DIGITEL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT
For the year ended 31 December 2002

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

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

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This announcement, for which the directors of DigiTel Group Limited (the "Company") (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (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 YEAR

- Turnover of the Group was approximately HK$7.7 million.
- Loss attributable to shareholders was approximately HK$162 million.
- The Directors do not recommend the payment of a final dividend.

FINAL RESULTS

The Directors announced the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2002, together with the comparative audited results for the year ended 31 December 2001 as follows:

	Note	**Year ended 31 December 2002** *HK$'000*	2001 *HK$'000*
Turnover	*2*		
Continuing operations		**7,113**	58,753
Discontinued operations	*9*	**586**	15,153
		7,699	73,906
Cost of sales		**(12,193)**	(70,926)
Gross (loss)/profit		**(4,494)**	2,980
Other revenue		**27**	26,811
Selling expenses		**(86)**	(6,154)
Administrative expenses		**(28,227)**	(49,722)
Other operating expenses		**(60,176)**	(14,070)
Operating loss	*3*		
Continuing operations		**(60,945)**	19,793
Discontinued operations	*9*	**(32,011)**	(59,948)
		(92,956)	(40,155)
Finance costs	*4*		
Continuing operations		**(4,010)**	(2,139)
Discontinued operations	*9*	**(2,988)**	(1,668)
		(6,998)	(3,807)
Share of loss of associates		**–**	(555)
Recovery of impairment of investment securities		**227**	–
Impairment of investment securities		**(51,000)**	–
Impairment of financial asset		**(10,500)**	–
Impairment of investment in associates		**(690)**	–
Impairment of goodwill recognised upon the adoption of SSAP 31		**–**	(8,496)
Revaluation deficit on investment securities previously recognised in reserve		**–**	(6,814)
Loss before taxation		**(161,917)**	(59,827)
Taxation	*5*		
Continuing operations		**(84)**	(84)
Discontinued operations	*9*	**–**	–
		(84)	(84)
Loss after taxation		**(162,001)**	(59,911)
Minority interests		**–**	1,213
Loss attributable to shareholders		**(162,001)**	(58,698)
Basic loss per share (cents)	*6*	**(14.72)**	(5.76)

Notes:

1. **Basis of preparation**

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

   (b) The accounts have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. This assumption is dependent upon the successful completion of the restructuring of the Group's debts, the continuing financial support of the Group's bankers and creditors and other external funding being available. The Group is presently engaged in negotiations with its banks and creditors with a view to achieve a debt restructuring agreement, but formal agreement has not been reached up to the date of this report.

   The directors are of the opinion that the Group will be able to finalise the debt restructuring arrangement as mentioned above and obtain new working capital in order to enable the Group to continue as a going concern and meeting its working capital and financing requirements for the foreseeable future. On this basis, the directors consider that it is appropriate to prepare the accounts on a going concern basis. The accounts however do not include any adjustments that would result if the aforementioned negotiations are not successful.

   Had the going concern basis not been used, adjustments would have to be made to reclassify non-current assets as current assets and non-current liabilities as current liabilities, reduce the value of assets to their recoverable amounts and provide for any future liablities which might arise.

2. **Turnover**

   Analysis of turnover of the Group on the basis set out in note 1 above are as follows:–

	2002	2001
	HK$'000	*HK$'000*
System integration contracts revenue	**1,741**	43,943
Sale of goods at invoiced value, net of returns and discounts	**3,973**	12,472
Web application services income	**579**	5,603
ISP services income	**7**	9,550
Maintenance services income	–	1
Rental income	**1,399**	2,337
	7,699	73,906

3. Operating loss

Operating loss is stated after charging the following:

	2002	2001
	HK$'000	*HK$'000*
Amortisation of intangible assets	**–**	4,253
Auditors' remuneration		
– current year	**323**	425
– over provision in prior year	**(142)**	–
Bad debts written off	**21,517**	7,327
Contract costs	**–**	33,849
Cost of goods sold	**12,193**	5,275
Deficit arising on revaluation of investment property	**6,000**	993
Depreciation		
– leased fixed assets	**2,890**	4,352
– owned fixed assets	**2,596**	4,882
Fixed assets written off	**3,219**	364
Intangible assets written off	**–**	7,232
Inventories written off	**18,897**	–
Loss on disposal of fixed assets	**10,405**	565
Net exchange losses	**28**	107
Operating leases rental		
– land and buildings	**5,732**	8,737
– communication network and equipment rack	**–**	4,740
Provision for doubtful debt	**–**	563
Provision for non-recoverable of loan to a related company	**80**	800
Staff costs (excluding directors' remuneration)	**4,490**	18,016

