



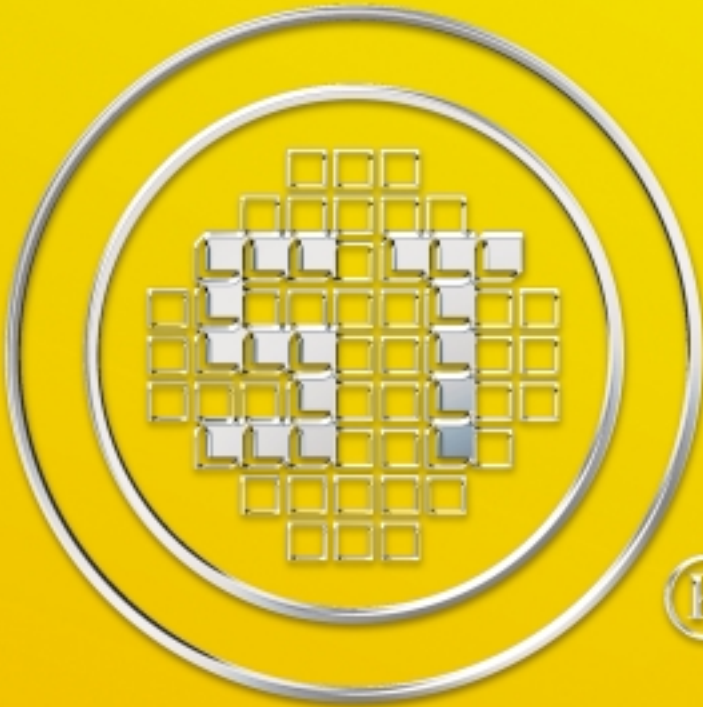
先科國際集團有限公司*

Semtech International Holdings Limited



INTERIM REPORT

2004



* For identification purpose only

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Wong Chong Kwong, Derek (*Chairman*)

Mr. Lam Yat Keung (*President*)

Ms. Lam Pik Wah

Mr. Lam Hung Kit

Independent Non-executive Directors:

Mr. Pai Te-Tsun

Mr. Ho Chi Fai

AUDIT COMMITTEE

Mr. Pai Te-Tsun

Mr. Ho Chi Fai

COMPANY SECRETARY

Ms. Yu Miu Yee, Iris

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2610
CCT Telecom Building
11 Wo Shing Street
Fotan, Shatin
Hong Kong

REGISTRARS

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
Ground Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Semtech International Holdings Limited (formerly known as Millennium Sense Holdings Limited) (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group"). The financial year end of the Company has been changed to 31 December 2004. As a result, this interim result was drawn up for the twelve months ended 30 June 2004, together with the comparative figures for the corresponding period last year.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the twelve months ended 30 June 2004

	Notes	Twelve months ended	
		30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Turnover	3	269,090	140,193
Cost of sales		(218,189)	(114,556)
Gross profit		50,901	25,637
Other revenue		2,640	3,727
Distribution costs		(13,079)	(10,430)
Administrative expenses		(18,531)	(17,101)
Other operating expenses		(71)	(4,490)
Profit/(Loss) from operating activities	4	21,860	(2,657)
Finance costs		(1,191)	(1,221)
		20,669	(3,878)
Share of profit/(loss) of a jointly-controlled entity		1,999	(1,457)
Profit/(Loss) before taxation		22,668	(5,335)
Taxation	5	(3,801)	(117)
Net Profit/(Loss) from ordinary activities attributable to shareholders		18,867	(5,452)
Earning/(Loss) per share	7		
Basic		9.62 Cents	(3.60) Cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

