DIGITEL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR 2002

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This announcement, 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 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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$3.8 million.
- Loss attributable to shareholders was approximately HK$48.6 million.
- The Directors do not recommend the payment of an interim dividend.

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 2002 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
		2002	2001	**2002**	2001
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**2,992**	18,978	**3,809**	34,146
Cost of sales		**(3,367)**	(12,649)	**(3,625)**	(23,222)
Gross (loss)/profit		**(375)**	6,329	**184**	10,924
Other revenues		**269**	2,813	**681**	3,297
Selling and distribution costs		–	(1,593)	–	(3,955)
Administrative expenses		**(11,485)**	(11,667)	**(22,536)**	(27,921)
Loss on disposal/write off of fixed assets		**(10,843)**	–	**(10,843)**	–
Provision for diminution in value of inventories		**(11,259)**	–	**(11,259)**	–
Operating loss	*4*	**(33,693)**	(4,118)	**(43,773)**	(17,655)
Finance costs		**(3,832)**	(836)	**(4,823)**	(1,520)
Share of loss of associates		–	(255)	–	(478)
Loss before taxation		**(37,525)**	(5,209)	**(48,596)**	(19,653)
Taxation	*5*	–	–	–	–
Loss after taxation		**(37,525)**	(5,209)	**(48,596)**	(19,653)
Minority interests		–	–	–	1,214
Loss attributable to shareholders		**(37,525)**	(5,209)	**(48,596)**	(18,439)
Loss per share	*7*				
Basic (cents)		**(3.477)**	(0.519)	**(4.584)**	(1.840)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30 June 2002 HK$'000	(Audited) 31 December 2001 HK$'000
ASSETS			
Non-current assets			
Fixed assets		**23,946**	39,475
Interests in associates		**721**	721
Investment securities		**51,000**	51,000
Financial asset		**10,500**	10,500
		86,167	101,696
Current assets			
Inventories		**11,259**	23,432
Trade and other receivables	*8*	**42,763**	52,515
Bank and cash balances		**634**	2,282
		54,656	78,229
Current liabilities			
Trade and other payables	*9*	**21,653**	19,546
Borrowings – current portion	*10*	**18,057**	9,010
Convertible debentures		**11,700**	12,870
Provision for taxation		**1,029**	1,609
Trust receipts loans		**9,954**	9,558
Bank overdrafts		**9,762**	13,637
		72,155	66,230
Net current (liabilities)/assets		**(17,499)**	11,999
Total assets less current liabilities		**68,668**	113,695
Non-current liabilities			
Borrowings – long term portion	*10*	**(8,577)**	(14,720)
NET ASSETS		**60,091**	98,975
Financed by:			
CAPITAL AND RESERVES			
Share capital	*11*	**114,073**	104,073
Deficits	*12*	**(53,982)**	(5,098)
SHAREHOLDERS' FUNDS		**60,091**	98,975

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*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*
As at 1 January 2001 (as previously reported)	104,073	10,978	9,713	37,521	(30,102)	–	132,183
Impairment of goodwill recognized upon the adoption of SSAP31	–	–	(21,847)	21,847	–	–	–
Revaluation deficit on investment securities recognized	–	–	(30,102)	–	30,102	–	–
As at 1 January 2001 (as retrospectively restated)	104,073	10,978	(42,236)	59,368	–	–	132,183
Premium on issuance of shares	–	24,383	–	–	–	–	24,383
Conversion of debentures	–	3,517	–	–	–	–	3,517
Share issuance expenses	–	(151)	–	–	–	–	(151)
Conversion of debentures expenses	–	(2,194)	–	–	–	–	(2,194)
Exchange difference arising from translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	(65)	(65)
Loss for the year	–	–	(58,698)	–	–	–	(58,698)
As at 31 December 2001 (Audited)	104,073	36,533	(100,934)	59,368	–	(65)	98,975
Exchange difference arising from translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	–	(2)	(2)
Issue of new shares	10,000	–	–	–	–	–	10,000
Share issuance expenses	–	(286)	–	–	–	–	(286)
Loss for the Interim Period	–	–	(48,596)	–	–	–	(48,596)
As at 30 June 2002 (Unaudited)	**114,073**	**36,247**	**(149,530)**	**59,368**	**–**	**(67)**	**60,091**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended 30 June 2002 HK$'000	30 June 2001 HK$'000
NET CASH OUTLFOW FROM OPERATING ACTIVITIES	**(4,980)**	(47,298)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	**1**	410
Interest paid	**(2,649)**	(1,037)
Finance lease charges	**(2,174)**	(483)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	**(4,822)**	(1,110)
TAXATION		
Hong Kong profits tax (paid)/refund	**(580)**	51
INVESTMENT ACTIVITIES		
Development and trademark costs	**–**	(2,674)
Purchase of fixed assets	**(89)**	(9,167)
Proceeds on sale of fixed assets	**627**	–
Sale proceeds on sale of investment securities	**228**	–
Purchase of a subsidiary	**–**	(8,450)
Purchase of investment securities	**–**	(415)
Net cash outflow from partial disposal of a subsidiary	**–**	(54)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**766**	(20,760)
NET CASH OUTFLOW BEFORE FINANCING	**(9,616)**	(69,117)
FINANCING		
Net proceeds from issue of shares	**9,714**	27,253
Proceeds from sale and leaseback arrangements	**1,273**	8,383
New loans raised	**4,600**	–
Repayments of bank loans and other loans	**(2,262)**	(836)
Repayments of capital element of finance leases	**(406)**	(4,132)
Repayments of convertible notes	**(302)**	–
Repayments of principal of convertible debentures	**(1,170)**	–
Proceeds from issue of debentures	**–**	21,330
Proceeds from issue of convertible notes	**–**	1,375
NET CASH INFLOW FROM FINANCING	**11,447**	53,373