4. Finance costs

	2002	2001
	HK$'000	*HK$'000*
Interest on bank loan and overdrafts	**1,464**	1,682
Interest on convertible notes wholly repayable within five years	**169**	360
Finance leases charges	**2,819**	1,074
Interest on convertible debentures	**2,397**	691
Other loan interest	**149**	–
	6,998	3,807

5. Taxation

	2002	2001
	HK$'000	*HK$'000*
Hong Kong profits tax		
– current year *(note a)*	**–**	–
– underprovision in previous year	**–**	7
– tax surcharge *(note b)*	**84**	77
Overseas taxation-current year *(note c)*	**–**	–
	84	84

(a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit for the year.

(b) Tax surcharge represents 5% tax surcharge on the profits tax payable of year 2000 to be settled by instalments.

(c) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC has no assessable income for PRC taxation purpose.

6. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on:

	2002	2001
Loss	***HK$'000***	*HK$'000*
Net loss attributable to shareholders used in the calculation of basic loss per share	**(162,001)**	(58,698)

Number of shares	**2002**	2001
Weighted average number of ordinary shares in issue during the year used in the calculation of basic loss per share	**1,100,730,792**	1,019,467,524

(b) Diluted loss per share

There is no dilution arising from the outstanding share options granted by the Company, the convertible notes and convertible debentures issued by the Group. Accordingly, no diluted loss per share for both years had been presented.

7. Movement in reserves

Group	Share premium	Accumulated losses	Capital reserve on consolidation	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001	10,978	(42,236)	59,368	–	28,110
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 realignment	–	–	–	(65)	(65)
Loss attributable to shareholders	–	(58,698)	–	–	(58,698)
At 31 December 2001	36,533	(100,934)	59,368	(65)	(5,098)
At 1 January 2002	36,533	(100,934)	59,368	(65)	(5,098)
Share issuance expenses	(286)	–	–	–	(286)
Exchange realignment	–	–	–	(2)	(2)
Loss attributable to shareholders	–	(162,001)	–	–	(162,001)
At 31 December 2002	36,247	(262,935)	59,368	(67)	(167,387)

8. Segmental Information

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

(a) Business segments

For management purposes, the Group is currently organised into four divisions - system integration contracts, sale of goods, web application and ISP services. Others include maintenance and rental income.

For the year ended 31 December 2002

	Continuing operations			Discontinued operations			
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External revenue	3,973	1,741	1,399	579	7	–	7,699
RESULT							
Segment result	(31,340)	(14,422)	(8,439)	(5,536)	(26,475)	–	(86,212)
Other revenue							1
Unallocated corporate expenses							(6,745)
Loss from operations							(92,956)
Finance costs							(6,998)
Recovery of impairment of investment securities							227
Impairment of investment securities							(51,000)
Impairment of financial asset							(10,500)
Impairment of investment in associates							(690)
Loss before taxation							(161,917)
Taxation							(84)
Loss for the year							(162,001)
ASSETS							
Segment assets	1,297	3,762	13,880	25	120	–	19,084
Unallocated corporate assets							207
Consolidated total assets							19,291
LIABILITIES							
Segment liabilities	8,524	20,308	7,791	376	20,326	–	57,325
Unallocated corporate liabilities							15,280
Consolidated total liabilities							72,605
OTHER INFORMATION							
Capital additions	151	–	–	–	–		
Depreciation and amortisation	925	406	–	1,075	3,034		
Inventories written off	11,051	–	–	273	7,573		
Bad debt written off	398	8,515	1,252	–	10,933		

