

DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)



Interim Report 2003

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

Stock Code : 8030

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HIGHLIGHTS FOR THE INTERIM RESULTS

- The Group's turnover was approximately HK\$2.1 million.
- Loss attributable to shareholders was approximately HK\$4.5 million.
- The Directors do not recommend the payment of an interim dividend.

RESULTS

The Directors announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months (the "Interim Period") and the three months (the "Three-Month Period") ended 30 June 2003 together with the comparative unaudited figures for the corresponding period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
		2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	1,278	2,992	2,071	3,809
Cost of sales		(1,274)	(3,367)	(1,965)	(3,625)
Gross profit/(loss)		4	(375)	106	184
Other revenues		238	269	288	681
Administrative expenses		(1,513)	(11,485)	(4,029)	(22,536)
Recovery of impairment of investment securities		211	–	211	–
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	(1,060)	(33,693)	(3,424)	(43,773)
Finance costs		(462)	(3,832)	(1,072)	(4,823)
Loss before taxation		(1,522)	(37,525)	(4,496)	(48,596)
Taxation	5	–	–	–	–
Loss attributable to shareholders		(1,522)	(37,525)	(4,496)	(48,596)
Loss per share	7				
Basic (cents)		(0.133)	(3.477)	(0.394)	(4.584)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2003	(Audited) 31 December 2002
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Fixed assets		13,655	13,703
Current assets			
Inventories		765	991
Trade and other receivables	8	939	4,131
Cash and bank balances		214	466
		1,918	5,588
Current liabilities			
Trade and other payables	9	15,235	14,837
Borrowings – current portion	10	26,465	26,474
Convertible debentures		10,140	10,140
Provision for taxation		1,083	1,082
Trust receipt loans, secured		9,946	9,946
Bank overdrafts, secured		10,490	10,091
		73,359	72,570
Net current liabilities		(71,441)	(66,982)
Total assets less current liabilities		(57,786)	(53,279)
Non-current liabilities			
Borrowings – long term portion	10	(24)	(35)
NET LIABILITIES		(57,810)	(53,314)
CAPITAL AND RESERVES			
Share capital	11	114,073	114,073
Reserves	12	(171,883)	(167,387)
CAPITAL DEFICIENCY		(57,810)	(53,314)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Accumulated losses	Capital reserve on consolidation	Exchange reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2002	104,073	36,533	(100,934)	59,368	(65)	98,975
Issuance of shares	10,000	-	-	-	-	10,000
Share issuance expenses	-	(286)	-	-	-	(286)
Exchange realignment	-	-	-	-	(2)	(2)
Loss for the year	-	-	(162,001)	-	-	(162,001)
As at 31 December 2002 (Audited)	114,073	36,247	(262,935)	59,368	(67)	(53,314)
Loss for the Interim Period	-	-	(4,496)	-	-	(4,496)
As at 30 June 2003 (Unaudited)	114,073	36,247	(267,431)	59,368	(67)	(57,810)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited)

For the six months ended

	30 June 2003 <i>HK\$'000</i>	30 June 2002 <i>HK\$'000</i>
Net cash outflow from operating activities	(658)	(10,382)
Net cash inflow from investing activities	27	766
Net cash (outflow)/inflow from financing activities	(20)	11,447
Decrease in cash and cash equivalents	(651)	1,831
Cash and cash equivalents at beginning of period	(19,571)	(20,913)
Cash and cash equivalents at end of period	<u>(20,222)</u>	<u>(19,082)</u>
Analysis of balance of cash and cash equivalents:-		
Bank and cash balance	214	634
Bank overdrafts, secured	(10,490)	(9,954)
Trust receipt loans, secured	(9,946)	(9,762)
	<u>(20,222)</u>	<u>(19,082)</u>

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, 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 2002.

