significant influence over the Vast China Group; or
 - has joint control over the Vast China 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 Vast China 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 Vast China Group, or of any entity that is a related party of the Vast China Group.

4. Financial risk management objectives and policies

The Vast China Group's principal financial instruments comprise cash at banks. The main purpose of these financial instruments is to raise finance for the Vast China Group's operations. The Vast China Group has various other financial instruments such as deposits and other receivables, trade and other payables and shareholder's loan, which arise directly from its operations.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

The main risk arising from the Vast China Group's financial instruments is liquidity risk. The Vast China Group does not have any written risk management policies and guidelines. However, the Director periodically analyses and formulates measures to manage the Vast China Group's exposure to these risks. Generally, the Vast China Group introduces conservative strategies on its risk management. As the Vast China Group's exposure to these risks is kept to a minimum, the Vast China Group has not used any derivatives and other instruments for hedging purposes. The Director reviews and agrees policies for managing each of these risks and they are summarised as follows:

Liquidity risk

The Vast China Group manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

5. 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.

Critical accounting estimates and assumptions

The Vast China 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 Vast China 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 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.

6. Turnover and other income

During the Relevant Period, the Vast China Group did not derive any turnover from its operations as it has not commenced its business of supply of natural gas in Maanshan, the PRC. An analysis of the Vast China Group's other income is shown as follows:

	For the years ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Turnover	—	—	—
Other income			
Bank interest income	—	21	43

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

7. Loss for the year

Loss for the year is arrived at after charging:

	For the years ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	–	–	57
Auditors' remuneration	–	2	10
Staff costs			
– Salaries and allowances	–	242	380
– Staff quarter expenses	–	–	9
– Other related staff expenses	–	4	78
Loss on exchange	–	28	80

8. Taxation

No provision for Hong Kong and overseas profits tax has been made as the Vast China Group had no assessable profits 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.

The taxation on the Vast China Group's loss for the year differs from the theoretical amount that would arise using the applicable tax rate as follows:

	For the years ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Loss for the year	–	594	1,216
Calculated at a taxation rate of 18%	–	107	219
Tax effect of unrecognised tax loss for the year	–	(107)	(219)
Taxation charge	–	–	–

9. Director's remuneration and emoluments of highest paid individuals

Director's remuneration

The sole Director did not receive or will receive any fees or emoluments in respect of his service to the Vast China Group or as an inducement to join or upon joining the Vast China 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.

Five highest paid individuals

Remuneration paid to the five highest paid individuals of the Vast China Group during the Relevant Period are as follows:

	For the years ended 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Basic salaries, allowances and other benefits	–	155	122

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

The emoluments of the five highest paid individuals with the highest emoluments are within the following bands:

	For the years ended 31 December		
	2004	2005	2006
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
HK\$1-HK\$1,000,000	<u>—</u>	<u>5</u>	<u>5</u>

Save as disclosed above, no emoluments were paid by the Vast China Group to the five highest paid individuals during the Relevant Period as an inducement to join or upon joining the Vast China Group or as compensation for loss of office.

10. Loss per share

The calculation of basic loss per share for the Relevant Period is based on the loss attributable to ordinary shareholder for each of the years ended 31 December 2004, 2005 and 2006 and on the number of share in issue of 1 ordinary share in Vast China.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted loss per share is not presented.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

11. Property, plant and equipment

	Construction in progress HK\$	Motor vehicles HK\$	Furniture and fixtures HK\$	Total HK\$
Cost				
At 1 January 2004 and 31 December 2004	—	—	—	—
Accumulated depreciation				
At 1 January 2004 and 31 December 2004	—	—	—	—
Net book value				
At 31 December 2004	—	—	—	—
Cost				
At 1 January 2005	—	—	—	—
Additions	—	270	60	330
31 December 2005	—	270	60	330
Accumulated depreciation				
At 1 January 2005	—	—	—	—
Charge for the year	—	—	—	—
31 December 2005	—	—	—	—
Net book value				
At 31 December 2005	—	270	60	330
Cost				
At 1 January 2006	—	270	60	330
Currency realignment	—	11	2	13
Additions	5,282	85	12	5,379
31 December 2006	5,282	366	74	5,722
Accumulated depreciation				
At 1 January 2006	—	—	—	—
Charge for the year	—	44	13	57
31 December 2006	—	44	13	57
Net book value				
At 31 December 2006	5,282	322	61	5,665

Construction in progress comprises costs incurred on construction of natural gas station and plant and equipment, which have not been completed as at 31 December 2006.

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

12. Interests in subsidiaries

	As at 31 December 2006 HK\$'000
Unlisted shares, at cost	8
Amount due from a subsidiary	10,363
	<u>10,371</u>

As at 31 December 2006, the amount due from a subsidiary is unsecured, interest free and has no indication of repayment terms.

Particulars of the principal subsidiaries of Vast China as at the date of this report are set out in Section A to the Financial Information.

13. Deposits and other receivables

All deposits and other receivables are expected to be recovered within one year. The Director considers that the carrying amount of deposits and other receivable approximate to their fair values. As at 31 December 2006, included in deposits and other receivables is the amount of compensation of RMB920,352 paid for acquisition of the right to use the land in Maanshan, the PRC for construction of natural gas station in Maanshan, the PRC. Up to the date of this report, the transaction for acquisition of the right to use the land in Maanshan, the PRC has not yet been completed.

As at 31 December 2006 and 2005, all deposit and other receivables are denominated in Renminbi.

