



DigiTel Group Limited
(Incorporated in the Cayman Islands with limited liability)

2005 Interim Report

DigiTel

Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock Code: 8030

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This document, 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 document 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 document misleading; and (3) all opinions expressed in this document 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

- Loss attributable to shareholders was approximately HK\$1.0 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 2005 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	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	552	990	819	2,301
Cost of sales		(228)	(537)	(319)	(987)
Gross profit		324	453	500	1,314
Gain on waiver of debts due to creditors		-	19,833	-	42,499
Other revenues		-	295	3	826
Administrative expenses		(522)	(606)	(1,196)	(1,774)
Operating loss/profit	4	(198)	19,975	(693)	42,865
Finance costs		(179)	(134)	(360)	(772)
Recovery of impairment of investment securities		-	-	-	126
Loss/profit before taxation		(377)	19,841	(1,053)	42,219
Taxation	5	-	-	-	-
Loss/profit attributable to shareholders		(377)	19,841	(1,053)	42,219
Loss/earnings per share	7				
Basic (cents)		(0.033)	1.739	(0.092)	3.701

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30 June 2005 HK\$'000	(Audited) 31 December 2004 HK\$'000
Non-current assets			
Fixed assets		38	64
Deferred costs		632	931
Long-term trade receivables	8	–	9
		<u>670</u>	<u>1,004</u>
Current assets			
Inventories		783	783
Current trade and other receivables	8	90	133
Cash and bank balances		190	771
		<u>1,063</u>	<u>1,687</u>
Current liabilities			
Trade and other payables	9	11,034	10,269
Interest-bearing borrowings – repayable within one year	10	473	1,143
Tax payable		901	901
		<u>12,408</u>	<u>12,313</u>
Net current liabilities		<u>(11,345)</u>	<u>(10,626)</u>
Total assets less current liabilities		<u>(10,675)</u>	<u>(9,622)</u>
Capital and reserves			
Share capital	11	114,073	114,073
Reserves	12	(131,498)	(130,445)
Capital deficiency		<u>(17,425)</u>	<u>(16,372)</u>
Non-current liabilities			
Interest-bearing borrowings – repayable after one year	10	6,750	6,750
		<u>(10,675)</u>	<u>(9,622)</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 2004	114,073	36,247	(269,796)	59,368	(67)	(60,175)
Profit for the year	-	-	43,736	-	-	43,736
Reserve realised on disposal of subsidiaries	-	-	-	-	67	67
As at 31 December 2004 (Audited)	114,073	36,247	(226,060)	59,368	-	(16,372)
Loss for the Interim Period	-	-	(1,053)	-	-	(1,053)
As at 30 June 2005 (Unaudited)	<u>114,073</u>	<u>36,247</u>	<u>(227,113)</u>	<u>59,368</u>	<u>-</u>	<u>(17,425)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months ended	
	30 June 2005	30 June 2004
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(214)	41,176
Net cash inflow from investing activities	303	-
Net cash outflow from financing activities	(670)	(41,037)
(Decrease)/increase in cash and cash equivalents	(581)	139
Cash and cash equivalents at beginning of period	771	700
Cash and cash equivalents at end of period	<u>190</u>	<u>839</u>
Analysis of balance of cash and cash equivalents:-		
Bank and cash balance	<u>190</u>	<u>839</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 Hong Kong Accounting Standard No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 2004.

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 2005 HK\$'000	30 June 2004 HK\$'000	30 June 2005 HK\$'000	30 June 2004 HK\$'000
System integration contracts income	-	235	-	705
Energy saving contracts revenue	552	55	819	55
Desulphurisation contracts revenue	-	700	-	1,400
Rental income	-	-	-	141
	<u>552</u>	<u>990</u>	<u>819</u>	<u>2,301</u>

3. Segmental information

The following segments are the basis on which the Group reports its primary segmental information.