For the year ended 31 December 2001

	Continuing operations			Discontinued operations			
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External revenue	12,472	43,943	2,338	5,603	9,550	–	73,906
Inter-segment revenue*	9,310	–	7,390	1,458	–	(18,158)	–
Total revenue	21,782	43,943	9,728	7,061	9,550	(18,158)	73,906
RESULT							
Segment result	537	(572)	(18,682)	(31,208)	(40,680)	25,585	(65,020)
Other revenue							26,697
Unallocated corporate expenses							(1,832)
Loss from operations							(40,155)
Finance costs							(3,807)
Share of loss of associates							(555)
Impairment of goodwill recognised upon the adoption of SSAP31							(8,496)
Revaluation deficit on investment securities previously recognised in reserve							(6,814)
Loss before taxation							(59,827)
Taxation							(84)
Loss after taxation							(59,911)

ASSETS							
Segment assets	8,341	32,367	20,843	5,191	27,270	–	94,012
Unallocated corporate assets							85,913
Consolidated total assets							179,925
LIABILITIES							
Segment liabilities	5,503	33,876	12,120	4,276	23,328	–	79,103
Unallocated corporate liabilities							1,847
Consolidated total liabilities							80,950
OTHER INFORMATION							
Capital additions	350	995	41	7,357	5,569		
Depreciation and amortisation	460	1,840	233	6,283	4,671		
Provision for doubtful debt	–	–	563	–	–		
Bad debts written off	111	61	–	–	7,155		

* *Inter-segment sales are charged at cost*

(b) Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's system integration contracts service is mainly carried out in the PRC whereas sale of goods, web application and ISP services are carried out in Hong Kong.

The following is the analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market (continuing operations)		**Revenue by geographical market (discontinued operations)**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**5,372**	22,824	**586**	15,153	**5,958**	37,977
The PRC	**1,741**	35,929	**–**	–	**1,741**	35,929
	7,113	58,753	**586**	15,153	**7,699**	73,906

The following is an analysis of the carrying amount of segment assets, and additions to fixed assets and intangible assets by the geographical area in which the assets are used to generate the revenue:

	Carrying amount of segment assets (continuing operations)		**Carrying amount of segment assets (discontinued operations)**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**18,637**	16,262	**135**	32,461	**18,772**	48,723
The PRC	**302**	45,289	**10**	–	**312**	45,289
Unallocated corporate assets					**207**	85,913
					19,291	179,925

	Additions to fixed assets and intangible assets (continuing operations)		**Additions to fixed assets and intangible assets (discontinued operations)**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**151**	596	–	12,926	**151**	13,522
The PRC	–	790	–	–	–	790
					151	14,312

9. Discontinued operations

Due to the poor market condition of Internet business, the directors decided to cease the business of web application and ISP services. All fixed assets of these business segments were either returned to the suppliers or disposed of during the year.

The results from the ordinary operations of the web application and ISP services included in the consolidated profit and loss account for the years ended 31 December 2001 and 2002 are as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover	**586**	15,153
Cost of sales	**(5)**	(31,009)
Gross profit/(loss)	**581**	(15,856)
Other revenues	**26**	114
Distribution costs	**–**	(5,572)
Administrative expenses	**(4,906)**	(1,477)
Other operating expenses	**(27,712)**	(37,157)
Operating loss	**(32,011)**	(59,948)
Finance costs	**(2,988)**	(1,668)
Loss before taxation	**(34,999)**	(61,616)
Taxation	**–**	–
Net loss	**(34,999)**	(61,616)

The net cash flows attributable to the web application and ISP services included in the consolidated cash flow statement are as follows :

	2002	2001
	HK$'000	*HK$'000*
Operating activities	**(1,316)**	24,598
Investing activities	**447**	(24,895)
Financing activities	**574**	3,252
Net cash (outflows)/inflows	**(295)**	2,955

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: Nil).