14. Cash and cash equivalents

	As at 31 December		
	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	<u>7</u>	<u>16,732</u>	<u>5,408</u>

As at 31 December 2006, cash and cash equivalents included RMB5,396,682 (2005: RMB7,836,444).

15. Shareholder's loan

Shareholder's loan as at 31 December 2004, 2005 and 2006 is unsecured, interest free and is repayable on demand.

16. Trade and other payables

All trade and other payables are repayable on demand. The Director considers that the carrying amount of trade and other payables approximate to their fair values.

As at 31 December 2006 and 2005, all trade and other payables are denominated in Renminbi.

17. Employee retirement benefits

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Vast China Group participate in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees.

The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Vast China Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Schemes.

The Vast China Group is not liable to any retirement benefits payment in the PRC beyond the contributions to the Schemes.

18. Share Capital

Vast China was incorporated on 15 August 2006 and became the holding company of Top Best Group Limited and Anhui China Oil Co on 15 August 2006 as a result of Reorganisation. For the purposes of this report and as mentioned in Section A, the share capital of Vast China of HK\$7.8 presented in the combined balance sheets as at 31 December 2004 and 2005 represents the aggregate amount of the nominal value of the issued share of Vast China, which is deemed to have been in issue since 1 January 2004.

19. Deferred taxation

Deferred tax assets have not been recognised in respect of tax losses of HK\$594,000 and 1,216,000 at 31 December 2005 and 2006 respectively. The tax losses do not expire under current tax legislation. No deferred tax assets have been recognised due to the unpredictability of future profit streams.

20. Capital commitments

The Vast China Group has the following capital commitments as at 31 December 2004, 2005 and 2006:

	As At 31 December		
	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment			
Contracted but not provided for	–	443	6,338
Authorised but not contracted for	–	–	–
	<u>–</u>	<u>443</u>	<u>6,338</u>

21. Commitments under operating leases

The Vast China Group leases certain office and staff quarters under operating lease arrangements, with leases negotiated for original terms ranging from one to one and half years. None of the leases includes contingent rentals.

The Vast China Group had total future aggregate minimum lease payments under non-cancellable operating leases which expire as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>–</u>	<u>9</u>	<u>12</u>

APPENDIX II ACCOUNTANTS' REPORT ON THE VAST CHINA GROUP

22. Balance with related party

Details of the Vast China Group's balance with related party are as follows:

	2004	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Shareholder			
Balance due from the Vast China Group	<u>7</u>	<u>10,371</u>	<u>10,371</u>

The balance due to shareholder is unsecured, interest free and is repayable on demand.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Vast China or its subsidiaries comprising the Vast China Group in respect of any period subsequent to 31 December 2006.

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

APPENDIX III ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

Set out below is the reproduction of the accountants' report on Accelstar Group as extracted from the Company's circular dated 18 October 2006 relating to a major transaction entered into by the Company after the latest published audited accounts of the Company were made up. Further, the reference to page and appendix in this circular are the page and appendix of the Company's circular dated 18 October 2006.

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 III 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 III 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 III 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 III 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 III 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 III 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 III 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 III 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 III 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.

APPENDIX III ACCOUNTANTS' REPORT ON ACCELSTAR GROUP

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 III 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 III 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 III 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:

	Equivalent to	
50,000 ordinary shares of USD1 each	<u>USD50,000</u>	<u>HK\$390,000</u>

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:

	<i>HK\$</i>
Contracted but not provided for (<i>notes a & b</i>)	<u>8,264,000</u>

As at 31 August 2006, Accelstar did not have any significant capital commitment.

APPENDIX III 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

Set out below is the reproduction of the unaudited pro forma financial information of Accelstar Group as extracted from the Company's circular dated 18 October 2006 relating to a major transaction entered into by the Company after the latest published audited accounts of the Company were made up (except where the definition of the Enlarged (Accelstar) Group is slightly modified). Further, the reference to page and appendix in this circular are the page and appendix of the Company's circular dated 18 October 2006.

**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 (Accelstar) 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 (Accelstar) Group as at 31 January 2006 or any future date; or
- the results of the Enlarged (Accelstar) 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

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED (ACCELSTAR) GROUP

The following unaudited pro forma financial information of the Enlarged (Accelstar) Group, including unaudited pro forma consolidated balance sheet and income statement of the Enlarged (Accelstar) 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 (Accelstar) 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 (Accelstar) Group does not purport to describe the actual financial position of the Enlarged (Accelstar) Group that would have been attained had the acquisition been completed on 31 January 2006, or results of the Enlarged (Accelstar) 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 (Accelstar) Group does not purport to predict the Enlarged (Accelstar) Group’s future financial position and results.

The unaudited pro forma financial information of the Enlarged (Accelstar) 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 (Accelstar) 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 (Accelstar) 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	–	–	58,188	(1)	58,188
	<u>119,612</u>	<u>637</u>			<u>178,437</u>

APPENDIX IV PRO FORMA FINANCIAL INFORMATION ON ACCELSTAR 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 (Accelstar) Group HK\$'000
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 IV PRO FORMA FINANCIAL INFORMATION ON ACCELSTAR 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 (Accelstar) Group HK\$'000
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)	–
	<u>62,356</u>	<u>260</u>			<u>63,616</u>
Liabilities directly associated with assets classified as held for sale	<u>3,375</u>	<u>–</u>			<u>3,375</u>
	<u>65,731</u>	<u>260</u>			<u>66,991</u>
Non-current liabilities					
Borrowings					
Bank loans	14,432	–			14,432
Other loans	<u>63,595</u>	<u>–</u>			<u>63,595</u>
	<u>78,027</u>	<u>–</u>			<u>78,027</u>
Total liabilities	<u>143,758</u>	<u>260</u>			<u>145,018</u>
Total equity and liabilities	<u>331,665</u>	<u>650</u>			<u>342,503</u>
Net current assets/ (liabilities)	<u>146,322</u>	<u>(247)</u>			<u>97,075</u>
Total assets less current liabilities	<u>265,934</u>	<u>390</u>			<u>275,512</u>

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 (Accelstar) 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 (Accelstar) Group will have the following transaction relating to the future event and affecting the financial position and results of the Enlarged (Accelstar) 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.

