



**COL Capital Limited**

*(Incorporated in Bermuda with limited liability)*

**2004**  
Interim Report



COL Capital Limited  
中國網絡資本有限公司

STAR 星光電訊  
TELECOM

innostream



INN058



INN055



INN098



INN038

## UNAUDITED RESULTS OF THE GROUP

The Board of Directors (the "Directors") of COL Capital Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003 as follows. The consolidated interim financial statements have not been audited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" and by the Company's Audit Committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	3	508,472	267,223
Cost of sales		(382,802)	(258,187)
Gross profit		125,670	9,036
Net (losses) gains on investments	4	(23,363)	10,758
Other operating income	5	6,468	10,550
Distribution costs		(6,163)	(3,598)
Administrative expenses		(25,371)	(18,158)
Other operating expenses		(137)	(2,030)
Profit from operations	6	77,104	6,558
Finance costs	7	(467)	(544)
Gain on disposal of subsidiaries	8	–	41,109
Gain on expiry of warrants	9	–	90,369
Share of result of a jointly controlled entity		–	(28)
Profit before taxation		76,637	137,464
Tax charge	10	(613)	(286)
Profit before minority interests		76,024	137,178
Minority interests		–	–
Profit for the period		76,024	137,178
Dividends	11	3,018	3,715
Basic earnings per share	12	20.47 HK cents	36.93 HK cents

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Notes	30.6.2004 (unaudited) HK\$'000	31.12.2003 (audited) HK\$'000
<b>Non-current assets</b>			
Investment properties	13	31,550	31,550
Property, plant and equipment	13	12,032	12,333
Investments in securities	14	390,455	388,115
Other non-current assets		528	528
		<b>434,565</b>	<b>432,526</b>
<b>Current assets</b>			
Inventories		5,388	5,139
Investments in securities	14	699,799	457,441
Debtors, deposits and prepayments	15	25,775	40,935
Loans receivable	16	44,580	25,827
Pledged bank deposits	20	37,883	26,988
Bank balances and cash		84,375	134,600
		<b>897,800</b>	<b>690,930</b>
<b>Current liabilities</b>			
Creditors and accrued charges	17	11,779	8,390
Customers' deposits and receipts in advance		3,749	7,229
Taxation payable		4,858	4,300
		<b>20,386</b>	<b>19,919</b>
<b>Net current assets</b>			
		<b>877,414</b>	<b>671,011</b>
<b>Capital and reserves</b>			
Share capital	18	3,715	3,715
Reserves		1,156,095	1,099,822
		<b>1,159,810</b>	<b>1,103,537</b>
<b>Non-current liability</b>			
Borrowing	19	152,169	–
		<b>1,311,979</b>	<b>1,103,537</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital HK\$'000	Share premium HK\$'000	Negative goodwill HK\$'000	Goodwill HK\$'000	Warrant reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
At 1 January 2003	92,865	1,135,685	32,883	(1,237)	90,381	(90,725)	1,922	2,140	(465,148)	798,766
Revaluation increase of other investments	-	-	-	-	-	5,024	-	-	-	5,024
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	-	-	-	-	-	-	(2,015)	-	(2,015)
Net gain (loss) not recognised in the condensed consolidated income statement	-	-	-	-	-	5,024	-	(2,015)	-	3,009
Release of revaluation reserve arising from the disposal of other investments	-	-	-	-	-	55,323	-	-	-	55,323
Shares issued at premium as a result of exercise of warrants	2	87	-	-	(12)	-	-	-	-	77
Gain on expiry of warrants recognised in the condensed consolidated income statement	-	-	-	-	(90,369)	-	-	-	-	(90,369)
Release on disposal of subsidiaries	-	-	-	1,237	-	-	-	(125)	-	1,112
Profit for the period	-	-	-	-	-	-	-	-	137,178	137,178
At 30 June 2003	92,867	1,135,772	32,883	-	-	(30,378)	1,922	-	(327,970)	905,096
Revaluation increase of other investments and gain not recognised in the condensed consolidated income statement	-	-	-	-	-	47,256	-	-	-	47,256
Reduction of deficit by capital reorganisation and share premium reduction	(89,152)	(375,996)	-	-	-	-	-	-	465,148	-
Interim dividend paid	-	-	-	-	-	-	-	-	(3,715)	(3,715)
Profit for the period	-	-	-	-	-	-	-	-	154,900	154,900
At 31 December 2003	3,715	759,776	32,883	-	-	16,878	1,922	-	288,363	1,103,537
Revaluation decrease of other investments and loss not recognised in the condensed consolidated income statement	-	-	-	-	-	(4,892)	-	-	-	(4,892)
Final dividend paid	-	-	-	-	-	-	-	-	(14,859)	(14,859)
Profit for the period	-	-	-	-	-	-	-	-	76,024	76,024
At 30 June 2004	3,715	759,776	32,883	-	-	11,986	1,922	-	349,528	1,159,810