2. Turnover

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

	(Unaudited)		(Unaudited)	
	For the three months ended		For the six months ended	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Customized solution services income	-	38	-	575
Web application services income	-	-	-	8
Sale of goods at invoiced value, net of returns and discounts	1,183	2,669	1,692	2,752
Rental income	95	285	379	474
	<u>1,278</u>	<u>2,992</u>	<u>2,071</u>	<u>3,809</u>

3. Segmental information

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

For the six months ended 30 June 2003

	System integration contracts <i>HK\$'000</i>	Sale of goods <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	<u>–</u>	<u>1,692</u>	<u>379</u>	<u>2,071</u>
RESULT				
Segment result	<u>(65)</u>	<u>(2,374)</u>	<u>(177)</u>	<u>(2,616)</u>
Other revenues				288
Unallocated expenses				<u>(1,096)</u>
Loss from operations				(3,424)
Finance costs				<u>(1,072)</u>
Loss before taxation				(4,496)
Taxation				<u>–</u>
Loss after taxation				<u>(4,496)</u>

For the six months ended 30 June 2002

	System integration contracts <i>HK\$'000</i>	Sale of goods <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	–	2,752	1,057	3,809
RESULT				
Segment result	(3,192)	(14,142)	(16,277)	(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)

4. Operating loss

The operating loss is stated after charging the following:–

	(Unaudited)		(Unaudited)	
	For the three months ended		For the six months ended	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of sales	1,273	3,365	1,965	3,625
Depreciation				
– leased fixed assets	3	983	6	2,142
– owned fixed assets	18	745	53	2,005
Loss on disposal of fixed assets	–	10,636	–	10,843
Net exchange losses	52	8	438	36
Operating leases rental – land and buildings	55	3,562	89	6,672
Provision for bad debts	–	837	–	837
Staff costs (excluding directors' remuneration)	383	–	752	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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

6. Dividend

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

7. Loss per share

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

	(Unaudited)		(Unaudited)	
	For the three months ended		For the six months ended	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss				
Net loss for the period	1,522	37,525	4,496	48,596
Number of shares				
Weighted average number of shares for the purpose of basic loss per share	1,140,730,792	1,079,192,330	1,140,730,792	1,060,067,809
Loss per share				
Basic (cents)	0.133	3.477	0.394	4.584

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.

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) 30 June 2003 <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i>
Trade receivables		
0 to 30 days	–	–
31 to 60 days	102	95
61 to 90 days	95	95
91 to 120 days	–	95
Over 120 days	669	592
	<hr/>	<hr/>
Total trade receivables	866	877
Other receivables	8	3,000
Prepayments and deposits	65	254
	<hr/>	<hr/>
	939	4,131
	<hr/> <hr/>	<hr/> <hr/>

9. Trade and other payables

The aging analysis of trade payables is as follows:

	(Unaudited) 30 June 2003 <i>HK\$'000</i>	(Audited) 31 December 2002 <i>HK\$'000</i>
Trade payables		
0 to 30 days	–	51
31 to 60 days	–	–
61 to 90 days	–	232
91 to 120 days	–	–
Over 120 days	<u>1,946</u>	<u>1,856</u>
Total trade payables	<u>1,946</u>	<u>2,139</u>
Other payables	<u>13,289</u>	<u>12,698</u>
	<u><u>15,235</u></u>	<u><u>14,837</u></u>

10. Borrowings

	(Unaudited) As at 30 June 2003 <i>HK\$'000</i>	(Audited) As at 31 December 2002 <i>HK\$'000</i>
Bank loans – secured	7,157	7,161
Other loans – unsecured	2,900	2,900
Convertible notes – secured	5,643	5,643
Obligations under finance leases	<u>10,789</u>	<u>10,805</u>
	<u><u>26,489</u></u>	<u><u>26,509</u></u>
Repayable as:		
Within one year	26,465	26,474
In the second year	24	35
In the third to fifth year	–	–
	<u><u>26,489</u></u>	<u><u>26,509</u></u>