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

26 February 2007

The Board of Directors
China Oil And Gas Group Limited
Suite 2805, 28th Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities of China Oil And Gas Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Vast China Group Limited ("Vast China") and its subsidiaries (together with the Group collectively referred to as the "Enlarged Group"), as set out on pages 164 to 167 under the heading of "Pro Forma Financial Information" in Appendix V to the circular ("Circular") of the Company dated 26 February 2007, which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire interest in Vast China might have affected the assets and liabilities of the Group presented, for inclusion in the Circular. The basis of preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group is set out on pages 164 to 167 of the Circular.

Respective Responsibilities of the directors of the Company and Reporting Accountants

It is solely the responsibility of the directors of the Company to prepare the unaudited pro forma statement of assets and liabilities of the Enlarged Group 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 the Listing Rules, on the unaudited pro forma statement of assets and liabilities of the Enlarged Group 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 statement of assets and liabilities of the Enlarged Group 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 statement of assets and liabilities of the Enlarged Group 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 statement of assets and liabilities of the Enlarged Group 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 statement of assets and liabilities of the Enlarged Group 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 statement of assets and liabilities of the Enlarged Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is for illustrative purposes only and has been prepared in accordance with the basis set out on pages 164 to 167 of the Circular and, because of its nature, it may not give a true picture of the financial position of:

- the Enlarged Group had the acquisition actually occurred as at the date indicated therein; or
- the Enlarged Group at any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma statement of assets and liabilities of the Enlarged Group 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 statement of assets and liabilities of the Enlarged Group as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
TING HO KWAN & CHAN
Certified Public Accountants (Practising)
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared as if the proposed acquisition (the “Acquisition”) of the entire interest in Vast China by China Oil And Gas Group Limited, the (“Company”), has been completed and based on the financial information as extracted from the unaudited pro forma financial information from the circular of the Company dated 18 October 2006 (“Pro Forma Financial Information”) and the audited combined financial information of Vast China Group Limited (“Vast China”) and its subsidiaries (hereinafter collectively referred to as the “Vast China Group”) as at 31 December 2006 as set out in Appendix II to this Circular after incorporating the appropriate unaudited pro forma adjustments that are considered necessary.

The unaudited pro forma financial information of the Enlarged Group has been prepared for the purpose of illustrating how the Acquisition might have affected the assets and liabilities of the Group. As it is prepared for illustrative purpose only, and because of its nature, it may not purport to represent the assets and liabilities of the Enlarged Group on the completion of the Acquisition.

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 Statement of Assets and Liabilities of the Enlarged Group

	Pro Forma Financial Information as at 31 January 2006 <i>HK\$'000</i>	The Vast China Group as at 31 December 2006 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma Enlarged Group <i>HK\$'000</i>
Non-current assets					
Property, plant and equipment	99,088	5,665	—		104,753
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	58,188	—	186,701	(2)	244,889
	<u>178,437</u>	<u>5,665</u>			<u>370,803</u>
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

APPENDIX V
PRO FORMA FINANCIAL INFORMATION

	Pro Forma Financial Information as at 31 January 2006 <i>HK\$'000</i>	The Vast China Group as at 31 December 2006 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	<i>Notes</i>	Pro forma Enlarged Group <i>HK\$'000</i>
Deposits, trade and other receivables	112,692	5,758	–		118,450
Cash and cash equivalents	33,811	5,408	(10,371)	(1)	28,848
	163,688	11,166			164,483
Assets classified as held for sale	378	–			378
	164,066	11,166			164,861
Liabilities					
Current liabilities					
Shareholder's loan	–	10,371	(10,371)	(1)	–
Trade and other payables	59,536	715			60,251
Tax payable	4,080	–			4,080
	63,616	11,086			64,331
Liabilities directly associated with assets classified as held for sale	3,375	–			3,375
	66,991	11,086			67,706
Net current assets	97,075	80			97,155
Total assets less current liabilities	275,512	5,745			467,958
Non-current liabilities					
Borrowings					
Bank loans	14,432	–			14,432
Other loans	63,595	–			63,595
Convertible notes	–	–	80,100	(3)	80,100
	78,027	–			158,127
Net assets	197,485	5,745			309,831

APPENDIX V

PRO FORMA FINANCIAL INFORMATION

	Pro Forma Financial Information as at 31 January 2006 <i>HK\$'000</i>	The Vast China Group as at 31 December 2006 <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	Notes	Pro forma Enlarged Group <i>HK\$'000</i>
Effect on Equity Section of the Pro Forma Financial Information upon issue of Consideration Shares:					
Equity					
Capital and reserves attributable to the Company's equity holders					
Share capital	19,797	–	4,000	(1)	23,797
Reserves	163,444	(701)	92,000	(1)	265,344
			9,900	(3)	
			701	(2)	
	<u>183,241</u>	<u>(701)</u>			<u>289,141</u>
Minority interests	<u>14,244</u>	<u>6,446</u>			<u>20,690</u>
Total equity	<u>197,485</u>	<u>5,745</u>			<u>309,831</u>