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Six months ended 30.6.2004 (unaudited) HK\$'000	Six months ended 30.6.2003 (unaudited) HK\$'000
Net cash used in operating activities	(168,546)	(85,685)
Net cash (used in) from investing activities	(18,522)	59,937
<b>Financing activities</b>		
New borrowings raised	335,400	–
Repayment of borrowings	(183,231)	–
Dividend paid	(14,859)	–
Other financing activities	(467)	77
<b>Net cash from financing activities</b>	<b>136,843</b>	<b>77</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(50,225)</b>	<b>(25,671)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>134,600</b>	<b>81,536</b>
<b>Cash and cash equivalents at end of the period</b>	<b>84,375</b>	<b>55,865</b>
<b>Analysis of the balance of cash and cash equivalents</b>		
Bank balances and cash	<b>84,375</b>	<b>55,865</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2004*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and 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 interest income and commission income arising from provision of financial services earned by the Group, amounting to HK\$6,531,000, have been redefined as part of turnover for the period ended 30 June 2004. Accordingly, the comparative interest income of HK\$1,040,000 for the six months ended 30 June 2003 has been reclassified from other operating income to turnover.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

### 3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into three main operating divisions – mobile phone distribution, securities trading and investments and financial services. Others mainly represent property investment and sales of other communication products.

These divisions are the basis on which the Group reports its primary segment information.

### 3. SEGMENT INFORMATION (Continued)

The revenue and attributable profit from operations of the Group for the period, analysed by business segments and geographical segments, are as follows:–

#### By business segments:–

For the six months ended 30 June 2004

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Financial services HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue					
External turnover	124,374	377,567	6,531	–	508,472
Other operating income	–	4,718	–	1,174	5,892
	<b>124,374</b>	<b>382,285</b>	<b>6,531</b>	<b>1,174</b>	<b>514,364</b>
Segment result	<b>12,235</b>	<b>80,651</b>	<b>6,495</b>	<b>(392)</b>	<b>98,989</b>
Unallocated other operating income					576
Unallocated corporate expenses					(22,461)
Profit from operations					<b>77,104</b>

For the six months ended 30 June 2003

	Mobile phone distribution HK\$'000	Securities trading and investments HK\$'000	Financial services HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue					
External turnover	39,001	226,148	1,040	1,034	267,223
Other operating income	76	2,706	–	2,501	5,283
	<b>39,077</b>	<b>228,854</b>	<b>1,040</b>	<b>3,535</b>	<b>272,506</b>
Segment result	<b>(1,939)</b>	<b>15,872</b>	<b>1,037</b>	<b>525</b>	<b>15,495</b>
Unallocated other operating income					5,267
Unallocated corporate expenses					(14,204)
Profit from operations					<b>6,558</b>



### 3. SEGMENT INFORMATION (Continued)

#### By geographical segments:–

The Group's operations are located in Hong Kong and the Mainland China ("China").

During the period under review, the Group's distribution of mobile phones, securities trading and investments and financial services are carried out in Hong Kong. Other operations are carried out in Hong Kong and China.

The following table provides an analysis of the Group's revenue and profit (loss) from operations by geographical market:–

	Revenue by geographical market		Profit (loss) from operations	
	Six months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	513,728	270,831	78,316	8,932
China	636	1,675	(1,212)	(2,374)
	<b>514,364</b>	<b>272,506</b>	<b>77,104</b>	<b>6,558</b>

Note: During the six months ended 30 June 2003, the Group discontinued its distribution of mobile phones in China.