	(Unaudited) For the six months ended	
	30 June 2002	30 June 2001
	HK$'000	*HK$'000*
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,831**	(15,744)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**(20,913)**	35,706
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**(19,082)**	19,962
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**634**	26,291
Trust receipt loans	**(9,954)**	(6,329)
Bank overdrafts	**(9,762)**	–
	(19,082)	19,962

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment property, investment securities and financial asset in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

The financial statements 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 these interim financial statements are the same as those used in the preparation of the Group's audited financial statements for the year ended 31 December 2001.

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 2002	30 June 2001	**30 June 2002**	30 June 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
System integration contracts revenue	**–**	3,598	**–**	6,706
Customized solution services income	**38**	47	**575**	732
Sale of goods at invoiced value, net of returns and discounts	**2,669**	10,814	**2,752**	13,714
Web application services income	**–**	677	**8**	3,998
ISP services income	**–**	3,842	**–**	7,624
Maintenance services income	**–**	–	**–**	859
Consultancy services income	**–**	–	**–**	513
Rental income	**285**	–	**474**	–
	2,992	18,978	**3,809**	34,146

3. Segmental information

For management purposes, the Group is currently organized into five business segments – system integration, sale of software and communication equipment, customized solution services, web application services and ISP services. Other operations include maintenance, consultancy and rental income. These segments are the basis on which the Group reports its primary segmental information.

For the six months ended 30 June 2002

	System integration contracts	Sale of goods	Customized solution services	Web application services	ISP services	Other operations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**–**	**2,752**	**575**	**8**	**–**	**474**	**3,809**
RESULT							
Segment result	**(3,192)**	**(14,142)**	**(10,726)**	**(150)**	**(5,472)**	**71**	**(33,611)**
Other revenues							**681**
Unallocated expenses							**(10,843)**
Loss from operations							**(43,773)**
Finance costs							**(4,823)**
Loss before taxation							**(48,596)**
Taxation							**–**
Loss after taxation							**(48,596)**

For the six months ended 30 June 2001

	System integration contracts	Sale of goods	Customized solution services	Web application services	ISP services	Other operations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	6,706	13,714	732	3,998	7,624	1,372	34,146
RESULT							
Segment result	(3,632)	(2,002)	(911)	(4,970)	(8,728)	(99)	(20,342)
Other revenues							3,297
Unallocated expenses							(610)
Loss from operations							(17,655)
Finance costs							(1,520)
Share of loss of associates							(478)
Loss before taxation							(19,653)
Taxation							–
Loss after taxation							(19,653)

4. Operating loss

The operating loss is stated after charging the following:–

	(Unaudited) For the three months ended		(Unaudited) For the six months ended	
	30 June 2002	30 June 2001	**30 June 2002**	30 June 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation of fixed assets	**1,728**	1,807	**4,147**	3,622
Amortization of intangible assets	**–**	1,135	**–**	2,208
Provision for bad debts	**837**	518	**837**	620

5. Taxation

	(Unaudited) For the three months ended		(Unaudited) For the six months ended	
	30 June 2002	30 June 2001	**30 June 2002**	30 June 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong profits tax	**–**	–	**–**	–

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

No provision for overseas taxation has been made as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose during the periods.

6. Dividend

The Directors do not recommend the payment of an interim dividend for ordinary shares for the Interim Period (2001: Nil).

7. Loss per share

The calculation of basic loss per share is based on the following data:

	(Unaudited) For the three months ended		(Unaudited) For the six months ended	
	30 June 2002	30 June 2001	**30 June 2002**	30 June 2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loss				
Net loss for the period	**37,525**	5,209	**48,596**	18,439
Number of shares				
Weighted average number of shares for the purpose of basic loss per share	**1,079,192,330**	1,004,022,571	**1,060,067,809**	1,002,002,398
Loss per share				
Basic (cents)	**3.477**	0.519	**4.584**	1.840

Diluted loss per share has not been presented as the effect of any dilution is anti-dilutive.