For the six months ended 30 June 2005

	System integration HK\$'000	Energy saving HK\$'000	Desulphur- isation HK\$'000	Sale of goods HK\$'000	Other operations HK\$'000	Total HK\$'000
TURNOVER	<u>-</u>	<u>819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>819</u>
RESULT						
Segment result	<u>(62)</u>	<u>354</u>	<u>-</u>	<u>-</u>	<u>(35)</u>	257
Gain on waiver of debts due to creditors						-
Other revenues						3
Unallocated expenses						<u>(953)</u>
Loss from operations						(693)
Finance costs						(360)
Recovery of impairment of investment securities						<u>-</u>
Loss before taxation						(1,053)
Taxation						<u>-</u>
Loss after taxation						<u>(1,053)</u>

For the six months ended 30 June 2004

	System integration HK\$'000	Energy saving HK\$'000	Desulphur- isation HK\$'000	Sale of goods HK\$'000	Other operations HK\$'000	Total HK\$'000
TURNOVER	<u>705</u>	<u>55</u>	<u>1,400</u>	<u>-</u>	<u>141</u>	<u>2,301</u>
RESULT						
Segment result	<u>306</u>	<u>(191)</u>	<u>100</u>	<u>(213)</u>	<u>87</u>	89
Gain on waiver of debts due to creditors						42,499
Other revenues						826
Unallocated expenses						<u>(549)</u>
Profit from operations						42,865
Finance costs						<u>(772)</u>
Recovery of impairment of investment securities						<u>126</u>
Profit before taxation						42,219
Taxation						<u>-</u>
Profit after taxation						<u>42,219</u>

4. Operating loss/profit

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

	(Unaudited) For the		(Unaudited) For the	
	three months ended	30 June	six months ended	30 June
	30 June	30 June	30 June	30 June
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of sales	228	537	319	987
Depreciation				
– leased fixed assets	–	3	–	6
– owned fixed assets	10	12	22	25
Net exchange losses	–	–	–	2
Operating leases rental – land and buildings	50	41	92	82
Staff costs (excluding directors' remuneration)	215	130	429	764
	<u>215</u>	<u>130</u>	<u>429</u>	<u>764</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 (2004: Nil).

7. Loss/earnings per share

The calculation of basic loss/earnings per share for the Three-Month Period and the Interim Period is based on the loss attributable to shareholders of approximately HK\$377,000 and HK\$1,053,000 respectively (for the three months and six months ended 30 June 2004: profit HK\$19,841,000 and profit HK\$42,219,000 respectively) and the weighted average of 1,140,730,792 (for the three months and six months ended 30 June 2004: 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 2005 HK\$'000	(Audited) 31 December 2004 HK\$'000
Trade receivables		
0 to 30 days	34	91
31 to 60 days	5	1
61 to 90 days	45	-
91 to 120 days	-	-
Over 120 days	-	-
	<hr/>	<hr/>
	84	92
Long-term trade receivables	-	9
	<hr/>	<hr/>
Total trade receivables	84	101
Prepayments and deposits	6	41
	<hr/>	<hr/>
	90	142
	<hr/> <hr/>	<hr/> <hr/>

9. Trade and other payables

The aging analysis of trade payables is as follows:

	(Unaudited) 30 June 2005 HK\$'000	(Audited) 31 December 2004 HK\$'000
Trade payables		
0 to 30 days	–	201
31 to 60 days	–	–
61 to 90 days	–	–
91 to 120 days	–	–
Over 120 days	2,206	2,206
	<u>2,206</u>	<u>2,407</u>
Total trade payables	2,206	2,407
Other payables	8,828	7,862
	<u>11,034</u>	<u>10,269</u>

10. Interest-bearing borrowings

	(Unaudited) As at 30 June 2005 HK\$'000	(Audited) As at 31 December 2004 HK\$'000
Other loans – unsecured	7,223	7,893
Amount repayable within one year included in current liabilities	(473)	(1,143)
	<u>6,750</u>	<u>6,750</u>

11. Share capital

	(Unaudited) 30 June 2005		(Audited) 31 December 2004	
	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 2005	36,247	(226,060)	59,368	-	(130,445)
Loss for the three months ended 31 March 2005	-	(676)	-	-	(676)
As at 31 March 2005	36,247	(226,736)	59,368	-	(131,121)
Loss for the three months ended 30 June 2005	-	(377)	-	-	(377)
As at 30 June 2005 (Unaudited)	36,247	(227,113)	59,368	-	131,498
As at 1 January 2004	36,247	(269,796)	59,368	(67)	(174,248)
Reserve realised on disposal of subsidiaries	-	-	-	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)	36,247	(227,577)	59,368	-	(131,962)

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

During the Interim Period, the Group is principally engaged in the marketing activities of energy saving and desulphurisation services in Hong Kong and the PRC.