MODIFIED AND UNQUALIFIED AUDITORS' REPORT

The auditors' report on the annual accounts of the Group to the year ended 31 December 2002 has been modified and unqualified. Details of which are reproduced as follows:

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the basis adopted in the preparation of the Group's accounts. The Group's loss attributable to the shareholders was HK$162,001,000 for the year ended 31 December 2002 and at that date its net current liabilities exceeded its current assets by HK$66,982,000 and the net liabilities of the Group amounted to HK$53,314,000. Further, as explained in note 1 to the accounts, the Group is subject to various litigations from certain banks and creditors. The banks and creditors have also demanded immediate payment of amounts due to them. The Group is in negotiation with its banks and creditors with a view to achieve a debt restructuring agreement, the outcome of which is uncertain at this stage. The accounts have been prepared on a going concern basis, the validity of which depends upon the continuing financial supports from its banks and creditors and other external funding being available. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

During the year under review, the Group remains focus in system integration in networking services for the Hong Kong and PRC markets. Though the Group has not concluded any major contract during the year, marketing activities have never stopped. The Group has strategically allied with other business partners for joint marketing. This is essential given the fact that the Group's marketing team has been reduced to 3 members. The Group has ceased all its Internet-related businesses with a view to reducing the operating loss and to avoid future capital commitment. However, this has caused significant impact on this year's results as full provision and costs written off have been made in this year.

The radical downturn of the Internet business and the telecommunication markets has worsen the financial position of the Group. The Group is currently facing a number of litigations and claims, details of which are described below under the heading of 'Litigations'. The tight cash flow position of the Group has resulted in less business activities being conducted. However, the Group is looking for new business opportunities in Guangdong, Anhui and Fujian provinces through established business network and business partners.

The Group foresees that the competition in system integration services will continue to be keen. In view of this, the Group will broaden its customer base from the power supply and telecommunication industries into other sectors such as education institutions and property management. The Group will continue to discuss with its creditors with a view to resolve the liquidity and financial position of the Group in the coming future.

FINANCIAL REVIEW

For the year 2002, the Group's turnover was HK$7.7 million, representing a 89.6% decrease from HK$73.9 million for the year 2001. The Group recorded a loss attributable to shareholders of HK$162 million for the year 2002, a 176.0% increase, as compared to the loss of HK$58.7 million for the year 2001.

Turnover for the year 2002 mainly comprised sales of inventories of HK$4.0 million. The slump in the Internet market for the past years reduced the overall demand for the inventories currently held by the Group and accordingly the Group had to dispose of its inventories at prevailing market prices which were substantially below their costs. A provision for diminution in value of HK$18.9 million was therefore required for the stock on hand at 31 December 2002.

Though the selling and administration expenses of the Group was reduced to HK$28.3 million as compared to HK$55.9 million in the year 2001, the operating results of the year 2002 was worsen as it included certain costs of non-recurring nature such as the stock provision of HK$18.9 million, loss of HK$10.4 million for the disposal of fixed assets arising from the disposal of Internet-related equipment after the suspension of its operation and the write off of leasehold improvements, furniture and fixtures due to the relocation of the Group's head office, bad debt written off for receivables relating to Internet business of HK$21.5 million. Such costs were incurred due to the cessation of Internet businesses of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group had total assets of approximately HK$19.3 million (as at 31 December 2001: HK$179.9 million), including cash and bank balances of HK$0.5 million (as at 31 December 2001 : HK$2.3 million).

Bank overdrafts, trust receipt loans and mortgage loan as at 31 December 2002 were approximately HK$10.1 million, HK$9.9 million and HK$7.2 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) the 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. The Group did not have any unutilised banking facilities as at 31 December 2002.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 31 December 2002 was not applicable as the Group suffered capital deficiency in this year (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.

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 31 December 2002, the amount of short-term bank and other borrowings of the Group which will be repayable within a year was about HK$56.7 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 HK$35,000 (as at 31 December 2001: HK$14.7 million).

The Group currently has insufficient working capital to meet the short-term liabilities which are due for repayment. The Directors are now negotiating with its banks and creditors and sourcing new financing, either in equity or in loan with a view to resolve the problem and restore the position.

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 or loan financing or bank borrowing.

INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year, the Group did not acquire or dispose of any material investments or subsidiaries. However, full provision has been made against the investments in relation to Internet businesses.

SEGMENTAL INFORMATION

During the year, the Group did not conclude any system integration contract and the sale of goods constituted the major source of income of the Group. The overall demand for the Group's inventories shrank over the past year and therefore the Group had to dispose of its inventories at a loss. Geographical markets are mainly in Hong Kong while in last year were in Hong Kong and the PRC.

