

DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)



1st Quarterly Report 2003

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

Stock Code : 8030

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This document, for which the directors of DigiTel Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- The Group's turnover was approximately HK\$0.79 million.
- Loss attributable to shareholders was approximately HK\$2.97 million.
- The Directors do not recommend the payment of an interim dividend.

RESULTS

The Directors announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months (the "Three-Month Period") ended 31 March 2003, together with the comparative unaudited figures for the corresponding period as follows:

		For the three months ended 31 March	
		2003	2002
	Note	HK\$'000	HK\$'000
Turnover	2	793	628
Cost of sales		(691)	(258)
Gross profit		102	370
Other revenues		50	601
Administrative expenses		(2,516)	(11,051)
Operating loss		(2,364)	(10,080)
Finance costs		(610)	(991)
Loss before taxation		(2,974)	(11,071)
Taxation	3	-	-
Loss attributable to shareholders		(2,974)	(11,071)
Loss per share	5		
Basic (cents)		(0.261)	(1.064)

Notes:

1. Basis of preparation

The results 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.

2. Turnover

The Group's turnover by principal activities is analysed as follows:

	For the three months ended	
	31 March	
	2003	2002
	HK\$'000	HK\$'000
Customized solution services income	—	537
Sale of goods at invoiced value, net of returns and discounts	509	83
Web application services income	—	8
Rental income	284	—
	<u>793</u>	<u>628</u>

3. Taxation

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 during the periods as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

No potential deferred tax assets have been made during the periods as it is uncertain whether the amounts will crystallise in the foreseeable future.

4. Dividend

The Directors do not recommend the payment of an interim dividend for ordinary shares for the Three-Month Period (2002: Nil).

5. Loss per share

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

	For the three months ended 31 March	
	2003	2002
	HK\$'000	HK\$'000
Loss		
Net loss for the period	2,974	11,071
Number of shares		
Weighted average number of shares for the purpose of basic loss per share	1,140,730,792	1,040,730,792
Loss per share		
Basic (cents)	0.261	1.064

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 periods had been presented.

6. Reserves

	Share premium account <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserve on consolidation <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2003	36,247	(262,935)	59,368	(67)	(167,387)
Loss for the three months ended 31 March 2003	—	(2,974)	—	—	(2,974)
As at 31 March 2003	36,247	(265,909)	59,368	(67)	(170,361)
As at 1 January 2002	36,533	(100,934)	59,368	(67)	(5,100)
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)

7. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of system integration in networking services for the Hong Kong and PRC markets. During the Three-Month Period, the Group has jointly worked with other business partners for the joint marketing of system integration services in Guangdong and Anhui provinces. The Group has regular contacts with its existing customers with a view to secure on-going parts supply contracts and network expansion contracts. The Group also intends to provide networking services for education institutions and property management companies in the PRC. Though the Group has not concluded any significant contracts, the Group will continue its marketing activities and will continue to source new products for sales.

The Group currently has insufficient financial resources to meet the short-term liabilities which is due for repayable. 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 to normal operation.

FINANCIAL REVIEW

For the Three-Month Period, the Group turnover was HK\$0.79 million, representing a 25% increase from HK\$0.63 million for the same period in 2002. The Group recorded a loss attributable to shareholders HK\$2.97 million for the Three-Month Period, which shows an improvement as compared to the loss attributable to shareholders HK\$11.07 million recorded in the corresponding period in 2002.

Turnover mainly comprised sales of trading stock HK\$0.51 million and rental income of HK\$0.28 million. The depressed telecom and internet market for the past years has reduced the overall demand for the inventories currently kept by the Group and accordingly, the Group had to dispose of its inventories at a price substantial lower than the original purchasing price.

The administrative expenses for the Three-Month Period were HK\$2.52 million, being reduced by 77% as compared to the corresponding period in 2002. The administrative expenses mainly comprises of employee remunerations, legal and professional fee and marketing expenses.

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 rent 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\$12,948,000.00 was made in the accounts, the remaining balance was the overdue interest charged to 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 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 and 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 specific provisions disclosed above, full provisions from the actions against the Group was made in the accounts and there are no other material outstanding writs and litigations against the Group.

ADVANCE TO ENTITIES

Pursuant to rules 17.15 and 17.16 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Company or any 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 since the date of publication of the 2002 annual results on 5 August 2003. Details of the advances as at 31 March 2003 are as follows:

Trade receivables comprise the amount due from Jinjiang Electric Power Company of 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 the amount due from Nanhai City Tuo Wei Network Information Limited of approximately HK\$64,000. The amount represented the sale of inventories to them in the ordinary course of business and on normal commercial terms. The amount was unsecured and interest free. The amount is expected to be settled in the second half of 2003.

Trade receivables also include rental income received by the receivers and managers of the investment property of the Group amounting to approximately HK\$376,000. Such amount shall be applied for the settlement of the loans due to the mortgage bank.

Other receivables comprise the balance of the advance payment made to Guangzhou Rui Xin Communication Technology Company Limited and Quickline Limited 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 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.

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 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 March 2003, there were 20,000,000 outstanding share options granted under the Pre-IPO Share Option Scheme, with option period from 3 July 2000 to 2 July 2010. 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. The maximum number of shares in respect of which options may be granted to any one director or employee shall not be more than 25% of the number of shares in respect of all the options granted under the Share Option Scheme. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant. No share options were granted under the Share Option Scheme since its adoption.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 March 2003, 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 (<i>note</i>)	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 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 Three-Month Period, no options were granted or exercised by the Directors and as at 31 March 2003, 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 31 March 2003, 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 Three-Month Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTEREST

The Directors are not aware of, as at 31 March 2003, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

In compliance with rules 5.23 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'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, 13 August 2003