Notes to the unaudited pro forma adjustments:**(1) Funding of the Acquisition**

On 15 December 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with the vendor to acquire (i) the entire interest in Vast China and (ii) the shareholder's loan advanced by the vendor at a total consideration of HK\$196,370,793, comprising HK\$186 million as the consideration for acquiring the entire interest of Vast China and HK\$10,370,793 as the consideration for acquiring the shareholder's loan. The consideration will be satisfied by payment of HK\$10,370,793 in cash, the sum of HK\$96 million by issue and allotment of the Company's shares to the vendor at an issue price of HK\$0.24 per share and the sum of HK\$90 million by the issue of the convertible notes to the vendor.

As the Vast China Group will become a wholly owned subsidiary of the Company upon completion of the Acquisition, the provision of the Shareholder's Loan will be eliminated upon consolidation, and will not have financial effect on the Group.

The pro forma adjustments of HK\$4 million and HK\$92 million represent the nominal value of 400 million ordinary shares of the Company and share premium arising from issuance of the said 400 million ordinary shares upon partial settlement of the consideration for acquisition of Vast China respectively.

(2) Excess of consideration of the Acquisition over the net fair value of the net acquired liabilities

The pro forma adjustment is to reflect the effect of the Acquisition on the consolidated assets and liabilities of the Group as if the Acquisition had taken place on 30 June 2006. The goodwill was determined by assuming that the fair values of the identifiable assets and liabilities of the Vast China Group acquired by the Group are equal to those balances recorded by the Vast China Group as at 31 December 2006 as extracted from the accountants' report of the Vast China Group as set out in Appendix II to this circular.

The pro forma adjustment of HK\$186.7 million represents goodwill arising from acquisition of the Vast China Group, which is the excess of the consideration for the Sale Shares of HK\$186 million over the net fair value of acquired net liabilities attributable to the equity holder (before minority interests) of HK\$0.7 million.

On completion of the Acquisition, the fair value of the consideration and the net identifiable assets and liabilities of the Vast China Group will have to be reassessed. As a result of the reassessment, the amount of goodwill may be different from that estimated based on the basis stated above for the purpose of preparation of the unaudited pro forma financial information. Accordingly, the actual goodwill at the date of completion of the Acquisition may be different from that presented above.

(3) Liability and equity components of the convertible notes

The pro forma adjustment represents the liability and equity components of the convertible notes issued for the Acquisition as if it was issued upon completion of the Acquisition. The calculation of the liability and equity components is based on the provisions as prescribed in the Hong Kong Accounting Standard (HKAS) 32 issued by the Hong Kong Institute of Certified Public Accountants. The estimated fair value of the liability component of the convertible notes is HK\$80,100,000 determined using an effective interest rate of 6% per annum, which represents the best lending interest rate for the Group, and estimated fair value of the equity component is HK\$9,900,000.

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

26 February 2007

The Board of Directors
China Oil And Gas Group Limited
Suite 2805, 28th Floor
Sino Plaza, 255-257 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

We have examined the calculation of the valuation dated 26 February 2007 prepared by Cushman & Wakefield (HK) Limited (the “Valuer”) in respect of the valuation of market value of the natural gas stations business in Maanshan, the People’s Republic of China (the “PRC”) held by the subsidiaries of Vast China Group Limited as at 15 December 2006, as set out in Appendix VI to the circular of China Oil And Gas Group Limited (the “Company”) dated 26 February 2007.

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.

The valuation including the assumptions, for which the directors of the Company and the Valuer are solely responsible. As the valuation relates to cash flows, no accounting policies of the Company have been adopted in its preparation. 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 neither constitute any valuation on the market value of the natural gas stations business held by the subsidiaries of Vast China Group Limited, nor constitute any comment on the appropriateness and validity of the assumptions on which the valuation is based.

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 report.

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:



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

26 February 2007

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 Vast China Group Limited and its subsidiaries as at 15 December 2006 as set out in appendix VI 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
Cheung Shing

* 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 15 December 2006 of Vast China Group and its subsidiaries, of which 100% per cent equity interest is to be acquired by All Praise Investments Limited. All Praise Investments Limited is a wholly-owned subsidiary of the Company. As described in section “Documents Available for Inspection” in Appendix VII, 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**CUSHMAN & 高緯
WAKEFIELD® 環球**
Global Real Estate SolutionsSM

26 February 2007

The Board of Directors
China Oil And Gas Group Limited
Suite 2805, 28/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 100 per cent equity interest of Vast China Group which is holding a wholly-owned subsidiary of Top Best Hong Kong. Top Best Hong Kong is also holding 100 per cent equity interest of a wholly foreign-owned enterprise and 60% equity interest of Anhui China Oil Co. We confirm that we have carried out an inspection, site visit, 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 15 December 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 Vast China Group as at the valuation date. It is our understanding that this report will be used in connection with the major and connected 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.

We prepare this valuation in accordance with the guidelines set by the International Valuation Standards, Seventh Edition, 2005 (the “IVS”) published by the International Valuation Standards Committee and The Hong Kong Business Valuation Forum Business

Valuation Standards (the “HKBVS”) published by The Hong Kong Business Valuation Forum (the “HKBFV”) in 2005 and with reference to The HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises, First Edition, 2004 (the “HKISVS”) issued by The Hong Kong Institute of Surveyors.