CONTINGENT LIABILITIES

As at 31 December 2002, the Company had contingent liabilities in respect of (i) corporate guarantees to banks for banking facilities granted to the Group and (ii) guarantees for the due performance of its certain subsidiaries in respect of the obligations under finance leases and the convertible notes to Nortel Networks.

CHARGE OF ASSETS

As at 31 December 2002, the Group's investment property with a book value of HK$13,500,000 was pledged to a bank to secure a mortgage loan and other banking facilities to the extent of approximately HK$25.3 million. The bank has issued a writ against the Group in respect of these banking facilities as stated in item (b) under the heading of "Litigations".

LITIGATIONS

As at the date of this report, the Group has been involved in unsettled or outstanding major claims and writs with details as follows:–

(a) On 11 March 2002, a writ under HCA 956/2002 was issued, amended on 22 August 2002 and further amended on 24 October 2002 by The Center (65) Limited ("The Center (65)") against three direct or indirect wholly-owned subsidiaries of the Company, namely DigiTel Group (BVI) Limited (formerly known as DigiTel Group Limited, a company incorporated in the British Virgin Islands) ("DGL"), Regal Policy Limited ("Regal Policy"), and Just Growth Investments Limited ("Just Growth") and one associate, Asia Tech Holdings Limited ("Asia Tech") (collectively, the "Defendants").

    The Center (65) claimed against Regal Policy for alleged failure to pay (i) a sum of HK$787,611.17 being the arrears of rent, air conditioning and management charges, rates and government rents up to 31 March 2002, (ii) another sum of HK$403,240.28 (after deducting the 3-month rental deposit) due to the withdrawal of rent free period of 5 months, (iii) a monthly sum of HK$317,410.00 being the rent or mesne profits, HK$49,637.50 per month being air-conditioning charges and management charges, government rates at the quarterly rate of HK$27,150.00 and government rent at the quarterly rate of HK$16,290.00 from 1 April 2002 up to the date of delivery of vacant possession; and (iv) other damages pursuant to the related tenancy agreement entered into between The Center (65) and Regal Policy on 16 May 2000 (the "First Tenancy Agreement") in respect of Units 6507-6510, 65th Floor, The Center, Central, Hong Kong (the "First Premises"). The Center (65) also claimed against Asia Tech, DGL and Just Growth as the guarantors in respect of the obligations of Regal Policy under the First Tenancy Agreement. A re-amended defence was filed by the Defendants on 7 November 2002. Vacant possession of the First Premises has been delivered to The Center (65) on 9 May 2002. The Group has settled all rental payment to The Center (65) under the First Tenancy Agreement up to 31 March 2002 and its 3-month rental deposit of HK$1,177,325.00 for the First Premises is being retained by The Center (65). The Group, therefore, does not consider that it has material obligations to pay any further sums to The Center (65).

(b) On 31 May 2002, a writ was issued by Industrial and Commercial Bank of China (Asia) Limited ("ICBC") against DigiTel Communication (Asia) Limited ("DCAL"), Lit Cheong DigiTel Limited ("LC DigiTel") and Goway Investments Limited ("Goway"), (collectively the "Defendant Subsidiaries", all being indirect wholly-owned subsidiaries of the Company) to claim for repayment of banking facilities granted to them (the "Facilities") in the sum of US$1,264,128.35 (approximately HK$9,860,201.13) and HK$15,331,361.00 and against the Company as the guarantor for the Defendant Subsidiaries (together, the "Defendant Companies"). Pursuant to a legal charge dated 29 March 2000 (the "Legal Charge"), the Facilities were further secured by an investment property located in Admiralty, Hong Kong (the "Investment Property") owned by Goway, the market value of which (based on a valuation report prepared by an independent valuer) as at 31 December 2002 was HK$13.5 million. On 16 July 2002, the Company received a letter from Deloitte Touche Tohmatsu, who informed the Company that by virtue of the powers under the Legal Charge, two of their employees were appointed as receivers and managers (the "First Receivers") by ICBC in respect of the Investment Property. The Investment Property was put on public auction on 18 September 2002 by the First Receivers but was not disposed of at the auction as the reserve price was not met. On 17 October 2002, summary judgement was entered against DCAL, Goway and the Company but dismissed against LC DigiTel. After lengthy negotiation, judgement was eventually entered by consent against all the Defendant Companies on 19 November 2002.