8. Trade and other receivables

The Group maintains defined credit policies for the respective businesses and trade debtors are closely monitored in order to control credit risk associated with trade receivables. The aging analysis of trade receivables is as follows:

	(Unaudited)	(Audited)
	30 June 2002	31 December 2001
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**2**	1,525
31 to 60 days	**8**	135
61 to 90 days	**39**	135
91 to 120 days	**4**	135
Over 120 days	**5,510**	8,366
Total trade receivables	**5,563**	10,296
Other receivables	**34,898**	36,247
Prepayments and deposits	**2,302**	5,972
	42,763	52,515

9. Trade and other payables

The aging analysis of trade payables is as follows:

	(Unaudited)	(Audited)
	30 June 2002	31 December 2001
	HK$'000	*HK$'000*
Trade payables		
0 to 30 days	**189**	12,864
31 to 60 days	–	146
61 to 90 days	**62**	539
91 to 120 days	–	154
Over 120 days	**1,762**	945
Total trade payables	**2,013**	14,648
Other payables	**19,640**	4,898
	21,653	19,546

10. Borrowings

	Note	(Unaudited) As at 30 June 2002 HK$'000	(Audited) As at 31 December 2001 HK$'000
Bank loans – secured	*a*	**7,345**	7,907
Other loans – unsecured		**2,900**	–
Convertible notes – secured		**5,643**	5,943
Obligations under finance leases	*b*	**10,746**	9,880
		26,634	23,730
Repayable as:			
Within one year		**18,057**	9,010
In the second year		**6,447**	10,039
In the third to fifth year		**2,130**	4,681
		26,634	23,730

Note:

(a) The total amount is subject to a writ as stated in item (b) under the heading of "Litigations".

(b) The total amount is subject to a writ and a demand as stated in items (e) and (g) under the heading of "Litigations".

11. Share capital

	(Unaudited) 30 June 2002 Number of shares	(Unaudited) 30 June 2002 Nominal value HK$'000	(Audited) 31 December 2001 Number of shares	(Audited) 31 December 2001 Nominal value HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
As at 1 January	**1,040,730,792**	**104,073**	1,000,000,000	100,000
Shares issued during the period/year	**100,000,000**	**10,000**	29,166,667	2,917
Conversion of debentures	–	–	11,564,125	1,156
As at 30 June 2002/31 December 2001	**1,140,730,792**	**114,073**	1,040,730,792	104,073

Details of changes of share capital during the Interim Period are as follows:

On 27 May 2002, 100,000,000 new ordinary shares of HK$0.1 each in the capital of the Company were issued to Lit Cheong Holdings Limited ("LCH"), a substantial shareholder of the Company, at par value pursuant to a subscription agreement entered into between LCH and the Company on 14 May 2002. These shares were issued upon the completion of the placing of 100,000,000 existing ordinary shares of the Company registered in name of LCH to two independent placees pursuant to a placing agreement entered into between Ong Asia Securities (HK) Limited as the placing agent and LCH on 14 May 2002.

12. Reserves

	Share premium *HK$'000*	Accumulated losses *HK$'000*	Capital reserve on consolidation *HK$'000*	Investment revaluation reserve *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*
As at 1 January 2001 (as previously reported)	10,978	9,713	37,521	(30,102)	–	28,110
Impairment of goodwill recognized upon the adoption of SSAP31	–	(21,847)	21,847	–	–	–
Revaluation deficit on investment securities recognized	–	(30,102)	–	30,102	–	–
As at 1 January 2001 (as retrospectively restated)	10,978	(42,236)	59,368	–	–	28,110
Disposal of interests in a subsidiary	–	–	451	–	–	451
Premium on issuance of shares	24,103	–	–	–	–	24,103
Loss for six months ended 30 June 2001	–	(18,439)	–	–	–	(18,439)
As at 30 June 2001 (Unaudited)	35,081	(60,675)	59,819	–	–	34,225
As at 1 January 2002	36,533	(100,934)	59,368	–	(65)	(5,098)
Exchange difference arising from translation of financial statements of subsidiaries outside Hong Kong	–	–	–	–	(2)	(2)
Loss for the three months ended 31 March 2002	–	(11,071)	–	–	–	(11,071)
As at 31 March 2002	36,533	(112,005)	59,368	–	(67)	(16,171)
Share issuance expenses	(286)	–	–	–	–	(286)
Loss for the Three-Month Period	–	(37,525)	–	–	–	(37,525)
As at 30 June 2002 (Unaudited)	**36,247**	**(149,530)**	**59,368**	**–**	**(67)**	**(53,982)**

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 radical downturn of the telecommunication and internet market sentiments has worsen the financial position of the Group during the Interim Period. The Group is currently facing a number of litigations and claims, details of which are described under the heading of "Litigations". The tight cash flow position of the Group has resulted in further suspension of most business activities and investments in the ASP business in Hong Kong and the PRC and the ISP business in Hong Kong. The Group had not concluded any new system integration contract during the Interim Period. The Group is currently focusing on selective software system integration projects and customized solution services. The Group is looking for other business opportunities in the Guangdong, Anhui and Fujian Provinces through established business networks and referral programs. Currently, the Group is engaged in three system integration projects, namely:-

(a) a system integration project to set up an extranet system in Hong Kong;

(b) two projects in the PRC involving:–

 (i) the provision of system integration services for a communication backbone project; and

 (ii) the provision of system integration services for a radio communication system project.