This executive summary letter describes the company background of Vast China Group, 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 Vast China Group.

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. According to the definition stated in The HKBVS, Market Value should be defined as “The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.”

Pursuant to the HKBVS, “the value of a business, or of an interest therein, as a going concern. The intangible elements of value in an operating business resulting from factors such as: having a trained work force; an operational plant; and the necessary licences systems, and procedures in place.” Having considered the following elements, it is reasonably believe that the to-be-acquired business will continue in operation in the foreseeable future:–

- Top Best Group Limited (“Top Best Group”) and Top Best Group (Hong Kong) Limited (“Top Best Hong Kong”) have obtained approvals from relevant government authorities of Maanshan for the operation of natural gas business for 20 years with a scale of 4,000Nm³ compressed natural gas (CNG) provision per annum.
- A Construction Land Planning Permit (2006 Yong Di 035) issued by the Urban Planning Bureau of Maanshan City for the approval for the construction on a land with an area of 14,330sqm located at Zhang Zhuang Village in Huoli County.
- A team of people allocated for different functions, such as management, engineering and marketing.

ECONOMIC OVERVIEW OF MAANSHAN

Maanshan is located at the southeastern part of Anhui Province with a population of approximately 1,240,000, including 530,000 urban residents. The area of Maanshan City is approximately 1,666 km² and of which about 22% of the land area are urbanized. The neighbourhood cities include Chaohu and Wuhu Cities in Maanshan and Nanjing City in Jiangsu. The total nos. of private vehicles in Anhui and Jiangsu Provinces are 682,837 and 1,611,895 respectively. The main industry in Maanshan is the steel industry which employs most of the population in the city. Maanshan is a fast growing city in terms of local and

foreign investments. Maanshan's manufacturing industry ranks no. 1 in Anhui Province. The GDP per capita of RMB29,704 (2005) in Maanshan also ranks no. 1 in Anhui province and such figure is close to the average GDP capita of Yangtze Delta, even though the population size ranks no. 16 in Anhui province. In recent year, Maanshan government highly encourages to develop a green and clean garden city. The approval for the development of compressed natural gas stations and the support for the application of natural gas on motor vehicles are one of the good evidences for the government support on promoting environmental protection.

BACKGROUND OF VAST CHINA GROUP

Vast China Group is incorporated in the British Virgin Islands on 15 August 2006 and it is an investment holding company wholly owned by the Vendor. Vast China consists of Vast China and all its subsidiaries, namely Top Best Hong Kong, Top Best Group, a wholly foreign owned enterprise to be established in Maanshan of the PRC and 安徽中油管道高佳燃氣有限公司 (Anhui China Oil And Gas Co, Ltd.*) ("Anhui China Oil Co"), but it has not commenced any significant operations, save for the Sale Shareholder Loan and the investments in Anhui China Oil Co through Top Best Group for the development and operation of the main natural gas station. Top Best Hong Kong is an investment holding company incorporated in Hong Kong and it has obtained an approval from Maanshan Government for the construction, investment and operation of gas stations in the city. Top Best Group has not commenced any significant operation other than holding a 60% equity interest in Anhui China Oil Co. An operation permit for running natural gas station business has been granted to Anhui China Oil Co for 20 years. Vast China Group and its subsidiaries have not commenced any significant business operation. The main natural gas station is held by Anhui China Oil Co and the construction of the main station is substantially completed. Top Best Hong Kong has planned to construct another 3 natural gas stations in Maanshan and all of them are scheduled to be completed in 2007 (Please refer to Illustration 1).

* English translation of company name for identification purpose only

Illustration 1



NATURAL GAS STATIONS BUSINESS

From the economic perspective, CNG can be claimed as a substitute of oil and other conventional energy. In the automotive industry, the natural gas should be a direct substitute of diesel and petrol. Hence, the demand and price of natural gas should be correlated with the demand and price of oil. Due to the scarcity of oil resources, the price of any alternative energy must be escalated following the gradual decrease in oil reserve in the long run. From the environmental perspective, the environmentalists had warned that if 1.3 billion Chinese all owned cars, the world's oil reserve would run out and the global environment would suffer irreparable damage. The threat of oil shortage and negative environmental impact boost the huge oil-consuming countries to adopt alternative energy. The worldwide concern on environmental protection and the balance between oil consumption and supply which encourage the development and application of alternative energy and indirectly benefit the natural gas station business.