(c) On 1 June 2002, a writ under DCCJ 3361/2002 was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for alleged 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 denies all the allegations. No further action has been taken by either party thereafter.

(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. 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 are set out in the announcement of the Company dated 7 December 2001; and for failure by the Company to make payments pursuant to a subscription agreement dated 23 March 2001 between the Plaintiffs and the Company, details of which are set out in the announcement of the Company dated 23 March 2001 and 3 April 2001. Summary judgement was entered against the Company on 26 August 2002. The Company filed an appeal on 5 September 2002, which has been adjourned until restoration. The court has further granted the Company a stay of execution of the judgement on 7 October 2002. Provision of HK$12,948,000,000.00 was made in the accounts, the remaining balance was the overdue interest charged for the period after 31 December 2002.

(e) On 5 July 2002, a writ under HCA 2604/2002 was issued by Compaq Financial Services (Hong Kong) Limited ("Compaq Finance") (now known as HP Financial Services (Hong Kong) Limited) against the Company in respect of leasing computer equipment for the period from 1 March 2002 to 30 August 2003 under a master lease agreement dated 25 September 2000 (the "Master Lease Agreement"). As pleaded in the statement of claim dated 5 July 2002 and subsequently amended on 12 September 2002, Compaq Finance claimed against iGreatLink.com Limited ("iGreatLink") a sum of HK$8,662,884.49, as the principal debtor under the Master Lease Agreement and the Company as the guarantor under two guarantees provided by the Company to Compaq Finance to guarantee the performance and payment obligations of iGreatLink. Compaq Finance repossessed the computer equipment on 17 May 2002. The Company filed its defence on 13 August 2002 and amended defence on 26 September 2002.

(f) On 19 August 2002, iGreatLink received a letter from Baker Tilly informing the Group that pursuant to a Deed of Charge entered into between iGreatLink and Nortel Networks (Asia) Limited ("Nortel Networks") on 23 August 2000, Nortel Networks has appointed an employee of Baker Tilly to be the receiver and manager ("Second Receiver") of the Group's certain network equipment. Pursuant to the facility agreement dated 23 August 2000, the said equipment was purchased by iGreatLink and was financed partly by cash and partly by the issue of convertible notes by iGreatLink to Nortel Networks whereby title will only pass upon the repayment by iGreatLink of the principal amount of the convertible notes. The equipment was re-possessed by Nortel Networks and the Group is currently negotiating with Nortel Networks for settlement of the outstanding indebtedness of US$738,508.16 (approximately HK$5,760,363.65). The Company, DCAL and Corp2net.com Limited, a wholly owned subsidiary of the Company, are the guarantors to Nortel Networks in respect of the obligations of iGreatLink to Nortel Networks.

(g) On 2 September 2002, a writ under HCA 3356/2002 was issued by The Center (43) Limited ("The Center (43)") against Regal Policy. The Center (43) claimed against Regal Policy for alleged failure to pay rent for the period from 1 June 2002 to the expiry date under the tenancy agreement between The Center (43) and Regal Policy dated 18 April 2000 in respect of the premises located in 43rd Floor, The Center, 99 Queen's Road, Central, Hong Kong ("Second Premises"). The amount claimed against Regal Policy is HK$4,398,421.89. Regal Policy filed its defence on 27 September 2002, denying such claim at all. Vacant possession of the Second Premises was delivered on 1 August 2002 and the Group does not consider that it has material obligations to pay any further sums to The Center (43).

(h) On 2 September 2002, DCAL received a demand issued by the Inland Revenue Department ("IRD") for the sum of HK$340,619.00 being profits tax for the year 2000/01. On or about 17 January 2003, a writ under DCTC 5363/2002, amended on 17 December 2002, was served by the IRD on DCAL for the same amount. Summary judgment was subsequently entered on 23 April 2003 against DCAL for a judgment debt of $309,829.83 together with interest and legal costs.