		30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets	8	126,490	66,637
Intangible assets		(907)	1,187
Interest in a jointly-controlled entity		(2,251)	(1,652)
		<u>123,332</u>	<u>66,172</u>
CURRENT ASSETS			
Inventories		53,996	13,262
Trade and bills receivables	9	78,314	8,486
Prepayment, deposit, and other receivables		12,506	10,891
Pledged deposits		2,052	2,041
Cash and bank balances		43,309	7,274
		<u>190,177</u>	<u>41,954</u>
CURRENT LIABILITIES			
Trade payables	10	60,689	17,844
Other payables and accrued liabilities		19,537	5,177
Tax payable		2,752	2,779
Interest-bearing bank and other borrowings		21,068	8,269
		<u>104,046</u>	<u>34,069</u>
NET CURRENT ASSETS		<u>86,131</u>	<u>7,885</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>209,463</u>	<u>74,057</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,010	1,638
Finance lease payable		56	167
Deferred Taxation		6,263	-
		<u>7,329</u>	<u>1,805</u>
MINORITY INTEREST		<u>19</u>	<u>19</u>
		<u>202,115</u>	<u>72,233</u>
CAPITAL AND RESERVES			
Share capital	11	29,250	15,000
Reserves		172,865	57,233
		<u>202,115</u>	<u>72,233</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 30 June 2004

	Share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Property revaluation reserves (Unaudited) HK\$'000	Exchange equalization reserve (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 July 2003	15,000	6,459	5,800	20,395	(278)	-	24,857	72,233
Shares issued on exercise								
of share option	3,450	21,528	-	-	-	-	-	24,978
Shares issued on placing	5,000	35,426	-	-	-	-	-	40,426
Shares issued as consideration								
for acquisition of subsidiaries	5,800	38,464	-	-	-	-	-	44,264
Surplus on revaluation								
of property	-	-	-	1,336	-	-	-	1,336
Exchange realignment	-	-	-	-	11	-	-	11
Proposed interim dividend	-	-	-	-	-	2,925	(2,925)	0
Net profit for the period	-	-	-	-	-	-	18,867	18,867
At 30 June 2004	29,250	101,877	5,800	21,731	(267)	2,925	40,799	202,115
		Share premium account (Audited) HK\$'000	Contributed surplus (Audited) HK\$'000	Property revaluation reserves (Audited) HK\$'000	Exchange equalization reserve (Audited) HK\$'000	Proposed dividend (Audited) HK\$'000	Retained profits (Audited) HK\$'000	Total (Audited) HK\$'000
At 1 July 2002	15,000	6,459	5,800	-	(128)	-	30,309	57,440
Surplus on revaluation								
of property	-	-	-	20,395	-	-	-	20,395
Exchange realignment	-	-	-	-	(150)	-	-	(150)
Net loss for the period	-	-	-	-	-	-	(5,452)	(5,452)
At 30 June 2003	15,000	6,459	5,800	20,395	(278)	0	24,857	72,233

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the twelve months ended 30 June 2004

	Twelve months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Net cash (outflow)/inflow from operating activities	(10,525)	15,493
Net cash outflow from investing activities	(30,907)	(1,721)
Net cash inflow/(outflow) from financing activities	74,017	(2,287)
Increase in cash and cash equivalents	32,585	11,485
Cash and cash equivalents at beginning of the period	5,117	(6,368)
Cash and cash equivalents at end of the period	37,702	5,117
Analysis of the balances of cash and cash equivalent:		
Cash and bank balance	43,309	7,274
Bank overdrafts	(5,607)	(2,157)
	37,702	5,117

NOTES TO THE FINANCIAL STATEMENTS

For the twelve months ended 30 June 2004

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The principal activities of the Group is manufacturing and trading of high-ends electronic and electrical parts and components, design, manufacture and sales of cigarette lighters and lighter-related accessories and to seek investments in broader range of sectors in order to reduce its reliance on the lighter industry

In the opinion of the directors, the ultimate holding company is Smart Number Investments Limited ("Smart Number"), a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and buildings in Hong Kong.

The unaudited interim results of the Group have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting", and on a basis consistent with the accounting policies adopted in preparing the annual report of the Group for the year ended 30 June 2003 except as mentioned below.

SSAP 12 (Revised) "Income taxes" is effective for the first time in the preparation of this interim report, SSAP 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The adoption of SSAP 12 (Revised) has no significant effect on the results of the Group for the current period.

Certain presentational changes have been made in order to ensure consistency with the presentation format of the latest annual report.