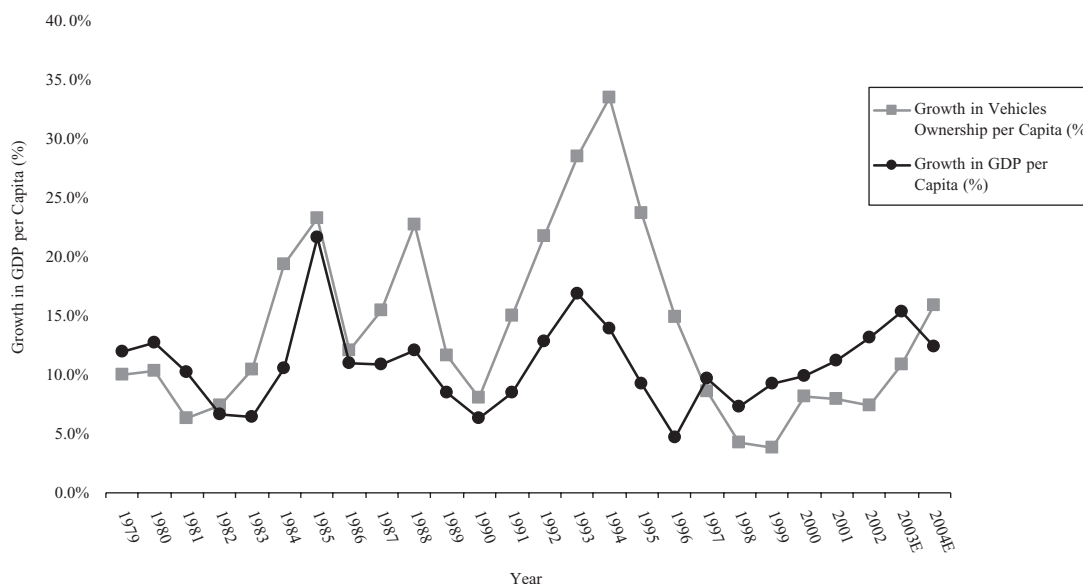
From 2000 to 2005, China's real GDP grew at an average annual rate of 9.2% and the 2006 nationwide GDP growth is estimated up to 10.5% causing the country's demand for oil to skyrocket by an average of 7.8% per annum. The sharp growth has caused China's share of global oil consumption to soar. Nowadays, 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 1978 to 2004 (estimated), the average growth of ownership of motor vehicles per capita in China is approximately 10.9% per annum. The increase in ownership of motor vehicles reflects the increase in demand for energy. The following Illustration 2 shows the relationship between the growth in GDP and vehicles ownership per Capita. In past decades, the growth GDP per capita was changed almost in line with the growth in vehicles ownership. The following illustration reveals that the growth in vehicles ownership outpaced the growth in GDP in most years. The GDP growth rate is one of the common indicators of the growth in vehicles ownership, but the growth in vehicles ownership may be higher than the anticipated growth if we only rely on the forecast of GDP per Capita and historical GDP data. It implies that the growth in energy consumption may be higher than general expectation. In our valuation, we have considered the historical data of vehicles ownership, population change, GDP growth and the transportation means in subject area to estimate the projected growth in number of vehicles and energy consumption.

Illustration 2

Growth in GDP and Vehicles Ownership Per Capita in China

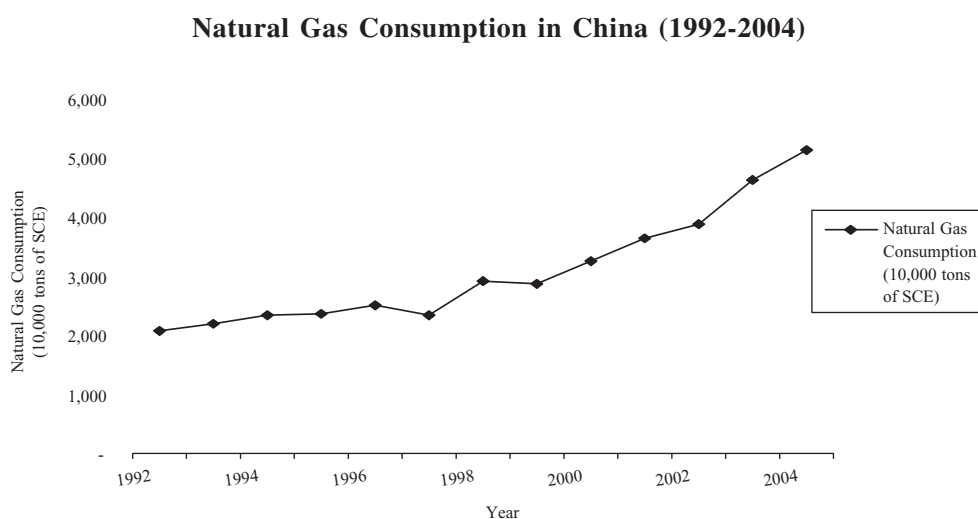


Source: National Bureau of Statistics of China

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 3).

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 current prices of gasoline, diesel and CNG in major cities in China, the average prices of #93 gasoline, #0 diesel and CNG are RMB4.98/litre, RMB4.7/litre and RMB2.67/NM³ respectively (Please refer to Illustration 4). 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 5). 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. It reveals that there is a room for the development of gas stations business in China.

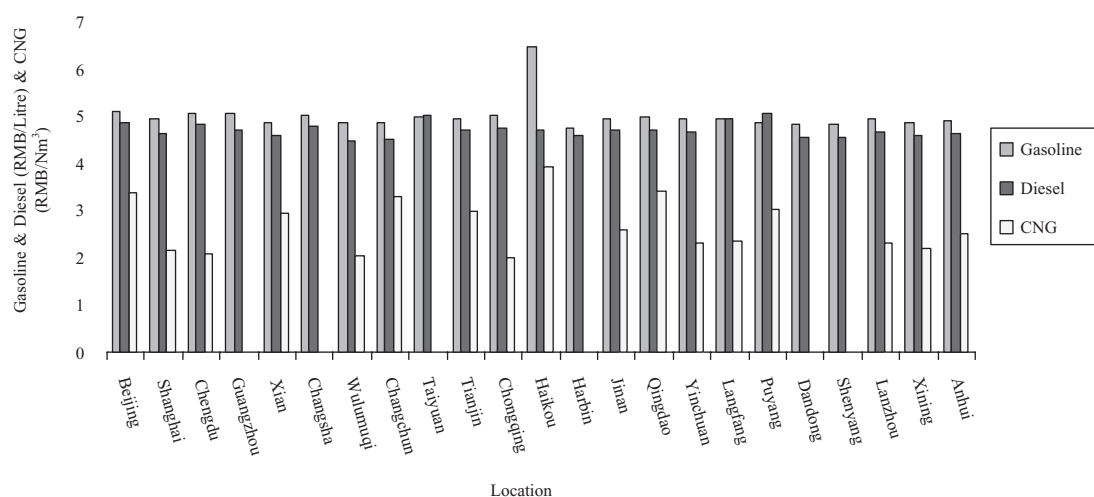
Illustration 3



Source: National Bureau of Statistics of China

Illustration 4

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



Source: China Alternative Fuel Vehicles and our local research

Illustration 5

Energy Conversion Table

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

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
- Site information of the built main natural gas station and other planned natural gas stations
- Construction information of the CNG stations
- Import cost of CNG

