

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, 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 report.

This report, for which the directors (the “Directors”) of DigiTel Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE INTERIM RESULTS

- The Group's turnover was approximately HK\$2.3 million.
- Profit attributable to shareholders was approximately HK\$42.2 million.
- The Directors do not recommend the payment of an interim dividend.

RESULTS

The Directors announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months (the "Interim Period") and the three months (the "Three-Month Period") ended 30 June 2004 together with the comparative unaudited figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	990	1,278	2,301	2,071
Cost of sales		(537)	(1,274)	(987)	(1,965)
Gross profit		453	4	1,314	106
Other revenues		295	238	826	288
Administrative expenses		(606)	(1,513)	(1,774)	(4,029)
Operating profit/loss	4	142	(1,271)	366	(3,635)
Finance costs		(134)	(462)	(772)	(1,072)
Waiver of debts due to creditors		19,833	-	42,499	-
Recovery of impairment of investment securities		-	211	126	211
Profit/loss before taxation		19,841	(1,522)	42,219	(4,496)
Taxation	5	-	-	-	-
Profit/loss attributable to shareholders		<u>19,841</u>	<u>(1,522)</u>	<u>42,219</u>	<u>(4,496)</u>
Earnings/loss per share	7				
Basic (cents)		<u>1.739</u>	<u>(0.133)</u>	<u>3.701</u>	<u>(0.394)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
	Note		
Non-current assets			
Fixed assets		92	123
Deferred costs		909	-
		<u>1,001</u>	<u>123</u>
Current assets			
Inventories		782	783
Trade and other receivables	8	117	899
Cash and bank balances		839	700
		<u>1,738</u>	<u>2,382</u>
Current liabilities			
Trade and other payables	9	8,857	13,583
Borrowings – current portion	10	4,060	19,763
Convertible debentures		-	10,140
Provision for taxation		902	1,082
Trust receipt loans, secured		-	7,173
Bank overdrafts, secured		-	10,923
		<u>13,819</u>	<u>62,664</u>
Net current liabilities		<u>(12,081)</u>	<u>(60,282)</u>
Total assets less current liabilities		<u>(11,080)</u>	<u>(60,159)</u>
Non-current liabilities			
Borrowings – long term portion	10	(6,809)	(16)
		<u>(17,889)</u>	<u>(60,175)</u>
CAPITAL AND RESERVES			
Share capital	11	114,073	114,073
Reserves	12	(131,962)	(174,248)
CAPITAL DEFICIENCY		<u>(17,889)</u>	<u>(60,175)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
As at 1 January 2003	114,073	36,247	(262,935)	59,368	(67)	(53,314)
Loss for the year	-	-	(6,861)	-	-	(6,861)
As at 31 December 2003 (Audited)	114,073	36,247	(269,796)	59,368	(67)	(60,175)
Profit for the Interim Period	-	-	42,219	-	-	42,219
Exchange alignment	-	-	-	-	67	67
As at 30 June 2004 (Unaudited)	<u>114,073</u>	<u>36,247</u>	<u>(227,577)</u>	<u>59,368</u>	<u>-</u>	<u>(17,889)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended	
	30 June 2004 HK\$'000	30 June 2003 HK\$'000
Net cash inflow/(outflow) from operating activities	41,176	(658)
Net cash inflow from investing activities	-	27
Net cash outflow from financing activities	(41,037)	(20)
Increase/(decrease) in cash and cash equivalents	139	(651)
Cash and cash equivalents at beginning of period	700	(19,571)
Cash and cash equivalents at end of period	<u>839</u>	<u>(20,222)</u>
Analysis of balance of cash and cash equivalents:-		
Bank and cash balance	839	214
Bank overdrafts, secured	-	(10,490)
Trust receipt loans, secured	-	(9,946)
	<u>839</u>	<u>(20,222)</u>

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The results have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards.

The results are unaudited but have been reviewed by the Company's audit committee and have been prepared in accordance with Statement of Standard Accounting Practice No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of the interim results are the same as those used in the preparation of the Group's audited financial statements for the year ended 31 December 2003.

2. Turnover

The Group's turnover by principal activities is analysed as follows:

	(Unaudited) For the three months ended		(Unaudited) For the six months ended	
	30 June 2004 HK\$'000	30 June 2003 HK\$'000	30 June 2004 HK\$'000	30 June 2003 HK\$'000
System integration contracts income	990	-	2,160	-
Sale of goods at invoiced value, net of returns and discounts	-	1,183	-	1,692
Rental income	-	95	141	379
	<u>990</u>	<u>1,278</u>	<u>2,301</u>	<u>2,071</u>

3. Segmental information

For management purposes, the Group is currently organized into two business segments – system integration and sale of goods. Other operations include property leasing. These segments are the basis on which the Group reports its primary segmental information.