11. Share capital

	(Unaudited)		(Audited)	
	30 June 2003		31 December 2002	
	Number of shares	Nominal value <i>HK\$'000</i>	Number of shares	Nominal value <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.10 each	<u>10,000,000,000</u>	<u>1,000,000</u>	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
As at 1 January	1,140,730,792	114,073	1,040,730,792	104,073
Shares issued during the period/year	–	–	100,000,000	10,000
As at 30 June 2003/ 31 December 2002	<u>1,140,730,792</u>	<u>114,073</u>	<u>1,140,730,792</u>	<u>114,073</u>

12. Reserves

	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
As at 1 January 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)
Loss for the Three-Month Period	–	(1,522)	–	–	(1,522)
As at 30 June 2003 (Unaudited)	36,247	(267,431)	59,368	(67)	(171,882)
As at 1 January 2002	36,533	(100,934)	59,368	(65)	(5,098)
Exchange realignment	–	–	–	(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 months ended 31 June 2002	–	(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 Group is principally engaged in the provision of system integration in networking services for the Hong Kong and PRC markets. During the Interim 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 parts supply contracts and network expansion contracts. In addition to the power supply sector in the PRC which the Group has already established long-term business relationship, 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.

During the Interim Period, the Group has jointly worked with a PRC-based company for the marketing of system integration service to customers located in Guangzhou, Zhongshan and Foshan respectively. The services are mainly for the equipment supply and installation of ATM and IP network. In addition, in May 2003, the Group also jointly worked with another PRC-based networking company to bid for the tender of the Anhui Education Institution Project. The tender is for the construction of an intranet for the higher schools and education institutions in Anhui Province. The contract sum is approximately HK\$10 million. The Group together with the PRC-based networking company has provided several rounds of technical presentation to the customer to explain for the network design and equipment features but finally the Group together with the PRC-based networking company has not been selected by the customer.

In June 2003, the Group entered into a non-exclusive distribution agreement with an equipment supplier for sales of narrow band equipment in the territory of China for a period of one year, which is capable of renewal in accordance with the provisions of the agreement. The Group is also under negotiation with one enterprise solutions company and one network security company with a view to act as their non-exclusive distributor in China. The Group will continue to source new products in order to broaden its products range and enhance its service array.

FINANCIAL REVIEW

For the Interim Period, the Group turnover was HK\$2.1 million, representing a 45% decrease from HK\$3.8 million for the same period in 2002. The Group recorded a loss attributable to shareholders HK\$4.5 million for the Interim Period, which shows an improvement as compared to the loss attributable to shareholders HK\$48.6 million recorded in the corresponding period in 2002.

Turnover mainly comprised sales of trading stock HK\$1.7 million and rental income of HK\$0.4 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 Interim Period were HK\$4.0 million, being reduced by 82% as compared to the corresponding period in 2002. The administrative expenses mainly comprises of employee remunerations, legal and professional fee and marketing expenses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had total assets of approximately HK\$15.6 million (as at 31 December 2002: HK\$19.3 million), including cash and bank balances of HK\$0.2 million (as at 31 December 2002 : HK\$0.5 million).

Bank overdrafts, trust receipt loans and mortgage loan as at 30 June 2003 were approximately HK\$10.5 million, HK\$9.9 million and HK\$7.2 million respectively (as at 31 December 2002: approximately HK\$10.1 million, HK\$9.9 million and HK\$7.2 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 banking facilities as at 30 June 2003.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 30 June 2003 was not applicable as the Group suffered capital deficiency in this period (as at 31 December 2002: Not applicable).

Almost all of the Group's cash is in Hong Kong dollars, the exposure to exchange fluctuation is minimal. Since most of the transactions of the Group were denominated in Hong Kong dollars 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.