3. SEGMENTAL INFORMATION

Business Segments

	Manufacturing of lighters and related accessories		Manufacturing and trading of electronic and electrical parts and components		Consolidated	
	Twelve months ended		Twelve months ended		Twelve months ended	
	30 June		30 June		30 June	
	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000
Segment turnover	<u>145,639</u>	<u>140,193</u>	<u>123,451</u>	<u>0</u>	<u>269,090</u>	<u>140,193</u>
Segment results	<u>24,044</u>	<u>25,637</u>	<u>26,857</u>	<u>0</u>	<u>50,901</u>	<u>25,637</u>
Unallocated corporate expenses					<u>(29,041)</u>	<u>(28,294)</u>
Profit/(Loss) from operating activities					<u>21,860</u>	<u>(2,657)</u>

Geographical Segments

	Segment turnover		Segment results	
	Twelve months ended		Twelve months ended	
	30 June		30 June	
	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000
United States	<u>56,423</u>	<u>55,226</u>	<u>10,673</u>	<u>10,101</u>
Hong Kong & PRC	<u>135,686</u>	<u>16,220</u>	<u>25,666</u>	<u>2,966</u>
Asia	<u>33,999</u>	<u>28,359</u>	<u>6,431</u>	<u>5,187</u>
Others	<u>42,982</u>	<u>40,388</u>	<u>8,131</u>	<u>7,383</u>
	<u>269,090</u>	<u>140,193</u>	<u>50,901</u>	<u>25,637</u>
Unallocated corporate expenses			<u>(29,041)</u>	<u>(28,294)</u>
Profit/(Loss) from operating activities			<u>21,860</u>	<u>(2,657)</u>

4. PROFIT/(LOSS) BEFORE TAXATION

The Group's profit/(loss) before taxation is arrived at after charging:

	Twelve months ended	
	30 June	
	2004	2003
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Interest expenses	1,191	1,221
Cost of goods sold	218,189	114,556
Depreciation:		
Owned fixed assets	7,732	4,703
Leased fixed assets	426	100
Amortization of intangible assets	595	724

5. TAXATION

	Twelve months ended	
	30 June	
	2004	2003
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	-	5
PRC, elsewhere other than Hong Kong	-	112
Deferred tax	3,801	-
	<u>3,801</u>	<u>117</u>

No provision for Hong Kong profits tax has been made in the financial statements as the Group has no estimated assessable profits for the period.

Deferred tax is calculated at the tax rates of 17.5% that are expected to apply in the period when the liability is settled or the asset is realized.

6. DIVIDEND

At a meeting held on 25 August 2004, the directors have resolved to declare an interim dividend of HK 1.0 cent (twelve months ended 30 June 2003: Nil) per share to be paid on 4 October 2004 to shareholders on the Company's Register of Members on 21 September 2004.

7. EARNING/[LOSS] PER SHARE

The calculation of basic earning/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$18,867,000 (2003: net loss of HK\$5,452,000) and the weighted average number of 196,075,000 (2003: 150,000,000) ordinary shares in issue at the end of the period.

Diluted earning/(loss) per share for both period ended 30 June 2004 and period ended 30 June 2003 has not been disclosed as there is no dilutive potential ordinary shares in issue during the period.

8. FIXED ASSETS

During the period, the Group spent approximately HK\$69,441,000 (twelve months ended 30 June 2003: HK\$6,574,000) on fixed assets.

9. TRADE AND BILLS RECEIVABLES

The Group's credit terms granted to its customers range between 30 to 90 days. Payments for the Group's products are primarily settled on an open account basis. Customers' creditworthiness is assessed regularly to minimize credit risks.

The following is an aged analysis of trade and bills receivables at the reporting date:

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
1-3 months	64,955	3,943
4-6 months	2,158	1,350
7-12 months	10,066	1,722
13-24 months	237	1,471
Over 24 months	898	—
	<u>78,314</u>	<u>8,486</u>

10. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
1-3 months	57,240	15,911
4-6 months	2,086	519
7-12 months	382	1,009
13-24 months	87	33
Over 24 months	894	372
	<u>60,689</u>	<u>17,844</u>

Included in trade payables is a trade payable of approximately HK\$14,326,000 (as at 30 June 2003: HK\$12,173,000) due to the jointly-controlled entity, which has no fixed terms of repayment.