For the six months ended 30 June 2004

	System integration HK\$'000	Sale of goods HK\$'000	Other operations HK\$'000	Total HK\$'000
TURNOVER	<u>2,160</u>	<u>-</u>	<u>141</u>	<u>2,301</u>
RESULT				
Segment result	<u>(27)</u>	<u>(13)</u>	<u>(736)</u>	(776)
Other revenues				826
Unallocated expenses				316
Profit from operations				366
Finance costs				(772)
Waiver of debts due to creditors				42,499
Recovery of impairment of investment securities				126
Profit before taxation				42,219
Taxation				-
Profit after taxation				<u>42,219</u>

For the six months ended 30 June 2003

	System integration HK\$'000	Sale of goods HK\$'000	Other operations HK\$'000	Total HK\$'000
TURNOVER	<u>-</u>	<u>1,692</u>	<u>379</u>	<u>2,071</u>
RESULT				
Segment result	<u>(65)</u>	<u>(2,374)</u>	<u>(177)</u>	(2,616)
Other revenues				288
Unallocated expenses				<u>(1,307)</u>
Loss from operations				(3,635)
Finance costs				(1,072)
Waiver of debts due to creditors				-
Recovery of impairment of investment securities				<u>211</u>
Loss before taxation				(4,496)
Taxation				<u>-</u>
Loss after taxation				<u>(4,496)</u>

4. Operating profit/loss

The operating profit/loss is stated after charging the following:-

	(Unaudited) For the three months ended		(Unaudited) For the six months ended	
	30 June 2004 HK\$'000	30 June 2003 HK\$'000	30 June 2004 HK\$'000	30 June 2003 HK\$'000
Cost of sales	<u>537</u>	1,273	<u>987</u>	1,965
Depreciation				
- leased fixed assets	3	3	6	6
- owned fixed assets	12	18	25	53
Net exchange losses	-	52	2	438
Operating leases rental - land and buildings	41	55	82	89
Staff costs (excluding directors' remuneration)	<u>130</u>	<u>383</u>	<u>764</u>	<u>752</u>

5. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits during the periods.

No potential deferred tax assets have been made during the periods as it is uncertain whether the amounts will crystallise in the foreseeable future.

6. Dividend

The Directors do not recommend the payment of an interim dividend for ordinary shares for the Interim Period (2003: Nil).

7. Earnings/loss per share

The calculation of basic earnings/loss per share for the Three-Month Period and the Interim Period is based on the profit attributable to shareholders of approximately HK\$19,841,000 and HK\$42,219,000 respectively (for the three months and six months ended 30 June 2003 : loss HK\$1,522,000 and loss HK\$4,496,000 respectively) and the weighted average of 1,140,730,292 (for the three months and six months ended 30 June 2003: 1,140,730,792) ordinary shares in issue.

8. Trade and other receivables

The Group has a policy of allowing its trade customers with credit period normally ranged from 30 to 90 days or terms in accordance with sales contract. The aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
Trade receivables		
0 to 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	95
91 to 120 days	-	-
Over 120 days	-	755
	<hr/>	<hr/>
Total trade receivables	-	850
Other receivables	-	-
Prepayments and deposits	117	49
	<hr/>	<hr/>
	117	899

9. Trade and other payables

The aging analysis of trade payables is as follows:

	(Unaudited) 30 June 2004 HK\$'000	(Audited) 31 December 2003 HK\$'000
Trade payables		
0 to 30 days	6	-
31 to 60 days	-	-
61 to 90 days	-	-
91 to 120 days	-	-
Over 120 days	1,756	1,946
	<hr/>	<hr/>
Total trade payables	1,762	1,946
Other payables	7,095	11,637
	<hr/>	<hr/>
	8,857	13,583

10. Borrowings

	(Unaudited) As at 30 June 2004 HK\$'000	(Audited) As at 31 December 2003 HK\$'000
Other loans – unsecured	10,844	2,900
Convertible notes – secured	-	5,643
Obligations under finance leases	25	11,236
	<hr/>	<hr/>
	10,869	19,779
Current portion of long-term borrowings	(4,060)	(19,763)
	<hr/>	<hr/>
	6,809	16