(i) On 18 September 2002, a writ under HCA 3579/2002 was issued by First Shanghai Capital Limited ("FSCL") against the Company. FSCL claimed against the Company a total sum of HK$698,333.33 for failure to pay its monthly retainer fees for the period from 1 August 2001 to 17 September 2002 and advisory fees. The Company filed its defence on 11 October 2002, denying such claim at all. Such action is in the course of setting down for trial.

(j) On 24 September 2002, the Company received a demand (the "Demand") issued by Key Equipment Finance Asia Limited ("KEF") demanding payment for the purported sum of US$503,087.30 (approximately HK$3,924,080.94) pursuant to a lease agreement between KEF and iGreatLink dated 22 June 2001 for lease of equipment; and a guarantee issued by the Company on 22 June 2001 in favour of KEF to guarantee the obligations of iGreatLink under the lease agreement. KEF repossessed the equipment on 12 September 2002.

(k) On 17 September 2002, a writ under DCCJ 5822/2002 was issued by MCI Worldcom Asia Pacific Limited claiming against DCAL for a sum of HK$70,885.84. Judgment was entered by consent on 16 October 2002.

(l) On 20 November 2002, The Bank of East Asia, Limited issued a writ under HCA 4392/2002 claiming against DCAL, LC DigiTel for an outstanding loan of HK$2,048,408.56 together with interests and against the Company as the guarantor therefore. A defence was filed on 17 December 2002. Judgement was entered by consent on 2 July 2003.

Apart from the specfic provisions disclosed above, full provsions for the actions against the Group was made in the accounts and there are no other material outstanding writs and litigations against the Group.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the year amounted to approximately HK$7.3 million (year ended 31 December 2001: HK$22.0 million). The decrease in staff costs was mainly due to the reduction of number of full-time employees from 58 (as at 31 December 2001) to 9 (as at 31 December 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 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, with the purpose to recognise the contribution of certain employees of the Group to the growth of the Group, 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 31 December 2002, there were 20,000,000 (as at 31 December 2001: 80,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme, with option period from 3 July 2000 to 2 July 2010. During the year, 60,000,000 outstanding share options were lapsed due to the resignation of a director and four 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, with the purpose of providing incentives, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price determined by the Directors and shall be no less than the higher of (i) the closing price of the shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one director or employee shall not be more than 25% of the number of shares in respect of all the options granted under the Share Option Scheme. A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant. No share options were granted under the Share Option Scheme since its adoption.

CHANGE OF AUDITORS

The accounts of the Company were jointly audited by Messrs. Pricewaterhouse Coopers and Messrs. Graham H. Y. Chan & Co. for the financial years ended 31 December 1999 and 2000. On 30 January 2002, Messrs. Pricewaterhouse Coopers and Messrs. Graham H. Y. Chan & Co. tendered their resignation as the auditors of the Company. On the same day, Messrs. RSM Nelson Wheeler were appointed as auditors of the Company for the audit of the accounts for the financial year ended 31 December 2001.

On 21 February 2003, Messrs. RSM Nelson Wheeler tendered their resignation as the auditors of the Company. On 30 April 2003, Messrs. Graham H. Y. Chan & Co. were appointed as the auditors of the Company for the audit of the accounts for the financial year ended 31 December 2002.

ADVANCE TO ENTITIES

Pursuant to rule 17.15 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Company or any of its subsidiaries exceeds 25% of the Group's net tangible assets. As at 31 December 2002, the net tangible assets of the Group is negative, therefore, the relevant disclosures are applicable as follows:

Trade receivables comprise the amount due from Jinjiang Electric Power Company as at 31 December 2002 amounted to approximately HK$381,000. The receivable represented the outstanding balance of the ATM project done by the Group to them in the ordinary course of business and on normal commercial terms. The amount was unsecured, interest free and was settled in full in July 2003.

Trade receivables also include rental income received by the receivers and managers of the investment property of the Group amounting to approximately HK$379,000. Such amount shall be applied for the settlement of the loans due to the mortgage bank.

Trade receivables also comprise an amount due from Vocom International Telecommunication Inc. as at 31 December 2002 amounted to HK$117,000 for the sale of equipment to them in the ordinary course of business and on normal commercial terms. The amount was unsecured, interest free, repayable on demand and was settled in full in March 2003.