### 4. NET (LOSSES) GAINS ON INVESTMENTS

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Net realised gain (loss) on derivatives	1,552	(18,511)
Net unrealised (loss) gain on trading investments	(24,915)	26,430
Net unrealised gain on derivatives	–	2,839
	<b>(23,363)</b>	<b>10,758</b>

## 5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Compensation from litigation ( <i>Note</i> )	–	4,811
Gross rental income from investment properties	1,174	2,501
Interest income	5,137	3,038
Others	157	200
	<b>6,468</b>	<b>10,550</b>

*Note:* Litigation was made against ex-employees for damages in relation to their improper behaviour. The case was settled and compensation of HK\$4,811,000 was received during the six months ended 30 June 2003.

## 6. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):-		
Depreciation and amortisation	535	874
Loss on disposal of property, plant and equipment	–	402
Profit on sale of trading investments	(100,033)	(5,590)
Dividend income	(7,776)	(4,316)

## 7. FINANCE COSTS

The finance costs represent interest on bank and other borrowings wholly repayable within five years.

## 8. GAIN ON DISPOSAL OF SUBSIDIARIES

In March 2003, Fulltime Profits Limited, an indirect wholly owned subsidiary of the Company, and its subsidiaries ("Fulltime Group") were disposed of at a nominal consideration of HK\$1 to a third party, resulting a gain on disposal of subsidiaries of HK\$41,109,000. Fulltime Group did not make a significant contribution to the net cash flows or the results of the Group for the six months ended 30 June 2003.

## 9. GAIN ON EXPIRY OF WARRANTS

As at 1 January 2003, the Company had 1,856,666,248 warrants outstanding and entitling the holders to subscribe for new shares at HK\$0.30 per share, subject to adjustment, at any time from 7 June 2000 up to and including 6 June 2003. During the six months ended 30 June 2003, 256,507 warrants were exercised and the remaining 1,856,409,741 warrants expired and lapsed on 6 June 2003. Accordingly, the warrant reserve of HK\$90,369,000 was released to the condensed consolidated income statement for the six months ended 30 June 2003.

## 10. TAX CHARGE

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
The current tax comprises:-		
Hong Kong Profits Tax	556	172
Income tax in China	57	114
	<hr/>	<hr/>
	613	286

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for both periods.

Income tax in China has been provided at the prevailing rates applicable in China on the estimated assessable profit.

## 11. DIVIDENDS

The amount represents interim dividend of HK\$0.01 (2003: HK\$0.01) per share for the current period.

Final dividend for 2003 of HK\$0.04 per share (Final dividend for 2002: Nil) amounting to HK\$14,859,000 (Final dividend for 2002: Nil) was paid to shareholders during the current period, and was reflected in the condensed consolidated statement of changes in equity.

## 12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period of HK\$76,024,000 (2003: HK\$137,178,000) and on 371,468,753 (2003: the weighted average of 371,464,499) ordinary shares in issue during the period.

## 13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Directors consider that the fair values of the investment properties and leasehold land and buildings at 30 June 2004 are not materially different from the professional valuation made at 31 December 2003 and, accordingly, no revaluation increase or decrease has been recognised in the current period.

#### 14. INVESTMENTS IN SECURITIES

	Trading investments		Other investments		Total	
	30.6.2004 HK\$'000	31.12.2003 HK\$'000	30.6.2004 HK\$'000	31.12.2003 HK\$'000	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Equity securities:-						
– listed in Hong Kong	381,091	425,249	112,330	112,045	493,421	537,294
– listed overseas	308,638	22,597	24,242	29,418	332,880	52,015
– unlisted	–	–	7,706	–	7,706	–
	689,729	447,846	144,278	141,463	834,007	589,309
Debt securities:-						
– unlisted (Note)	–	–	256,247	256,247	256,247	256,247
<b>Total</b>	<b>689,729</b>	<b>447,846</b>	<b>400,525</b>	<b>397,710</b>	<b>1,090,254</b>	<b>845,556</b>
Market value of listed securities	689,729	447,846	136,572	141,463	826,301	589,309
Carrying amount analysed for reporting purposes as:-						
– Non-current	–	–	390,455	388,115	390,455	388,115
– Current	689,729	447,846	10,070	9,595	699,799	457,441
	689,729	447,846	400,525	397,710	1,090,254	845,556

Note: The debt securities represent the loan notes issued by Sun Hung Kai & Co. Limited (“SHK”) and Allied Group Limited (“AG”) which formed part of the consideration for the sale of SHK’s and AG’s shares by the Group during the year ended 31 December 2003. The loan notes bear interest at 4% and 2.25% per annum and are redeemable on or before 7 March 2008 and 15 August 2008, respectively.