- Selling price of CNG
- No. of vehicles in Maanshan and its neighbourhood cities

SCOPE OF WORK AND VALUATION METHODOLOGY

Our scope of valuation covers the 100 per cent equity interest of the natural gas stations business held by Vast China Group. According to the IVS 5.14.2 of Guidance Notes No. 6 (GN6), income capitalisation approach is one of mentioned business valuation techniques. The income capitalization approach “estimates the value of a business, business ownership interest or security by calculating the present value of anticipated benefits. The two most common income approach methods are capitalization of income and discounted cash flow analysis or dividend method. In our valuation, we have applied the discounted cash flow analysis to value the market value of the business. Pursuant to IVS 5.14.2.1.2 of GN6, it defines that cash receipts are estimated for each of several future periods in the discounted cash flow analysis. Having considered the natural gas business is categorized as public utility industry which life cycle is in general longer than 20 years, and given the tenure of the operation rights of the business under the approval granted by relevant government authority, our cash flow analysis is based on the estimated cash receipts for a period of 20 years. These receipts are then converted to value by the application of a discount rate using present value techniques. We followed the IVS to derive the discount rate from the market and which is expressed as a price multiple derived from data on publicly traded businesses.

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 Maanshan;
- 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 Maanshan and its neighbourhood cities;
- The licences held by Vast China Group and its subsidiaries 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 Maanshan City and Anhui Province; 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 Maanshan and neighbourhood cities in close proximity to Maanshan;
- 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

We have adopted the widely accepted models which are the capital asset pricing model and weighted average cost of capital model (WACC) to derive the discount rate for the discounted cash flow analysis of the business. Having considered the current risk free rate (i.e. the yield on 10-year Exchange Fund Paper), the market return (i.e. historical Hang Seng Index), country risk, the business holding company's liquidity risk and the beta of those listed companies in the similar industry, the discount rate derived by the abovementioned models for the valuation of the business is 11.7%, and the discount rate ranging from 10.7% to 12.7% are set out below on the sensitivity analysis which provides a picture to the company that the impact of the change of discount rate on the appraised value of the business.

DCF Valuation Discount Rate	Market Value (HK\$)
10.7%	285,400,000
11.2%	270,300,000
11.7%	256,200,000
12.2%	243,000,000
12.7%	230,600,000

OPINION OF MARKET VALUE

In conclusion, based on our aforesaid investigation, analysis and valuation methodology employed, we are of the opinion that as at 15th December 2006, the market value of 100 per cent equity interest of Vast China Group and its subsidiaries was **HK\$256,200,000 (HONG KONG DOLLARS TWO HUNDRED FIFTY SIX MILLION AND TWO HUNDRED THOUSAND)**. In valuing the subject natural gas stations business, we have adopted an exchange rate of Renminbi (RMB) 1 to HK\$0.99483 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, Vast China Group or Cushman & Wakefield (HK) Ltd.

We confirm that this valuation is undertaken in accordance with the IVS, the HKBVS and with reference to the HKISVS, 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, Vast China Group or the value reported.

Yours faithfully,

For and on behalf of

Cushman & Wakefield (HK) Ltd

Vincent K. C. Cheung

Registered Professional Surveyor (GP Division)

BSc(Hons) MBA MRICS MHKIS

Associate Director

Notes: Mr. Vincent K. C. Cheung holds a Master of Business Administration and he is a Registered Professional Surveyor with over 9 years' experience in 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 HKBVF. 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 participated in the valuations of various petrol and gas related businesses in China and he has completed a valuation of all oil and gas filling stations in Hong Kong for an international oil company in 2006.

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:

Authorized		<i>HK\$</i>
<u>125,000,000,000</u>	Shares of HK\$0.01 each	<u>1,250,000,000</u>
Issue and fully paid or credited as full paid:		
2,879,676,213	Shares of HK\$0.01 each	28,796,762
Consideration Shares to be issued pursuant to the Sale and Purchase Agreement and assuming no Convertible Note is converted		
<u>400,000,000</u>	Shares of HK\$0.01 each	<u>4,000,000</u>
<u>3,279,676,213</u>		<u>32,796,762</u>
Consideration Shares to be issued pursuant to the Sale and Purchase Agreement and assuming the Convertible Note is converted in full into Conversion Shares		
<u>375,000,000</u>	Shares of HK\$0.01 each	<u>3,750,000</u>
<u>3,654,676,213</u>		<u>36,546,762</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 and the Conversion 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:

Long position in the shares of the Company

Name	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 (Note)	beneficial owner	Corporate	321,018,300	11.15	Nil	11.15

Note: These 321,018,300 Shares are held by Sino Advance Holdings Limited, which is wholly and beneficially owned by Mr. Xu.