The Group has focused on the energy saving service for commercial and residential buildings in Hong Kong. The Group will continue to market this service with a view to expand the client base. In addition, the Group has commenced marketing activities in the Guangdong region of the PRC for commercial and residential buildings as well as to other customers such as water supply plants and cement plants.

Besides, the Group is pursuing business opportunity for the implementation of desulphurisation system to a power plant located in the northern part of the PRC. The Group may act as the turnkey system integrator or otherwise to act as the agent for the overseas equipment supplier for the project. The Group envisages that the formal tender will be made in the second half of this year.

The Directors are optimistic to the 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\$0.8 million, representing 65% decrease from approximately HK\$2.3 million for the corresponding period in 2004. The Group recorded a loss attributable to shareholders of approximately HK\$1.0 million for the Interim Period, which compared to the profit attributable to shareholders of approximately HK\$42.2 million recorded in the corresponding period in 2004.

Turnover mainly comprises of energy saving service of approximately HK\$0.8 million.

The administrative expenses for the Interim Period were approximately HK\$1.2 million, being reduced by 33% as compared to the corresponding period in 2004. The administrative expenses mainly comprises of employee remunerations, legal and professional fee and marketing expenses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group had total assets of approximately HK\$1.7 million (as at 31 December 2004: HK\$2.7 million), including cash and bank balances of approximately HK\$0.2 million (as at 31 December 2004: HK\$0.8 million).

The Group did not have any banking facilities as at 30 June 2005.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 30 June 2005 was not applicable as the Group suffered capital deficiency in this period (as at 31 December 2004: 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 2005, the amount of short-term bank and other borrowings of the Group which will be repayable within one year was approximately HK\$0.5 million (as at 31 December 2004: HK\$1.1 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 2004: HK\$6.8 million).

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, energy saving 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 2004.

CONTINGENT LIABILITIES

As at 30 June 2005, the Company had no contingent liabilities.

CHARGE OF ASSETS

As at 30 June 2005, there was no charge of assets.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the Interim Period was approximately HK\$0.45 million (six months ended 30 June 2004: HK\$0.82 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 SCHEME

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, 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests and short positions of the directors and chief executive 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 the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 to 5.67 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 executive in shares of associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 to 5.67 of the GEM Listing Rules.

Long positions in underlying shares and debentures

No long positions of directors and chief executive 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 5.46 to 5.67 of the GEM Listing Rules.

Short positions in shares, underlying shares and debentures

No short positions of directors and chief executive 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 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following persons (other than the directors and chief executive 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 <i>(Note 1 and 2)</i>	Beneficial owner	Corporate	643,242,469	56.39%
Grand Nature (Cayman) Limited <i>(Note 1)</i>	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Nature Corp <i>(Note 1)</i>	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will (Cayman) Limited <i>(Note 2)</i>	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will Limited <i>(Note 2)</i>	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Royal Bank of Canada Trust Company (Cayman) Limited <i>(Note 3)</i>	Trustee	Corporate	643,242,469	56.39%
Mr. Ho Lok Cheong <i>(Note 4)</i>	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.

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 2005, there were no outstanding options which were granted to the Directors.

Apart from the above, 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 2005, 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 5.33 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 three independent non-executive directors, namely Mr. Ha Kee Choy, Eugene, Mr. Ho Chiu Kee and Mr. Leung Ka Kui, Johnny. The principal duties of the audit committee are the review and supervision of the Company's financial reporting process and internal control systems.

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.

CORPORATE GOVERNANCE

The Board has resolved not to set up remuneration committee due to the relatively small size of the Board and the number of headcount of the Group. Matters relating to the remuneration of the Directors and senior management of the Group will be reviewed and approved by the Board. Save as disclosed above, throughout the Interim Period, the Company was in compliance with the Code on Corporate Governance Practices as set out in appendix 15 of the GEM Listing Rules.

By Order of the Board

Lee Chuen Bit

Chairman

Hong Kong, 12 August 2005