11. SHARE CAPITAL

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Authorized: 800,000,000 ordinary shares of HK\$0.1 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid: 292,500,000 (2003: 150,000,000) ordinary shares of HK\$0.10 each	<u>29,250</u>	<u>15,000</u>

During the period, 34,500,000 shares were issued on exercise of share options pursuant to the share option scheme of the Company, 58,000,000 shares were issued as consideration shares for the acquisition of subsidiaries and 50,000,000 shares were issued pursuant to two top-up placing and subscription arrangements.

12. COMMITMENTS

At 30 June 2004, the Group had the following capital commitments:

	Group	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Contracted, but not provided for:		
Plant and machinery	—	3,955
	<u>—</u>	<u>3,955</u>

At 30 June 2004, the Company did not have any other significant commitments.

13. OPERATING LEASE ARRANGEMENTS

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) As Lessee

At the balance sheet date, the future aggregate minimum lease payments under non-cancellable operating leases for office payable by the Group were as follows:

	Group	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Within one year	126	113
In the second to fifth years inclusive	21	—
	<u>147</u>	<u>113</u>

(b) As Lessor

As at the balance sheet date, the Group leases out a number of investment properties under operating leases. The investment properties were leased out for periods of one to three years without renewal options given to the leases.

As at the balance sheet date, the future minimum lease payments under non-cancellable operating leases are receivable for each of the following period is:

	Group	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Within one year	545	50
In the second to fifth years inclusive	1,354	—
	<u>1,899</u>	<u>50</u>

14. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transaction with its jointly-controlled entity:

	Twelve months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Audited) HK\$'000
Purchases of finished goods	42,297	45,318
Purchases of raw materials	842	21
Purchases of machinery and moulds	675	—
Sales of raw materials	(11,463)	(10,532)
Sales of machinery and moulds	—	(638)

15. CONTINGENT LIABILITIES

At 30 June 2004, the Group had contingent liabilities not provided for in the financial statements in respect of bills discounted with recourse amounting to approximately HK\$3,809,000 (as at 30 June 2003: HK\$8,306,000).

At 30 June 2004, the Company had contingent liabilities not provided for in the financial statements in respect of unlimited corporate guarantees given to the banks for general banking facilities granted to a subsidiary amounting to HK\$50,836,000 (as at 30 June 2003: HK\$63,336,000). On the same day, such facilities were utilized to the extent of approximately HK\$25,712,000 (as at 30 June 2003: HK\$16,703,000).

16. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- a) On 2 July 2004, 19,000,000 shares at a placing price of HK\$1.30 each were placed to the independent third parties. Due to the non-fulfillment of conditions precedent to the subscription agreement, the subscription agreement has lapsed on, and has ceased to have any effect from, 1 August 2004.
- b) On 5 July 2004, the Company entered into a conditional CN Agreement with Value Partner Limited ("VP"), an independent third party, for the issue of the convertible note with a principal amount of HK\$25,870,000 at an initial conversion price of HK\$1.30 per Share (subject to adjustments). The CN Agreement was terminated on 15 July 2004 pursuant to a termination agreement entered into between the Company and VP.
- c) According to the ICAC press release (the "Press Release") and/or the press report on 12 July 2004, there has been public speculation of certain allegations on certain persons. The Company does not have sufficient information to ascertain, nor is it appropriate for the Company to comment on, the substance of the allegations mentioned in the Press Release. The Company had sought legal advice confirming that the matter only referred to certain person's personal capacities, and there is no allegation made on the Company.
- d) The Group has repaid a significant portion of the secured bank loan and secured overdrafts which have been utilized by a subsidiary in the lighter related business after the balance sheet date through internally generated financial resources. As at the date of this report, approximately HK\$5.4 million is still outstanding and the Group will repay all outstanding by the end of August 2004. All those related corporate guarantees under the banking facilities will be cancelled and released thereafter.
- e) The Board confirms that the matters mentioned in (a) to (d) above will not have any material impact on the present business activities, financial and cashflow position as well as day-to-day operations of the Group.
- f) By 19 July 2004, the Company has in its view responded to the Stock Exchange of Hong Kong Limited's (the "Stock Exchange") request to issue an announcement clarifying the matter mentioned in (c) above. As of today, the Company has responded to all requests and enquiries raised by the Stock Exchange and pending for the Stock Exchange to issue a clearance to release the announcement to the public. The Stock Exchange has indicated to the Company that it is reviewing the various responses by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the twelve months ended 30 June 2004 (the "Reporting Period"), the Group achieved a significant progress in its business expansion. The Group's turnover increased by 92% to HK\$269.1 million compared with the twelve months ended 30 June 2003 (the "Corresponding Period"). A net profit of HK\$18.9 million attributable to shareholders is being reported as compared to the net loss of HK\$5.5 million of the Corresponding Period. This remarkable achievement was mainly come from the Group's implementation of the business diversification and expansion in the high-ends electronic and electrical parts and components sector.