In addition to the above existing projects, the Group has been engaged in two internet access projects in the Guangdong Province ("Internet Access Projects"). The Internet Access Projects are related to the ISP business development of the Group in the PRC. The Group has already advanced temporary project funding to the Internet Access Projects to secure relevant licences, undertake various feasibility studies and construct various facilities. The Group is now considering opportunities to sell such licences and/or facilities or to merge with other strategic partners with a view to further develop the Internet Access Projects and to reduce cost on investments.

The Directors foresee that the competition in system integration and broadband multimedia communication engineering services will continue to be very competitive. In view of this, the Group is anticipating a restructuring of the business which will bring into the Group new business opportunities and additional funds while maintaining some of the core businesses of the Group. The Group believes that subsequent to the restructuring, the revenue base of the Group will be broadened which will generate more value to shareholders.

FINANCIAL REVIEW

For the Interim Period, the Group's turnover was HK$3.8 million, representing a 89% decrease from HK$34 million for the same period in 2001. The Group recorded a loss attributable to shareholders of HK$48.6 million for the Interim Period, a 164% increase, as compared to the loss of HK$18.4 million for the same period in the previous year.

Turnover for the Three-Month Period was HK$3 million, representing a 84 % decrease from HK$19 million for the corresponding period in 2001. The unaudited consolidated loss attributable to shareholders for the Three-Month Period was HK$37.5 million while a loss of HK$5.2 million was recorded for the corresponding period in 2001.

Turnover mainly comprised sales of inventories of HK$2.8 million. The depressed telecom and internet market for the past year has reduced the overall demand for the inventories currently kept by the Group and accordingly the Group had to dispose of its inventories below cost. During the Interim Period, the Group incurred a gross loss of HK$0.9 million relating to the sale of inventories and the Group has also made a general provision for diminution in value of HK$11.2 million against its stock on hand at 30 June 2002.

The loss in the Interim Period included a loss of HK$10.8 million on the disposal of fixed assets arising from the disposal of surplus equipment and furniture and the write off of leasehold improvements and fixtures due to the relocation of the Group's offices.

The administrative expenses for the Interim Period were reduced by 19% as compared to the same period in the previous year. The decrease is mainly due to a decrease of HK$5.2 million (51% decrease) in salary expenses, resulting from a significant downsizing in the Group's manpower.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, the Group had total assets of approximately HK$140.8 million (as at 31 December 2001: HK$179.9 million), including cash and bank balances of HK$0.6 million (as at 31 December 2001: HK$2.3 million). None of such cash and bank balances was pledged to secure banking facilities.

Bank overdrafts, trust receipt loans and mortgage loan as at 30 June 2002 were approximately HK$9.8 million, HK$9.9 million and HK$7.3 million respectively (as at 31 December 2001: approximately HK$13.6 million, HK$9.6 million and HK$7.9 million respectively). All the bank borrowings were secured by (i) corporate guarantees given by the Company and/or (ii) the legal charge on the Group's investment property.

The Group's borrowings were mainly in Hong Kong dollars. Banking facilities were granted to the Group at normal market rates. As at 30 June 2002, the Group had banking facilities from Industrial and Commercial Bank of China (Asia) Limited ("ICBC") of approximately HK$25.9 million and the amount utilized by the Group was approximately HK$25.1 million. These facilities have been frozen due to the litigations involved with ICBC as detailed under the heading of "Litigations".

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 30 June 2002 was 14.3% (as at 31 December 2001: 14.9%).

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 or United States dollars, no hedging or other alternatives have been implemented.

To strengthen the financial position and the future development of the Group, the Company is in the course of preliminary negotiations with investors, for some investments of around HK$30 million into the Company. The investors have yet to agree whether to invest into the Company and whether the proposed investment will be in the form of debt or equity or a combination of both. The Group believes that the potential new investors will create new business opportunities for the Group while at the same time relieve the current tight cash flow position which the Group is facing. If such investments do not crystallise and no alternative sources of funding are available to the Group, the Group may have insufficient working capital for maintaining its daily operation and may have difficulties in settling its debts when they fall due or when judgments are entered against the Group in respect of the writs and claims described under the heading of "Litigations" in the event that no payment arrangements are agreed between the Group and the parties concerned.

CAPITAL STRUCTURE

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

In May 2002, the Company placed 100,000,000 new ordinary shares of HK$0.1 each in the capital of the Company to Lit Cheong Holdings Limited ("LCH") at par value. These shares were issued upon the completion of the placing of 100,000,000 existing ordinary shares of the Company registered in name of LCH to two independent third parties of the Group. The net proceeds raised to the Group were approximately HK$9.7 million.