11. Share capital

	(Unaudited) 30 June 2004		(Audited) 31 December 2003	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>10,000,000,000</u>	<u>1,000,000</u>	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	<u>1,140,730,792</u>	<u>114,073</u>	<u>1,140,730,792</u>	<u>114,073</u>

12. Reserves

	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
As at 1 January 2004	36,247	(269,796)	59,368	(67)	(174,248)
Exchange realignment	-	-	-	67	67
Profit for the three months ended 31 March 2004	-	22,378	-	-	22,378
As at 31 March 2004	36,247	(247,418)	59,368	-	(151,803)
Profit for the three months ended 30 June 2004	-	19,841	-	-	19,841
As at 30 June 2004 (Unaudited)	<u>36,247</u>	<u>(227,577)</u>	<u>59,368</u>	<u>-</u>	<u>(131,962)</u>
As at 1 January 2003	36,247	(262,935)	59,368	(67)	(167,387)
Loss for the three months ended 31 March 2003	-	(2,974)	-	-	(2,974)
As at 31 March 2003	36,247	(265,909)	59,368	(67)	(170,361)
Loss for the three months ended 30 June 2003	-	(1,522)	-	-	(1,522)
As at 30 June 2003 (Unaudited)	<u>36,247</u>	<u>(267,431)</u>	<u>59,368</u>	<u>(67)</u>	<u>(171,883)</u>

13. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of system integration service and trading of network equipment in Hong Kong and the PRC.

As to the system integration service, the Group has provided service for an ATM network system located in Fujian province of the PRC. In addition, the Group has pursued business for the provision of desulfuration system to the PRC power plants. The PRC government nowadays is more environmentally conscious and has taken steps to require enterprises to reduce the pollution impact. This creates a market potential for the Group to explore. The Group envisages that it can act as the system integrator for the implementation of desulfuration system or to act as an consultant for the provision of advisory services. In January 2004, the Group has secured a consultancy agreement for the provision of business and technical advisory services for the development of an automatic system for a desulfuration project located in the PRC.

The Group also focused on the system integration service for power saving system for the commercial and residential buildings in Hong Kong. The Group has developed a series of solutions for the enhancement of the overall efficiency in electricity utilization, which would reduce the electricity consumption in the public area of the buildings, thereby reducing the electricity costs. The Group has secured contracts for the implementation of such system for two Hong Kong commercial buildings with contract sum of approximately HK\$3.7 million. The Group expects that it would have the ability to conclude more projects for other commercial buildings in Hong Kong in the coming future and the Group will continue to market this service to other potential customers in Hong Kong. For a medium term plan, the Group will apply this system to other customers such as power plants, water supply plants and other manufacturing plants in Hong Kong and the PRC.

Meanwhile, the Group is pursuing 2 prospective system integration projects with an aggregate project sum of approximately HK2.5 million. The first prospective project is for the installation of energy saving system in city-level water supply company located in Dongguan city of the PRC and the second prospective project is for network maintenance contract in Guangdong province of the PRC for an ATM network system. The Group shall jointly work with a PRC-based company who shall act as the main contractor while the Group will be the sub-contractor. The exact scope of work for the Group to participate is yet to determine as both contracts have not yet awarded therefore the Group is not able to estimate the expected revenue and the gross profit margin attributable to the Group.

The Group considers the marketing activities for the time ahead will be more intensive than previous years as the market prospects for telecommunication, power supply and energy saving services are promising. The Directors is optimistic to the future prospects of the Group. The Directors believe that the strategy of the Group will ultimately create value to its shareholders.

FINANCIAL REVIEW

For the Interim Period, the Group turnover was approximately HK\$2.3 million, representing 10% increase from approximately HK\$2.1 million for the same period in 2003. The Group recorded a profit attributable to shareholders of approximately HK\$42.2 million for the Interim Period, which shows an improvement as compared to the loss attributable to shareholders of approximately HK\$4.5 million recorded in the corresponding period in 2003.

Turnover mainly comprises of system integration service of approximately HK\$2.2 million and rental income of approximately HK\$0.1 million.

During the Interim Period, the Group has entered into settlement arrangements with certain creditors for the full and final settlement of their debts. As the agreed settlement sum was lower than the respective liabilities of the Group, a gain on wavier of debts due to creditors of approximately HK\$42.5 million was recognized in the Interim Period.

The administrative expenses for the Interim Period were approximately HK\$1.8 million, being reduced by 56% as compared to the corresponding period in 2003. The administrative expenses mainly comprises of employee remunerations, legal and professional fee and marketing expenses.