#### 15. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 to 90 days to its trade debtors. An aged analysis of trade debtors is as follows:-

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Within 90 days	13,664	12,580
91 – 180 days	104	7
181 – 360 days	1	–
	13,769	12,587
Other debtors, deposits and prepayments	12,006	28,348
	25,775	40,935

## 16. LOANS RECEIVABLE

The amounts are unsecured, bear interests at prime rate plus 5% to 15% per annum and are repayable within one year.

## 17. CREDITORS AND ACCRUED CHARGES

An aged analysis of trade creditors is as follows:-

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Trade creditors due within 90 days	1,617	1,723
Other creditors and accrued charges	10,162	6,667
	<b>11,779</b>	<b>8,390</b>

## 18. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:-		
At 30 June 2004 and 31 December 2003	30,000,000,000	300,000
Issued and fully paid:-		
At 30 June 2004 and 31 December 2003	371,468,753	3,715

## 19. BORROWING

The loan is unsecured, bears interest at Hong Kong Inter-Bank Offer Rate plus 0.5% per annum and was due to repay in October 2005. Subsequent to the balance sheet date, the loan has been fully repaid. The loan is lent by a related party, in which Ms. Chong Sok Un, the director of the Company, is also a director of the related party.

## 20. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks to secure banking facilities:-

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Investment properties	11,350	11,350
Marketable securities	31,891	54,583
Bank deposits	37,883	26,988
	<b>81,124</b>	<b>92,921</b>

## 21. POST BALANCE SHEET EVENTS

- (i) Pursuant to resolutions proposed by the Directors and passed at a special general meeting of the Company held on 9 August 2004 (the "SGM"), the offer by Sun Hung Kai International Limited on behalf of the Company to repurchase up to 74,300,000 shares for HK\$1.20 in cash per share (the "Offer") and a waiver in respect of the obligation of Vigor Online Offshore Limited ("Vigor Online") (and its concert parties) to make a mandatory general offer in accordance with Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "Whitewash Waiver"), were approved by the shareholders who are not involved or interested in the Whitewash Waiver, being shareholders other than Vigor Online and parties acting in concert with it through voting by poll.
- (ii) On 24 August 2004, being the date when the Offer was closed, valid acceptance of the Offer in respect of 69,713,206 shares had been received by the Company, representing approximately 18.77% of the issued share capital of the Company.

## INTERIM DIVIDEND

The Directors declared the payment of an interim dividend of HK\$0.01 (2003: HK\$0.01) per share amounting to approximately HK\$3,018,000 (2003: HK\$3,715,000), after taking into account of the Offer as mentioned herein below under Section "Review of Operations", to shareholders whose names appear on the Register of Members of the Company on 27 October 2004. Dividend warrants are expected to be despatched on 10 November 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 25 October 2004 to Wednesday, 27 October 2004, both days inclusive, during which no share transfer will be effected.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESULTS

For the period ended 30 June 2004, the Group's turnover increased by 90.3% to HK\$508,472,000 (2003: HK\$267,223,000) and profit from operations increased by more than 1,000% to HK\$77,104,000 (2003: HK\$6,558,000). These substantial increases were mainly due to the profitable securities trading activities as a result of the prevailing buoyant stock market and the Group's successful mobile handset distribution operation.

However, net profit for the period under review decreased by 44.6% to HK\$76,024,000 (2003: HK\$137,178,000) entirely due to the absence of any exceptional gains as compared with the corresponding period in 2003. Exceptional

gains on disposal of subsidiaries and on expiry of warrants, totaling HK\$131,478,000 were recorded in the first half year of 2003. Consequently, earnings per share for the period declined by 44.6% to HK20.47 cents (2003: HK36.93 cents).