Apart from intra-group liabilities and trade and other payables, as at 30 June 2002, the amount of short-term bank and other borrowings of the Group which will be repayable within a year was about HK$49.4 million (as at 31 December 2001: HK$45.1 million) and the amount of long-term liabilities which will be repayable after more than a year was about HK$8.6 million (as at 31 December 2001: HK$14.7 million)

The Directors believe that on a long-term basis the Group's future operations, capital expenditure and the capital requirement will be funded from business operations and, if necessary, additional equity or loan financing or bank borrowing.

INVESTMENTS AND ACQUISTIONS

During the Interim Period, the Group did not acquire any material investments or capital assets.

SEGEMENTAL INFORMATION

During the Interim Period, the Group has not concluded any system integration contract and the sale of communication and network equipment constitutes the major source of income of the Group. The overall demand for the Group's inventories has shrunken over the past months and therefore the Group had to dispose of its inventories at a loss. Geographical markets are mainly in Hong Kong and the PRC which remain fairly the same for the Interim Period and previous corresponding period.

PLEDGE OF ASSETS

(a) As at 30 June 2002, the Group's investment property with a book value of HK$19,500,000 was pledged to a bank to secure a mortgage loan and other banking facilities to the extent of approximately HK$25,907,000. The bank has issued a writ against the Group in respect of these banking facilities as described in item (b) under the heading of "Litigations".

(b) As at 30 June 2002, the inventories comprised certain network equipment with a net realizable value of approximately HK$3,603,000 (after making a general provision of 50% against diminution in value) which was under a charge for the benefit of the Group's convertible note holders. The title of this equipment will pass to the Group only when the outstanding principal and interests of the convertible notes are fully paid or fully converted into shares of the Company.

LITIGATIONS

As at the date of this announcement, the Group has been served with writs and claims with details as follows:-

(a) On 11 March 2002, a writ under HCA 956/2002 was issued by The Center (65) Limited ("The Center") against the following four parties (the "Defendants") :-

  (i) a company ("DGL") called "Digitel Group Limited";

  (ii) Regal Policy Limited ("Regal Policy"), an indirect wholly owned subsidiary of the Company;

  (iii) Asia Tech Holdings Limited ("Asia Tech"), an associate of the Company of which 49% is indirectly owned by the Company with the remaining 51% held by an independent third party not connected with the Directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the GEM Listing Rules; and

  (iv) Just Growth Investments Limited ("Just Growth"), an indirect wholly owned subsidiary of the Company.

The Center claimed against Regal Policy for alleged failure to pay rent for the period from 1 January 2002 to 28 February 2002 under a tenancy agreement in respect of Units 6507-6510, 65th Floor, The Center, Central, Hong Kong (the "Premises") entered into between The Center and Regal Policy dated 16th May, 2000 (the "Tenancy Agreement") and claimed against Asia Tech, DGL and Just Growth as guarantors in respect of the obligations of Regal Policy under the Tenancy Agreement. The alleged total amount claimed against the Defendants was HK$898,837.61 and other damages. A defence was filed by the Defendants on 8 April 2002 and amended on 11 April 2002, denying all the allegations of The Center. The Group disputed the true identities of DGL and Just Growth as The Center failed to identify the place of incorporation of DGL and Just Growth and the Group therefore questioned the parties whom The Center was intended to sue. The Group has clarified in its defence that DGL to the litigation should be DigiTel Group (BVI) Limited, which is a direct wholly owned subsidiary of the Company. For information, the Group delivered vacant possession of the Premises to the Center on 9 May 2002 through the legal adviser of the Group and The Center had accepted the keys. The Group has settled all rentals with The Center under the Tenancy Agreement up to 31 March 2002 and its three months deposit of HK$1,177,325.00 is still retained by The Center.

(b) On 31 May 2002, a writ was issued by Industrial and Commercial Bank of China (Asia) Limited ("ICBC") against the Company, DigiTel Communication (Asia) Limited, Lit Cheong DigiTel Limited and Goway Investments Limited (collectively the "Subsidiaries", all being indirect wholly owned subsidiaries of the

Company). Pursuant to the indorsement of claim, ICBC claimed against the Subsidiaries for repayment of banking facilities granted to them (the "Facilities") in the sum of US$1,264,128.35 (approximately HK$9.86 million) and HK$15,331,361.00; and against the Company as guarantor for the Subsidiaries. The Facilities were further secured by an investment property owned by an indirect wholly owned subsidiary of the Company, the market value of which (based on a valuation report prepared by an independent valuer) as at 31 December 2001 was HK$19.5 million, details of which were set out in the announcement of the Company dated 17 June 2002. The Company had on 16 July 2002 received a letter from Deloitte Touche Tohmatsu informing the Company that two of its employees have been appointed as receivers and managers (the "Receivers") by ICBC in respect of the investment property. The Company and the Subsidiaries had filed a defence on 27 July 2002, denying the allegations of ICBC. The Company is currently negotiating with ICBC alternatives of settling the outstanding amount under the writ and yet to have any progress as at the date of this announcement.