Electronic and Electrical Components Business

After the change of control of the Board at the end of 2003, the Group has acquired Key Legend Limited in March 2004, which is principally engaged in the manufacturing of high-end electronic components that are widely used in sophisticated home appliances, telecommunication products, computer and consumable electronic handheld devices. The name of the Company has also been changed to Semtech International Holdings Limited in April 2004 to reflect the future business focus. With only the contribution from Key Legend Limited after acquisition being incorporated, the turnover during this Reporting Period for this new sector of business accounted for approximately HK\$123.5 million and a net profit of HK\$17.9 million was being reported.

Lighters and Lighter Related Accessories Business

There was also a slight increase in turnover of HK\$5.4 million to HK\$145.6 million during this Reporting Period due to the increase in sales in the European market. A net profit of approximately HK\$1.0 million was reported in this sector of business compared with a net loss of HK\$5.5 million in the Corresponding Period last year.

Dividend

The directors are pleased to declare an interim dividend of HK1.0 cent (2003: Nil) per share for the year ending 31 December 2004 to be paid on 4 October 2004 to shareholders on the Company's Register of Members on 21 September 2004.

Liquidity and Financial Resources

As at 30 June 2004, net current assets and current ratio of the Group were approximately HK\$86,131,000 (as at 30 June 2003: HK\$7,885,000) and 1.83 (as at 30 June 2003: 1.23) respectively. The current assets comprised inventories of approximately HK\$53,996,000 (as at 30 June 2003: HK\$13,262,000), trade and bills receivables of approximately HK\$78,314,000 (as at 30 June 2003: HK\$8,486,000) and cash and cash equivalents of approximately HK\$43,309,000 (as at 30 June 2003: HK\$7,274,000).

As at 30 June 2004, the Group had a total outstanding debt and finance lease obligation of HK\$22,134,000 (as at 30 June 2003: HK\$10,074,000), of which HK\$16,296,000 (as at 30 June 2003: HK\$6,240,000) was secured bank loan, HK\$5,607,000 (as at 30 June 2003: HK\$2,157,000) was secured overdrafts and HK\$231,000 (30 June 2003: HK\$1,677,000) was obligation under finance lease. Our gearing ratio was at a ratio of 0.53% (30 June 2003: 2.50%). The computation is based on long-term borrowings of the Group divided by shareholders' fund as at 30 June 2004.

Capital Structure

The Group generally finances its operation with internally generated resources and banking and credit facilities provided by the banks in Hong Kong. Borrowing methods used by the Group mainly include trust receipts loan, overdrafts facilities and bank loans. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate for foreign currency's Trade Finance Rates.

Employees and Remuneration Policies

As at 30 June 2004, the Group had about 2,603 employees spreading from Hong Kong to the PRC. Industrial relationship had been well maintained. The Group had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

Charges on Group's Assets

At 30 June 2004, the Group pledged its investment properties and certain leasehold land and building with aggregate net book values of approximately HK\$10,397,000 (as at 30 June 2003: HK\$9,602,000) and HK\$5,284,000 (as at 30 June 2003: HK\$4,840,000) respectively as securities for banking facilities granted to the Group.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is mainly minimal so long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

Since the Group's principal manufacturing operations are in the PRC and most of the operating expenses are denominated in Renminbi, the management is aware of possible exchange rate exposure.