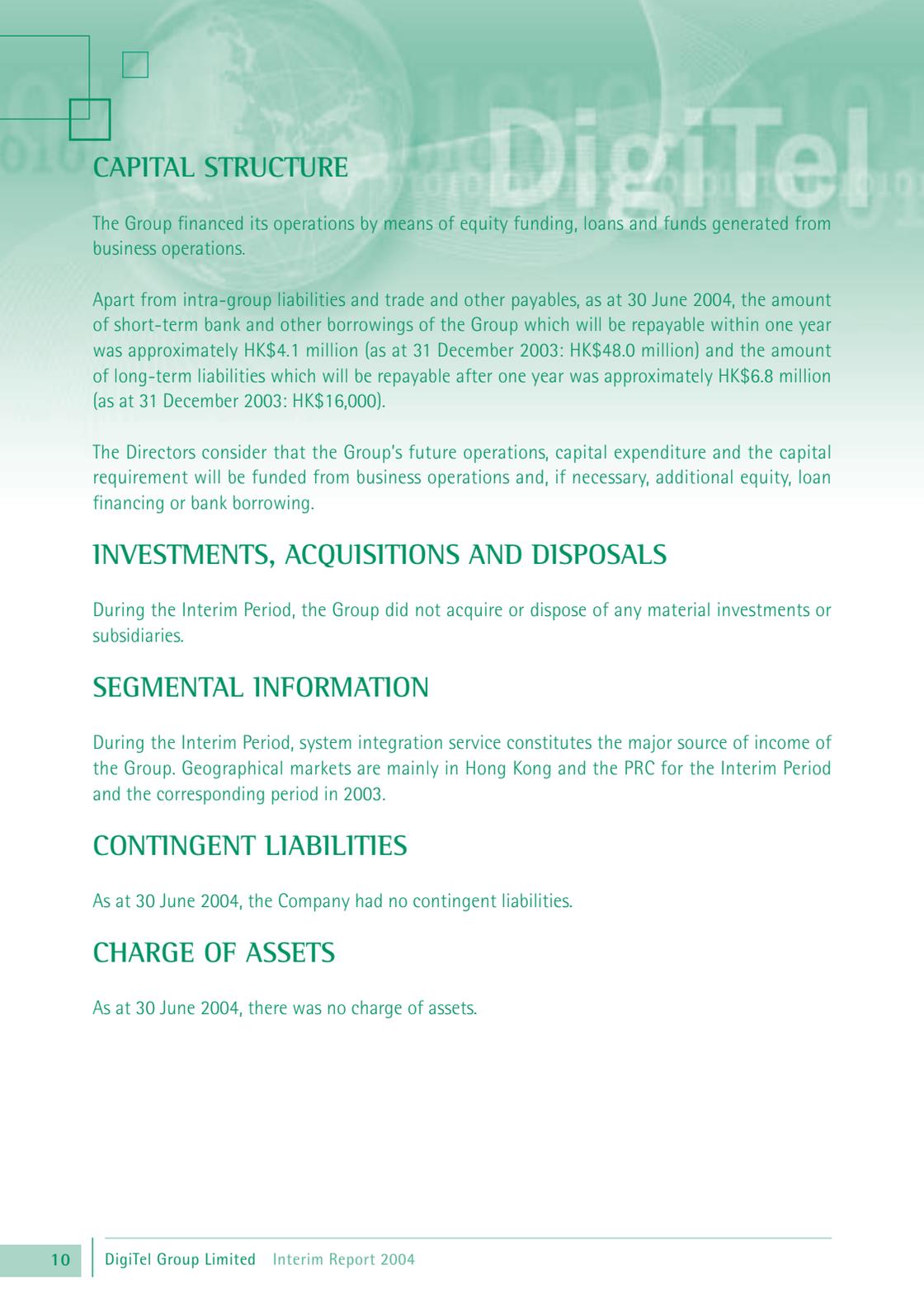
LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group had total assets of approximately HK\$2.7 million (as at 31 December 2003: HK\$2.5 million), including cash and bank balances of approximately HK\$0.8 million (as at 31 December 2003: HK\$0.7 million).

The Group did not have any banking facilities as at 30 June 2004. Bank overdrafts and bank receipt loans as at 31 December 2003 were approximately HK\$10.9 million and HK\$7.2 million respectively.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 30 June 2004 was not applicable as the Group suffered capital deficiency in this period (as at 31 December 2003: Not applicable).