(c) On 1 June 2002, a writ under DCCJ 3361/2002 was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for failure to pay for printing services provided to the Company for an outstanding sum of HK$160,849.31. A defence was filed by the Company on 26 June 2002 which denied all the allegations of Elegance. The Company is currently seeking legal advice from its legal advisers in relation to this action and on its rights and further defence against Elegance. As at the date of this announcement, no payment has been made to Elegance in respect of the sums claimed.

(d) On 26 June 2002, a writ under HCA 2466/2002 was issued by Strong River Investments Incorporated and Montrose Investments Limited (the "Plaintiffs") against the Company. Pursuant to the indorsement of claim, the Plaintiffs claimed against the Company for a sum of US$1,736,133.00 (approximately HK$13,541,837.40) for breach of an agreement for redemption of convertible debentures dated 3 December 2001 between the Plaintiffs and the Company, details of which were set out in the announcement of the Company dated 7 December 2001 and for failure by the Company to make timely payments pursuant to a subscription agreement dated 23 March 2001 between the Plaintiffs and the Company, details of which were set out in the announcement of the Company dated 23 March 2001 and 3 April 2001. The Company has filed a defence on 27 July 2002, denying all the allegations of the Plaintiffs. For information, the last payment date under the agreement for redemption of convertible debentures was on 28 February 2002 and no payment has been made by the Company from that day and thereafter. The Company has been negotiating with the Plaintiffs to revise the payment schedule and yet to have any progress as at the date of this announcement.

(e) On 5 July 2002, a writ under HCA 2604/2002 was issued by Compaq Financial Services (Hong Kong) Limited ("Compaq Finance") against the Company for a sum of HK$8,701,201.29. Pursuant to the endorsement of claim on the writ, Compaq Finance claimed against the Company in relation to two lease guarantees provided by the Company to Compaq Finance to guarantee the performance and payment obligations of iGreatLink.com Limited, ("iGreatLink") an indirect wholly owned subsidiary of the Company, pursuant to a lease agreement for lease of computer equipment. The Company is seeking independent legal advice and in the process of preparing its defence.

(f) On 20 July 2002, a claim (no.LBTC6760/2002 the "Claim") was filed pursuant to the Labour Tribunal Ordinance (Cap. 25) against DigiTel Communication (Asia) Limited ("DCAL"), an indirect wholly owned subsidiary of the Company, by two ex-employees (respectively the "First Claimant" and the "Second Claimant") for a total sum of HK$99,708.20. Pursuant to the Claim, the grounds of the First Claimant were alleged failure by DCAL to grant annual leave, to pay wages and to reimburse expenses to the First Claimant; and the ground of the Second Claimant was alleged failure by DCAL to reimburse expenses. DCAL disputed a sum of HK$15,181.62 alleged to be owed to the First Claimant and DCAL is negotiating terms of settlement with the First Claimant and the Second Claimant on the admitted amounts.

(g) On 22 July 2002 the Company received a demand (the "Demand") issued by Key Equipment Finance Asia Limited ("KEF") demanding payment for the sum of US$499,680.00 (approximately HK$3,897,504.00) pursuant to a master lease agreement between KEF and iGreatLink.com Limited ("iGreatLink") dated 22 June 2001 and a guarantee issued by the Company on 22 June 2001 in favour of KEF, guaranteeing the obligations of iGreatLink under the master lease agreement. The Company is currently negotiating with KEF with a view to settle the Demand.

(h) On 29 July 2002, a claim (no. LBTC7090/2002) was filed pursuant to the Labour Tribunal Ordinance (Cap. 25) against Digital Communication (Asia) Limited ("DCAL"), by 6 ex-employees for a total sum of HK$664,133.00. The alleged claims include termination of employment contract in November 2001, without sufficient notice or payment in lieu of notice; dismissal by reason of redundancy; failure to grant annual leave; and failure to pay end of year payment. The total sum of HK$664,133.00 was disputed by DCAL which claims that all these ex-employees have been legitimately terminated. DCAL is seeking independent legal advice and in the process of preparing its defence.

Apart from the actions against the Group disclosed in this announcement, there are no outstanding writs and claims against the Group.

CONTINGENT LIABILITIES

(a) As at 30 June 2002, the Company has provided corporate guarantees to banks for banking facilities granted to the Group to the extent of HK$25,907,000 (as at 31 December 2001: 62,000,000). Such facilities utilized by the subsidiaries as at 30 June 2002 are HK$25,100,000 (as at 31 December 2001: HK$31,000,000).

(b) The Company has guarantees for the due performance of its certain subsidiaries in respect of the obligations under some finance leases. The total outstanding lease payments, including interest expenses for future periods, are HK$12,489,000 (as at 31 December 2001: HK$11,886,000).

(c) The Company has guarantees for the due performance under the obligations of convertible notes issued by a subsidiary. The convertible notes, at the option of the holder, will be converted into shares of the Company at a conversion price of HK$1.05 per share which will rank pari passu in all respect with shares in issue at the time of conversion. As at 30 June 2002, the outstanding principal and accrued interests of the convertible notes amounted to HK$5,731,000 (as at 31 December 2001: HK$5,943,000).