Contingent Liabilities

At 30 June 2004, the Group had contingent liabilities not provided for in the financial statements in respect of bill discounted with recourse amounting to approximately HK\$3,809,000 (as at 30 June 2003: HK\$8,306,000).

At 30 June 2004, the Company had contingent liabilities not provided for in the financial statements in respect of unlimited corporate guarantees given to the banks for general banking facilities granted to a subsidiary amounting to HK\$50,836,000 (as at 30 June 2003: HK\$63,336,000). On the same day, such facilities were utilized to the extent of approximately HK\$25,712,000 (as at 30 June 2003: HK\$16,703,000).

Prospects

The principal business activities of the Group include (i) manufacturing and trading of high-ends electronics and electrical parts and components; and (ii) engaging in the design, manufacture and trading of a wide range of cigarette lighters and lighter-related accessories. On top of the above activities, the Group is also seeking investments in broader range of sectors in order to reduce its reliance on the lighter industry.

With the change of control of the Board at the end of 2003, and with the extensive expertise and experience in the manufacturing business in Hong Kong and the PRC, the new management team of the Group has already started to focus its business in a broader range to include the manufacturing and trading of high-ends electronic and electrical parts and components so as to achieve further growth opportunities and to reduce its reliance on the lighter industry. The strong worldwide consumer demand in the personal computer, digital television and mobile phone markets, together with the fast growing economy in China, justified the Group's decision to allocate more resources in the research and development in the expansion in the high-ends electronic components business. Since the newly acquired components manufacturing business was only incorporated in the middle of March 2004, with a less than 4 months' result being consolidated in this interim result, the Board is expecting a flourishing contribution in the latter half of this financial year. Looking ahead, we will continue to explore alliance opportunities with more multi-national entities to accelerate our market expansion as well as to capture the potential market growth. We believe that the Group is on its right course and the Board hopes to bring satisfactory results in the coming financial year ending 31 December 2004.

DIRECTORS' INTEREST IN SHARES

At 30 June 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required by be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long Position in shares of the Company

Name of director	Capacity	Number of ordinary shares of the Company
Sher Tak Chi (resigned on 2 January 2004)	–	– (Note 1)
Kang Hsiao Fang (resigned on 2 January 2004)	–	– (Note 1)
Sher Ching Yee (resigned on 2 January 2004)	–	– (Note 1)
Wong Chong Kwong Derek (appointed on 13 December 2003)	Corporate	100,050,000 (Note 2)
Lam Pik Wah (appointed on 13 December 2003)	Corporate	100,050,000 (Note 2)
Lam Hung Kit (appointed on 13 December 2003)	Corporate	100,050,000 (Note 2)

Note 1: Pursuant to the Sale and Purchase Agreement dated 18 November 2003, Four Guard Int'l Limited agreed to sell 100,000,000 shares of the Company to Smart Number for an aggregate consideration of HK\$34 million. The 100,000,000 shares of the Company are held by Four Guard Int'l Limited, which is wholly owned by three unit trusts. Such unit trusts are respectively held by three discretionary trusts, the beneficiaries of which are Kang Hsiao Fang, Sher Ching Yee and the family members of Sher Tak Chi.

Note 2: The 100,050,000 shares in the Company were beneficially owned by Smart Number, which is owned as to 40% by Mr. Wong Chong Kwong Derek, as to 40% by Ms Lam Pik Wah and as to 20% by Mr. Lam Hung Kit. Pursuant to the Sale and Purchase Agreement dated 18 November 2003 as disclosed in Note 1 above, 100,000,000 shares of the Company were acquired by Smart Number which represent 66.67% of the then issued share capital and is therefore obliged under Rule 26.1 of the Hong Kong Code on Takeovers and Merger to make a mandatory cash offer (the "Offer") for all the then issued shares capital. After the close of the Offer on 2 January 2004, Smart Number received valid acceptances in respect of 50,000 shares. Taking into account the above, Smart Number was interested in 100,050,000 shares in total immediately after the close of the Offer and as at the balance sheet date.