Almost all of the Group's cash is in Hong Kong dollars, the exposure to exchange fluctuation is minimal. Since most of the transactions of the Group were denominated in Hong Kong dollars, no hedging or other alternatives have been implemented.



CAPITAL STRUCTURE

The Group financed its operations by means of equity funding, loans and funds generated from business operations.

Apart from intra-group liabilities and trade and other payables, as at 30 June 2004, the amount of short-term bank and other borrowings of the Group which will be repayable within one year was approximately HK\$4.1 million (as at 31 December 2003: HK\$48.0 million) and the amount of long-term liabilities which will be repayable after one year was approximately HK\$6.8 million (as at 31 December 2003: HK\$16,000).

The Directors consider that the Group's future operations, capital expenditure and the capital requirement will be funded from business operations and, if necessary, additional equity, loan financing or bank borrowing.

INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the Interim Period, the Group did not acquire or dispose of any material investments or subsidiaries.

SEGMENTAL INFORMATION

During the Interim Period, system integration service constitutes the major source of income of the Group. Geographical markets are mainly in Hong Kong and the PRC for the Interim Period and the corresponding period in 2003.

CONTINGENT LIABILITIES

As at 30 June 2004, the Company had no contingent liabilities.

CHARGE OF ASSETS

As at 30 June 2004, there was no charge of assets.

LITIGATIONS

As at the date of this report, the Group has been involved in material outstanding claims and litigations with details as follows:-

Litigations and claims involved the Company and/or its subsidiaries and/or associated companies

- (a) On 1 June 2002, a writ was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for the outstanding printing charges of approximately HK\$0.16 million. The Company filed a defence on 26 June 2002 which denies all the allegations. No further action has been taken by either party thereafter.

Litigations and claims not involved the Company but involved the Company's subsidiaries and/or associated companies

- (b) On 11 March 2002, a writ was issued, amended on 22 August 2002 and further amended on 24 October 2002 by The Center (65) Limited ("The Center (65)") against three wholly owned subsidiaries of the Company and one associated company of the Group (collectively "the Defendants") for the unpaid rent, other charges and damages for the previous office of the Defendants in an aggregate sum of approximately HK\$1.95 million. The Group has settled all rental payment up to 31 March 2002, delivered vacant possession on 9 May 2002 and its 3-month rental deposit of approximately HK\$1.18 million is being retained by The Center (65). The Group, therefore, does not consider that it has material obligation to pay any further sum to The Center (65). No further action has been taken by either party thereafter.
- (c) On 2 September 2002, a writ was issued by The Center (43) Limited ("The Center (43)") against Regal Policy Limited, a wholly owned subsidiary of the Company for outstanding rent of approximately HK\$4.4 million for the period from 1 June 2002 to the expiry date under the tenancy agreement dated 18 April 2000. Regal Policy Limited filed its defence on 27 September 2002, denying the claim. Vacant possession was delivered on 1 August 2002. On 7 June 2004, the High Court gave notice to Regal Policy Limited stated that The Center (43) intended to proceed with this action after the expiration of one calendar month from that date. Except for this, no further action has been taken by either party.
- (d) On or about 17 January 2003, a writ was issued by the Inland Revenue Department to DigiTel Communication (Asia) Limited ("DCAL") for the sum of approximately HK\$0.34 million, being profits tax for the year 2000/01. Summary judgment was entered on 23 April 2003 against DCAL for a judgment debt of \$309,829.83 together with interest and legal costs. No further action has been taken by either party thereafter.



Apart from the above actions, there are no other material outstanding claims and litigations against the Group.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the Interim Period was approximately HK\$0.82 million (six months ended 30 June 2003: HK\$1.7 million). The Group remunerates its employees based on their performance, experience and the prevailing industrial practice and has operated a defined contribution mandatory provident fund since 1 December 2000 and to which the Group makes contributions based on the relevant regulations.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30 June 2000, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price of HK\$1.05 each. All options have a duration of 10 years from the date of grant of the options and exercisable after six months from the date of listing of the shares of the Company on GEM and each option shall be lapsed on the date after three months of cessation of the employment of the relevant grantee. No share options can be granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company on 12 July 2000. As at 30 June 2004, there were no outstanding share options granted under the Pre-IPO Share Option Scheme (as at 31 December 2003: 20,000,000). No share options were exercised under the Pre-IPO Share Option Scheme since its adoption.