## REVIEW OF OPERATIONS

During the period under review, the Group's mobile handset distribution business recorded a significant increase in turnover to HK\$124,374,000 (2003: HK\$39,001,000). A profit of HK\$12,235,000 was recorded for the period against a loss of HK\$1,939,000 recorded in the corresponding period of 2003. With the gradual recovery of the consumer market and the successful launch of Innostream, an innovated Korean brand, the Group's mobile handset distribution business in Hong Kong under Star Telecom Limited ("Star Telecom") performed satisfactorily during the first half year of 2004. Underpinned by Star Telecom's well-planned marketing and promotion strategies, Innostream continued to be among the top ten best selling brands in the Hong Kong market despite keen competition. Currently, Star Telecom is the sole distributor of Innostream and authorized distributor of NEC, Alcatel and Kejian mobile handsets in Hong Kong and Macau, targeting different product positions and market segments.

On the trading and investment in financial instruments activities, the Group recorded a turnover of HK\$377,567,000 (2003: HK\$226,148,000) and a profit of HK\$80,651,000 (2003: HK\$15,872,000) for the period ended 30 June 2004. With the rebound of the stock market, the Group was able to dispose of 728,000,000 shares of Tian An China Investments Company Limited from its trading portfolio in February 2004, generating cash proceeds of HK\$218,400,000 for the Group.

For the money lending and provision of other financial services activities undertaken by the Group in the first half of 2004, the Group recorded a turnover of HK\$6,531,000 (2003: HK\$1,040,000) and a profit of HK\$6,495,000 (2003: HK\$1,037,000).

Following the approval of shareholders at the Company's Special General Meeting on 3 June 2004 and the respective approvals by the companies registries in Bermuda and Hong Kong, the name of the Company has been changed to "COL Capital Limited". The Directors are of the view that this new name will better reflect the principal activities of the Group.

On 4 June 2004, the Company announced a conditional cash offer to repurchase up to 74,300,000 shares representing approximately 20.0% of the total issued shares of the Company at HK\$1.20 in cash per share (the "Offer"). Upon the close of the Offer on 24 August 2004, tenders in respect of 69,713,206 shares were received from accepting shareholders representing about 18.8% of the total issued shares of the Company resulting in the Company paying about HK\$83,656,000 to accepting shareholders and reduction of its share capital and share premium account by approximately HK\$697,000 and HK\$82,959,000 respectively. The consideration for the Offer was financed by the Group's internal resources and was fully settled on 2 September 2004.

#### **LIQUIDITY AND FINANCING**

As at 30 June 2004, the Group's non-current assets consisted mainly of investment properties of HK\$32 million (31 December 2003: 32 million); property, plant and equipment of HK\$12 million (31 December 2003: HK\$12 million); and long term investments of HK\$390 million (31 December 2003: HK\$388 million). These non-current assets were principally financed by shareholders' funds. As at 30 June 2004, the Group had net current assets of HK\$877 million (31 December 2003: HK\$671 million).

As at 30 June 2004, the Group's borrowing amounted to HK\$152 million (31 December 2003: Nil) with a loan arranged on a long term basis and repayable in October 2005. This loan was subsequently fully repaid in July 2004. As at 30 June 2004, the Group's gearing ratio was 5.8% (31 December 2003: Nil), calculated on the basis of the Group's net borrowing (after deducting cash and bank balances) over shareholders' funds.

During the period under review, the Group's assets, liabilities and transactions were mainly denominated in Hong Kong Dollars, Australian Dollars, U.S. Dollars and Malaysian Ringgit. Because of its short term nature, the Group had not actively hedged risks arising from Australian Dollars denominated assets and transactions. As the exchange rates of U.S. Dollars and Malaysian Ringgit were relatively stable during the period, the Group was not materially affected by these foreign exchange exposures.



## **CHARGE ON GROUP ASSETS**

As at 30 June 2004, the Group's investment properties, marketable securities, bank balances and cash with respective carrying values of HK\$11,350,000 (31 December 2003: HK\$11,350,000), HK\$31,891,000 (31 December 2003: HK\$54,583,000) and HK\$37,883,000 (31 December 2003: HK\$26,988,000) were pledged to banks to secure banking facilities granted to the Group.