Save as disclosed above, none of the directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchanged pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, to the best knowledge of the directors, the parties (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Number of ordinary shares of HK\$0.10 each held	Interest %
Smart Number Investments Limited (Note 1)	100,050,000	34.21
Forever Gain Profits Limited (Note 2)	58,000,000	19.83
Kwok Wai King Pinki (Note 3)	14,800,000	5.06
Sefton Finance Limited (Note 3)	14,800,000	5.06
Best Score Holdings Limited (Note 3)	14,800,000	5.06
One.Tel Holdings Limited (Note 3)	14,800,000	5.06
Ko Kin Hang (Note 4)	14,628,000	5.00

Note 1: The above interest in the name of Smart Number was also disclosed as interests of certain directors under the heading "Directors' interests in shares".

Note 2: According to the Disclosure of Interests filing dated 17 March 2004, Forever Gain Profits Limited is wholly owned by Mr. Wan Bing Hung.

Note 3: According to the Disclosure of Interests filing dated 14 May 2004, the interest is beneficially owned by One.Tel Holdings Limited.

Note 4: Subsequent to 30 June 2004, Ko Kin Hang has increased his interest in the Company on 8 July 2004 to 14,798,000 shares, representing a total of 5.06% of the shares capital of the Company at the date of this report.

Save as disclosed above, the directors are not aware of any other persons who, as at 30 June 2004, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the Share Option Scheme adopted on 28 November 2002 (the "Scheme"), the directors of the Company may grant options to employees, non-executive directors, suppliers, customers, persons or entities that provide research, development or technological support or services to the Group, shareholders and ex-employees who have contributed to the development and growth of the Group to subscribe for shares in the Company at a consideration of HK\$1. The subscription price for the shares under the Scheme shall be a price determined by the directors of the Company being at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; or (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; or (iii) the nominal value of the shares. Options granted are exercisable at any time during a period of ten years after the date of the options are granted. Options granted should be accepted within 28 days from the date of offer.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and the other schemes shall not exceed 10% of the shares in issue at the date on which the Scheme becomes unconditional.

The Company may, by approval of the shareholders in general meeting, grant options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before shareholders' approval is sought.

Unless approved by the shareholders as set out herein, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any twelve month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of any options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the twelve month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such participant and his associates abstaining from voting.

However, the overall limit on the number of shares which may be issued upon exercise of all options granted under all share option schemes of the Company must not exceed 30% of the shares in issue from time to time.

Set out below was the options granted during the Reporting Period:

Participants	Date of grant	Exercise price	Number of share options			Balance at 30 June 2004
			Balance at 1 July 2003	Granted during the period	Exercised during the period	
Continuous Contract	5 Jan 2004	0.347	-	15,000,000	15,000,000	-
Employees, excluding Directors	1 Apr 2004	1.014	-	19,500,000	19,500,000	-

The closing price of the Company's shares immediately before the date on which the options were granted in respect of the grant in January and April 2004 was HK\$0.345 and HK\$1.01 respectively. The weighted average closing price immediately before the dates on which the options were exercised in respect of the grant in January and April 2004 was HK\$0.345 and HK\$1.01 respectively. No options were cancelled and lapsed during the Reporting Period.

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

During the period, there was no purchase, sale or redemption by the Company or any of its subsidiary companies of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee is composed of the two independent non-executive directors of the Company. Its principal duty is to review and supervise the Company's and the Group's financial reporting process and internal controls. It has reviewed the unaudited interim report of the Group for the twelve months ended 30 June 2004.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period for the twelve months ended 30 June 2004, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, except that the independent non-executive directors of the Company are not appointed for specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 September 2004 to 21 September 2004, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the declared dividend, all completed transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 16 September 2004.

APPRECIATION

On behalf of the Board, I would like to thank our customers, suppliers, bankers, staffs and our shareholders for their support during the period. Meanwhile, I would also like to express our sincere appreciation to Mr. Sher Tak Chi, Ms Kang Hsiao Fang, Mr. Sher Kam Hong and Ms Sher Ching Yee, who have resigned from the Board on 2 January 2004 for their previous efforts and commitments to the success of the Group.



By Order of the Board
WONG Chong Kwong Derek
Chairman

Hong Kong, 25 August 2004