Under the share option scheme (the "Share Option Scheme") of the Company adopted on 30 June 2000, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price determined by the Directors and shall be no less than the higher of (i) the closing price of the shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one director or employee shall not be more than 25% of the number of shares in respect of all the options granted under the Share Option Scheme. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant. No share options were granted under the Share Option Scheme since its adoption.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the directors and chief executives in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules were as follows:

Long positions in shares

(a) *The Company*

Name	Type of interests	Number of shares of the Company	Percentage of issued shares
Mr. Lee Chuen Bit (Note 1)	Corporate	643,242,469	56.39%

Note 1

The shares of the Company are held by Lit Cheong Holdings Limited, the issued share capital of which is equally and beneficially held by the Grand Nature Trust ("GNT") and the Grand Will Trust.

Under the terms of GNT, certain members of the family of Mr. Lee Chuen Bit are potential capital beneficiaries of the trust (so that they may become capital beneficiaries of the trust). Mr. Lee Chuen Bit is not at present a potential capital beneficiary of GNT, but he is eligible to be declared as such pursuant to the existing provisions of the trust. Any of the potential capital beneficiaries may become a capital beneficiary if and when so declared as such pursuant to the applicable provisions of GNT, provided that he/she is not excluded under the provisions of the trust. Under the terms of the trust, the beneficiaries also include charities namely the Tung Wah Group of Hospitals, the Community Chest of Hong Kong, The Barbados Cancer Society and the Duke of Edinburgh's Award Scheme, if their respective purposes are recognized as exclusively charitable under Cayman Islands laws.

(b) *Associated Corporations*

No long positions of directors and chief executives in shares of associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules.

Long positions in underlying shares and debentures

No long positions of directors and chief executives in underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules.

Short positions in shares, underlying shares and debentures

No short positions of directors and chief executives in shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the following persons (other than the directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO.

Long positions in shares

Name	Capacity	Type of interests	Number of shares of the Company	Percentage of issued shares
Lit Cheong Holdings Limited (Note 1 and 2)	Beneficial owner	Corporate	643,242,469	56.39%
Grand Nature (Cayman) Limited (Note 1)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Nature Corp (Note 1)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will (Cayman) Limited (Note 2)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will Limited (Note 2)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Royal Bank of Canada Trust Company (Cayman) Limited (Note 3)	Trustee	Corporate	643,242,469	56.39%
Mr. Ho Lok Cheong (Note 4)	Trustee	Personal	543,242,469	47.62%

Note 1

Grand Nature (Cayman) Limited holds 100% equity interests in Grand Nature Corp. Grand Nature Corp holds 50% equity interests in Lit Cheong Holdings Limited.

Note 2

Grand Will (Cayman) Limited holds 100% equity interests in Grand Will Limited. Grand Will Limited holds 50% equity interests in Lit Cheong Holdings Limited.

Note 3

Royal Bank of Canada Trust Company (Cayman) Limited is the trustee of Grand Nature (Cayman) Limited and Grand Will (Cayman) Limited.

Note 4

Mr. Ho Lok Cheong holds the shares of the Company for Lit Cheong Holdings Limited as its trustee.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares and underlying shares

No short positions of other persons and substantial shareholders in the shares and underlying shares of equity derivatives of the Company were recorded in the register.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Pursuant to the Share Option Scheme of the Company, the Directors and employees of Group may be granted share options to subscribe for shares of the Company at an exercise price. During the Interim Period, no options were granted or exercised by the Directors and as at 30 June 2004, there were no outstanding options which were granted to the Directors.

Apart from the above, at no time during the Interim Period neither the Company nor any of its subsidiaries nor its holding company was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Interim Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTEREST

The Directors are not aware of, as at 30 June 2004, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

In compliance with rules 5.28 to 5.39 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee comprises two independent non-executive directors, namely Mr. Ho Chiu Kee and Mr. Leung Ka Kui Johnny. The principal duties of the audit committee's are the review and supervision of the Company's financial reporting process and internal control systems.

The Group's unaudited condensed financial statements for the Interim Period have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules throughout the Interim Period.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the Stock Exchange's required standard of dealings. The Company had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors.

By Order of the Board
Lee Chuen Bit
Chairman

Hong Kong, 10 August 2004

As at the date hereof, Mr. Lee Chuen Bit is the chairman and executive director; Mr. Hon Chak Sang is the executive director; Mr. Ho Chiu Kee and Mr. Leung Ka Kui, Johnny are the independent non-executive directors of the Company.