## **EMPLOYEES**

The Group had 42 employees as at 30 June 2004 (31 December 2003: 43). The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

## **PROSPECTS**

The economic sentiment and consumer confidence in Hong Kong has improved significantly since the fourth quarter of last year. With the business and investment opportunities opened up by the Closer Economic Partnership Agreement (CEPA), the Group is optimistic about the economic outlook of Hong Kong.

Despite of the anticipated competition from mobile handset models of other brands with newer and more advanced features coming into the market in the third and fourth quarters of 2004, Star Telecom expects its sales performance to remain satisfactory. Ever since its first launch in late 2003, the Innostream mobile handsets have been well received by the Hong Kong and Macau markets for its innovative features and trendy designs. Leveraging on the success in the distributorship of Innostream's products, Star Telecom will strive to obtain the distribution rights of other mobile handsets and electronic consumer products with good potential to enhance its market position and to further achieve its objective of product diversification. Star Telecom is also actively seeking to expand its sales coverage in China and overseas markets. With the 3G mobile handset and service getting more and more popular, it is anticipated that the mobile handset market will grow substantially in the fourth quarter of 2004. Star Telecom will pursue business partnership opportunities with 3G mobile handset manufacturers to capture a share of the 3G mobile handset market for 2005.

With the ever-changing needs for mobile handsets equipped with advanced features such as mega pixel camera, MP3 player, MPEG4 player and support memory card, the Group believes that the mobile handset market has further potential to grow.

The Group will continue to seek attractive business and investment opportunities in China, Hong Kong and the Asia Pacific region to improve profitability and enhance shareholders' value. At the same time, the Group will continue with its emphasis on operating efficiency and cost effectiveness in its existing operations.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 30 June 2004, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")), as recorded in the register maintained by the Company pursuant to 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 Issuers (the "Model Code") were as follows:—

### Long position in the shares of the Company

Name of Director	Number of ordinary shares of HK\$0.01 each				Total	Percentage
	Personal interests	Family interests	Corporate interests	Other interests		of issued ordinary shares
Ms. Chong Sok Un ("Ms. Chong")	-	-	105,248,000	-	105,248,000	28.33%

(Note)

*Note:* Ms. Chong is deemed to have a corporate interest in 105,248,000 ordinary shares of the Company which are held by Vigor Online Offshore Limited ("Vigor Online"), a 67.7% owned subsidiary of China Spirit Limited ("China Spirit") in which Ms. Chong maintains a beneficial interest of 100%.

Save as disclosed above, as at 30 June 2004, none of the directors, the chief executives of the Company nor their associates 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 maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Subsequent to the period end date, the percentage of the corporate interest in shares of the Company held by Ms. Chong was increased to 34.88% of the issued share capital of the Company, as a consequence of repurchase of 69,713,206 shares of the Company effective on 30 August 2004 under the Offer (as defined in the "Review of Operations" section).

#### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, underlying shares, or debentures of, the Company or any other body corporate.

#### **INTERESTS OF SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2004, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:–

##### **Long position in the shares of the Company**

<b>Name</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage held</b>
Ms. Chong	Held by controlled corporation ( <i>Note</i> )	105,248,000	28.33%
China Spirit	Held by controlled corporation ( <i>Note</i> )	105,248,000	28.33%
Vigor Online	Beneficial owner	105,248,000	28.33%

*Note:* Vigor Online is a 67.7% owned subsidiary of China Spirit in which Ms. Chong maintains a beneficial interest of 100%. Accordingly, China Spirit and Ms. Chong were deemed by the SFO to be interested in 105,248,000 shares of the Company.

Save as disclosed above, as at 30 June 2004, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Subsequent to the period end date, the percentage of the interest in shares of the Company held by Vigor Online and the deemed interest in shares of the Company held by China Spirit and Ms. Chong were increased to 34.88% of the issued share capital of the Company, as a consequence of repurchase of 69,713,206 shares of the Company effective on 30 August 2004 under the Offer (as defined in the "Review of Operations" section).

#### **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

There was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the period.

Subsequent to the period end date, the Company repurchased 69,713,206 shares on 30 August 2004 under the Offer (as defined in the "Review of Operations" section).

#### **CODE OF BEST PRACTICE**

The Company had complied throughout the six months ended 30 June 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

By Order of the Board

**Chong Sok Un**

*Chairman*

Hong Kong, 17 September 2004