On 16 January 2007, the Company was notified of the fact that relevant forms of disclosure of interests were filed with the Stock Exchange pursuant to the SFO in respect of the Acquisition in which the Company agreed to issue the Consideration Shares and the Convertible Note to the Vendor, a company controlled by Mr. Xu, pursuant to the Sale and Purchase Agreement. The disclosure of these forms has been made on the assumption that (a) the Company (i) has issued and allotted 400,000,000 new Shares to the Vendor as Consideration Shares; and (ii) has issued the Convertible Note to the Vendor; and (b) the same is fully converted into 375,000,000 new Shares as Conversion Shares.

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. (10%) 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.

Long position in the shares 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	11.15

Note:

1. Sino Advance Holdings Limited is wholly owned by Mr. Xu.

On 16 January 2007, the Company was notified of the fact that relevant forms of disclosure of interests were filed with the Stock Exchange pursuant to the SFO in respect of the Acquisition in which the Company agreed to issue the Consideration Shares and the Convertible Note to the Vendor, a company controlled by Mr. Xu, pursuant to the Sale and Purchase Agreement. The disclosure of these forms has been made on the assumption that (a) the Company (i) has issued and allotted 400,000,000 new Shares to the Vendor as Consideration Shares; and (ii) has issued the Convertible Note to the Vendor; and (b) the same is fully converted into 375,000,000 new Shares as Conversion Shares.

2. On 17 January 2007, the Company was notified of the fact that relevant forms of disclosure of interests were filed with the Stock Exchange pursuant to the SFO in respect of the Nanjing Acquisition in which the Company agreed to issue the Nanjing Convertible Note to New Stamina Investments Limited, a company controlled by Mr. Lo Chung, pursuant to the sale and purchase agreement dated 11 December 2006. The disclosure of these forms has been made on the assumption that (i) the Company has issued the Nanjing Convertible Note to New Stamina Investments Limited; and (ii) the Nanjing Convertible Note is fully converted into 275,000,000 new Shares as Nanjing Conversion Shares.

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;
- (ii) the sale and purchase agreement dated 18 July 2006 made between the Company and Topfaith Group Limited for the acquisition of the natural gas stations business;
- (iii) the agreement dated 11 September 2006 made between the Company and Guotai Junan (Hong Kong) Securities Limited for placing of new Shares;
- (iv) the sale and purchase agreement dated 11 December 2006 made between the Company and New Stamina Investments Limited for the Nanjing Acquisition; and
- (v) the agreement dated 21 December 2006 made between the Company and SBI E2-Capital Securities Limited for the Placing.

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 for the incorporation in this circular:

Name	Qualification
Veda Capital Limited	A licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activities
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. 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 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong;
- (e) The company secretary of the Company in Hong Kong 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.

9. 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 2805, 28/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 letter from the Independent Board Committee dated 26 February 2007, the text of which is set out on page 23 of this circular;
- (d) the letter of advice from Veda Capital Limited dated 26 February 2007, the text of which is set out on pages 24 to 38 of this circular;
- (e) the annual reports of the Company for the years ended 31 July 2004 and 31 July 2005 respectively;
- (f) the accountants' report from Ting Ho Kwan & Chan on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;
- (g) the valuation report in respect of the Natural Gas Stations, from Cushman & Wakefield (HK) Limited, the text of which is set in Appendix VI to this circular;

- (h) the letters of consent from the experts referred to in the section headed “Experts and Consents” in Appendix VII to this circular; and
- (i) the circular of the Company dated 18 October 2006.

NOTICE OF SGM



中油燃氣集團有限公司*

CHINA OIL AND GAS GROUP LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 603)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of China Oil And Gas Group Limited (“Company”) will be held at 20th Floor, Central Tower, 28 Queen’s Road Central, Hong Kong on Thursday, 15 March 2007 at 10:30 a.m. for the purpose of considering, and if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) (i) the Sale and Purchase Agreement dated 15 December 2006 entered into among All Praise Investments Limited, Sino Vantage Management Limited and Mr. Xu Tie-liang (the “Sale and Purchase Agreement”), a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved;
- (ii) the allotment and issue of 400,000,000 new shares of HK\$0.01 each of the Company (“Shares”) pursuant to the Sale and Purchase Agreement be and is hereby approved;
- (iii) the provision by the Company to Vast China Group Limited (“Vast China”) of an interest-free shareholder loan (“Shareholder Loan”) of HK\$12 million which is repayable upon expiry of a term of 5 years from the date of advance pursuant to the Sale and Purchase Agreement be and is hereby approved;
- (iv) the creation and issue of the Convertible Note (as defined in the circular dated 26 February 2007 dispatched to shareholders of the Company (the “Circular”), a copy of which marked “B” has been initialled by the chairman of this meeting for the purpose of identification) pursuant to the Sale and Purchase Agreement; and the allotment and issue to the holder(s) of the Convertible Note, upon exercise of the conversion right attaching to the Convertible Note, of shares in the capital of the Company in accordance with the terms and conditions of the Convertible Note, be and is hereby approved; and

* For identification purposes only

NOTICE OF SGM

- (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 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 400,000,000 new Shares pursuant thereto; (iii) advance the Shareholder Loan to Vast China pursuant thereto; and (iv) allot and issue the Convertible Note and/or shares in the capital of the Company upon conversion of the Convertible Note in accordance with the terms and conditions of the Convertible Note.”

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

Hong Kong, 26 February 2007

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, on a poll, 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 26 February 2007.
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 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, Timothy, Mr. Shi Xun-zhi and Mr. Peng Long.