(d) The Company has given unconditional guarantees to a financial institution to secure a short-term loan granted to a third party to the extent of approximately HK$27,142,000 (as at 31 December, 2001: HK$18,692,000). As at 30 June 2002, there was an outstanding amount of HK$4,857,000 (the "Debt"), which has been recorded in the accounts, due to the third party by the Company and therefore the net contingent liability of this guarantee to the Company and the Group, after offsetting the Debt, is approximately HK$22,285,000.

(e) The Directors estimate that the maximum claims as stated under the heading of "Litigations" are approximately HK$55,074,000, out of which a total sum of HK$52,191,000 has been recorded in the accounts for the six months ended 30 June 2002. In the event that the final judgements and/or orders are issued against the Group for the disputed amounts, the Group would have additional liability for a total estimated sum of HK$2,883,000, which has not been provided for in the accounts for the six months ended 30 June 2002.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

The total employees' remuneration, including that of the Directors, for Interim Period amounted to approximately HK$4.9 million (six months ended 30 June 2001: HK$10.1 million). The decrease in staff costs is mainly due to the reduction of number of full-time employees from 58 (as at 30 June 2001) to 10 (as at 30 June 2002). 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 2002, there were 30,000,000 (as at 31 December 2001: 80,000,000) outstanding share options granted under the Pre-IPO Share Options Scheme, with option period from 3 July 2000 to 2 July 2010. During the Interim Period, 50,000,000 outstanding share options were lapsed due to the resignation of a director and three employees. 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. 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.

USE OF PROCEEDS

The actual use of proceeds for the Interim Period as compared to the proposed amount set out in the prospectus of the Company dated 6 July 2000 and subsequently revised in the annual report 2000 of the Company are as follows:

	For the six months ended 30 June 2002		From the date listed on GEM on 12 July 2000 to 30 June 2002	
	Proposed	Actual	Proposed	Actual
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Research and development of web-based applications and software	5,400	320	15,900	9,210
Marketing and promotional activities	3,900	189	10,100	6,737
Enhancement of internet infrastructure of the Group	4,500	–	20,900	11,138
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP business	–	–	12,500	18,950
Establishment of a sales and customer support service center and a research and development center in Guangzhou for the system integration and the ASP business	–	–	10,000	7,000
	13,800	509	69,400	53,035

The proposed use of proceeds for the Interim Period is HK$13.8 million and actual application of funds were HK$0.5 million. Owing to the downturn of the internet businesses, the Directors have exercised stringent control on the application of funds, thus funds allocated to research and development, marketing and promotional activities and enhancement of internet infrastructure of the Group have been significantly reduced.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives	Actual Business Progress/change of objective (if any)
System integration and engineering of broadband multimedia communication networks :	
1. Market the service to increase coverage in the PRC and Far East region through direct sales and launch of seminars to government bureaux and potential clients.	The Group has shifted its general sales and marketing effort to target more specific clients mainly in the Guangdong, Anhui and Fujian Provinces in the PRC.
ASP	
1. Taking into account all relevant regulatory restrictions, explore business opportunities to enter into the PRC market through forming alliances or joint ventures with other business partners. corp2net.com Limited ("corp2net.com") will take advantage of the PRC network of Lit Cheong Holdings Limited ("LCH") to demonstrate a complete and mature B2B Internet platform to PRC's SMEs, Soho clients and professionals in the PRC. In order to attract potential subscribers, PRC-related contents will be provided. Products and services offered on corp2net.com platform will be more or less be the same as the Hong Kong version subject to modifications designed to suit the needs of the PRC's SMEs, Soho clients and professionals. The Group plans to develop services tailor-made for the PRC subscribers, such as provision of PRC business news and stock information, tailor-made PRC accounting systems and taxation systems, PRC-based ICPs and PRC-based human resources systems, through co-operation with other business partners.	The Group has reduced substantial investment in the ASP business both in Hong Kong and the PRC due to the radical downturn of the global internet ASP market. As a result, the Group has suspended the internet services and applications provided by corp2net.com which has therefore adopted a relatively less active approach in its ASP business development and has stopped providing contents on its internet platform www.corp2net.com. At present, corp2net.com mainly provides customized solution services in the Guangdong Province.