Other receivables comprise the balance of the advance payment made to Guangzhou Rui Xin Communication Technology Company Limited and Quickline Limited as at 31 December 2002 amounted to HK$500,000 and HK$2,500,000 respectively. Both advances were made in connection with the development of an Internet access project in the PRC to secure relevant licences, undertake various feasibility studies and construct various facilities. Both amounts were unsecured, interest free, repayable on demand and were settled in full by May 2003.

All the above entities are independent third parties not connected with the Directors, chief executive, management shareholders or substantial shareholders of the Company or their respective associate as defined in the GEM Listing Rules.

USE OF PROCEEDS

The actual use of proceeds for the six months ended 31 December 2002 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 6 months ended 31 December 2002		From the date listed on GEM on 12 July 2000 to 31 December 2002	
	Proposed	**Actual**	**Proposed**	**Actual**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Research and development of web-based applications and software	2,700	–	18,600	9,210
Marketing and promotional activities	–	39	10,100	6,776
Enhancement of the internet infrastructure of the Group	4,500	–	25,400	11,138
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP businesses	–	–	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 business and the ASP business	–	–	10,000	7,000
	7,200	**39**	**76,600**	**53,074**

The proposed use of proceeds for the six months ended 31 December 2002 was HK$7.2 million, actual application of funds were HK$39,000. Owing to the downturn of the Internet businesses and the tight financial resources of the Group, the Directors have scaled down the operation activities of the Group and therefore, reduced the application of funds in these areas.

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. Continue to market its services to increase its coverage in the PRC and Far East Region.	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. Continue to explore business opportunities in the PRC market. The Group will seek to line up with banks in the PRC to launch a countrywide online payment system, and a delivery service. A PRC-based material trading database and online shop will also be launched.	The Group has ceased its operation in the ASP business due to the radical downturn of the global internet ASP market. As a result, the Group has neither lined up with banks in the PRC to launch a countrywide online payment system, and a delivery service nor launched a PRC-based material trading database and online shop.
2. Form alliances, joint ventures or partnerships to enter into the PRC market and carry out marketing strategies set in the period IV to increase awareness of the brand name in the PRC and to promote sales. More direct sales staff and authorized agents will be recruited and deployed to cities other than those mentioned above to accelerate market penetration and expansion. Attendance at exhibitions, trade fairs and seminars will also be held to maintain brand awareness.	The Group has ceased 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 government bureaux for its customized solution services business. The Group is still capable to contract projects by outsourcing part of the work 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 cost and overheads. The Group has attended exhibitions and trade fairs in the Guangdong Province and has held seminars to targeted customers in Guangdong and Anhui Provinces.

ISP

1.	Review and upgrade the ISP services in terms of speed, volume and quality of transmission through 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 ceased its ISP services in Hong Kong and the PRC in view of the radical freefall and the increasing competition of the ISP business. The Group will regularly review the market situation and look for any new business opportunities in future.
2.	Form alliances, joint ventures or acquisitions to enter into other markets such as the PRC and the Southeast Asia markets.	As mentioned above, the Group has ceased its ISP services in Hong Kong and the PRC. The Group has not expanded its business presence into the Southeast Asia market.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 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 interests	Number of shares of the Company
Mr. Lee Chuen Bit	Corporate *(note)*	643,242,469

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 RIGHT 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 year, no options were granted or exercised by the Directors and as at 31 December 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 SHAREHOLDERS

Other than the interests disclosed above in respect of directors, chief executive and their associates, as at 31 December 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 year ended 31 December 2002, 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 on GEM on 12 July 2000 and pursuant to Rule 6.59 of the GEM Listing Rules, First Shanghai Capital Limited ("First Shanghai") received a fee for acting as the company's retained sponsor for the period up to 31 December 2002. At 18 September 2002, First Shanghai terminated its role as a sponsor under Rule 6.61 of the GEM Listing Rules and the post remained outstanding up to 31 December 2002.

COMPETING INTEREST

The Directors are not aware of, as at 31 December 2002, 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2002.

AUDIT COMMITTEE

In compliance with Rule 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 audit committee met 4 times during the current financial year. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

By Order of the Board
Lee Chuen Bit
Chairman

Hong Kong, 5 August 2003

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