Business Objectives	Actual Business Progress/change of objective (if any)
2. Plan and formulate business strategies to enter into the PRC market and marketing strategies to promote its brand name and sales in the PRC. Such strategies include: – exploring opportunities of arrangement of joint cooperation activities with PRC governmental bureaux or leading telecommunication companies in various cities to promote corp2net.com;	The Group has temporarily suspended most marketing activities of corp2net.com in most major cities and provinces in the PRC. The Group has shifted its focus to provide customized solution services in the Guangdong, Anhui and Fujian Provinces where most of the business effort has been spent, and will seek opportunities through its already established business network to build alliances and participate in cooperation activities with local governmental bureaux for its customized solution services business.
– establishing sales and marketing vehicles. Sales representative offices will be considered to be set up in cities such as Beijing, Guangzhou, Shanghai, Tianjin, Nanjing and Shenzhen; – recruitment of direct sales force and appointment of authorized agents to penetrate into the PRC market. Comprehensive product and service sales training by way of seminars and internal course training will be provided to the sales staff to push up sales; and – attending exhibitions, trade fairs and seminars to increase brand awareness.	The Group is still capable to contract projects and other co-operation by outsourcing to contract staff and consultants. The Group will spend its effort to act as a project management consultant in respect of the customized solution services business. As a result, some existing projects of the Group have been outsourced to other business partners in order to reduce fixed overheads. These projects include the Hong Kong extranet project and the PRC system integration services for the communication backbone project described under the heading of "Business Review and Outlook"
3. Continue its direct sales effort and form business alliances with other e-commerce solution providers to market and improve its service of providing tailor-made e-commerce solutions and portal building to customers.	The Group will continue to look for business opportunities in the provision of e-commerce solutions and portal building for customers through referral programs and outsourcing. However, such business activities may not form the core businesses of the Group due to the change of the telecommunication and internet market. The Group has just started approaching business through this mean and as a result, the Group has not secured any new contract in respect of this business area.
4. Monitor effectiveness of new applications developed by third parties that have been incorporated into corp2net.com and continue to seek appropriate new applications to enhance application services.	Most of the research and development activities of corp2net.com have been suspended to conserve funds available of the Group. The business goal of corp2net.com will be adjusted to match the declining internet industry.

Business Objectives	Actual Business Progress/change of objective (if any)
5. Continue to form content alliances with content providers to acquire industry news and general interest topics and to monitor the effectiveness of the content alliances already in place.	The Group has temporary suspended most business development and investment regarding provision of contents to clients in its ASP business.
6. Continue to form business partnerships with other Internet companies for joint promotion and business development and to evaluate progress of improvement of brand image by way of such partnerships.	The Group did not form any new business partnerships with other internet companies for joint promotion as a substantial number of potential partners are no longer in business. The Group has halted all business development in most of the internet related business save and except those described herein.
ISP	
1. Review and upgrade the ISP services in terms of speed, volume and quality of transmission of the Internet network by following up closely with the new technological advancement in the global Internet industry and by carrying out market research to collect customers' response.	The Group has suspended its ISP services in Hong Kong in view of the radical freefall and the increasing competition of the local ISP business. However, the Group has committed in similar business opportunity in the PRC through the Internet Access Project as described under the heading of "Business Review and Outlook".
2. Plan business strategies to enter into other markets such as the PRC and the Southeast Asian markets through forming alliances, joint ventures or acquisitions.	The Group has not expanded its business presence into the Southeast Asian markets.
3. Review its marketing strategies and formulate new marketing plans for exploring new markets.	While the Group was originally aiming to resell bandwidth only, the Group has now been engaged into the construction of the internet infrastructure. Such change of focus will allow the Group to take early advantage of the forthcoming relaxation of the PRC's internet and telecommunication law and regulations and to mark its early foothold in the PRC's ISP industry.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 June 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 of the GEM Listing Rules, the interests of the Directors, chief executive and their associates in shares of the Company were as follows:

Name	Type of interest	Number of shares of the Company
Mr. Lee Chuen Bit	Corporate *(note)*	643,242,469
Mr. Wong Siu Wa	Personal	45,002,779

Note:

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 recognised as exclusively charitable under Cayman Islands laws.

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

Pursuant to the Pre-IPO Share Option Scheme and 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 2002, there were no outstanding options which were granted to the Directors.

Apart from the above, neither the Company nor any of its subsidiaries 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.

SUBSTANTIAL SHAREHOLDER

Other than the interests disclosed above in respect of directors, chief executive and their associates, as at 30 June 2002, according to the register of substantial shareholders required to be kept under Section 16(1) of the SDI Ordinance, the following person was interested in 10% or more of the issued share capital of the Company.

Name	Number of shares of the Company held
Lit Cheong Holdings Limited	643,242,469

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.

SPONSOR'S INTEREST

Immediately upon dealing in the shares of the Company on GEM on 12 July 2000 and pursuant to Rule 6.59 of the GEM Listing Rules, First Shanghai Capital Limited ("First Shanghai") has received and will receive a fee for acting as the Company's retained sponsor for the period up to 31 December 2002.

As at 30 June 2002, neither First Shanghai nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group, including options or rights to subscribe for such securities.

COMPETING INTEREST

Save as the non-executive director, Mr. Fan Ren Da, Anthony who, resigned on 5 July 2002, holds directorships in high technology and Internet-related companies, the Directors are not aware of, as at 30 June 2002, any business or interest of each director, initial 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 5.23 to 5.25 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 principal duties of the audit committee's are the review and supervision of the Company's financial reporting process and internal control systems.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since listed on GEM of the Stock Exchange.

By Order of the Board
Lee Chuen Bit
Chairman

Hong Kong, 12 August 2002

This announcement will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of its posting.