Apart from intra-group liabilities and trade and other payables, as at 30 June 2003, the amount of short-term bank and other borrowings of the Group which will be repayable within a year was about HK\$57.0 million (as at 31 December 2002: HK\$56.7 million) and the amount of long-term liabilities which will be repayable after more than a year was HK\$24,000 (as at 31 December 2002: HK\$35,000).

The Group currently has insufficient working capital to meet the short-term liabilities which are 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 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 Interim Period, the Group did not acquire or dispose of any material investments or subsidiaries.

SEGMENTAL INFORMATION

During the Interim Period, the Group has not concluded any system integration contract and the sale of goods constitutes the major source of income of the Group. The overall demand for the Group's inventories has shrunken over the past year and therefore the Group had to dispose its inventories at a loss. Geographical markets are mainly in Hong Kong for the Interim Period and the corresponding period ended in 2002.

CONTINGENT LIABILITIES

As at 30 June 2003, 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 30 June 2003, 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 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. Judgment 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.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the Interim Period amounted to approximately HK\$1.7 million (six months ended 30 June 2002: HK\$4.9 million). The Group remunerates its employees based on their performance, experience and the prevailing industrial practice and has operated a defined contribution mandatory provident fund since 1 December 2000 and to which the Group makes contributions based on the relevant regulations.

SHARE OPTION 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 2003, there were 20,000,000 (as at 31 December 2002: 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.

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 30 June 2003 are as follows:

Trade receivables comprise the amount due from Jinjiang Electric Power Company amounted to approximately HK\$331,000. 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\$471,000. Such amount shall be applied for the settlement of the loans due to the mortgage bank.

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 13 August, 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules were as follows:

Long positions in shares

(a) The Company

Name	Type of interests	Number of shares of the Company	Percentage of issued shares
Mr. Lee Chuen Bit (Note 1)	Corporate	643,242,469	56.39%

Note 1

The shares of the Company are held by Lit Cheong Holdings Limited, the issued share capital of which is equally and beneficially held by the Grand Nature Trust ("GNT") and the Grand Will Trust.

Under the terms of GNT, certain members of the family of Mr. Lee Chuen Bit are potential capital beneficiaries of the trust (so that they may become capital beneficiaries of the trust). Mr. Lee Chuen Bit is not at present a potential capital beneficiary of GNT, but he is eligible to be declared as such pursuant to the existing provisions of the trust. Any of the potential capital beneficiaries may become a capital beneficiary if and when so declared as such pursuant to the applicable provisions of GNT, provided that he/she is not excluded under the provisions of the trust. Under the terms of the trust, the beneficiaries also include charities namely the Tung Wah Group of Hospitals, the Community Chest of Hong Kong, The Barbados Cancer Society and the Duke of Edinburgh's Award Scheme, if their respective purposes are recognized as exclusively charitable under Cayman Islands laws.

(b) Associated Corporations

No long positions of directors and chief executives in shares of associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules.

Long positions in underlying shares and debentures

No long positions of directors and chief executives in underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules.

Short positions in shares, underlying shares and debentures

No short positions of directors and chief executives in shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 13 August 2003, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO.

Long positions in shares

Name	Capacity	Type of interests	Number of shares of the Company	Percentage of issued shares
Lit Cheong Holdings Limited (Note 1 and 2)	Beneficial owner	Corporate	643,242,469	56.39%
Grand Nature (Cayman) Limited (Note 1)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Nature Corp (Note 1)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will (Cayman) Limited (Note 2)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Grand Will Limited (Note 2)	Interest of a controlled corporation	Corporate	643,242,469	56.39%
Royal Bank of Canada Trust Company (Cayman) Limited (Note 3)	Trustee	Corporate	643,242,469	56.39%
Mr. Ho Lok Cheung (Note 4)	Trustee	Personal	543,242,469	47.62%

Note 1

Grand Nature (Cayman) Limited holds 100% equity interests in Grand Nature Corp. Grand Nature Corp holds 50% equity interests in Lit Cheong Holdings Limited.

Note 2

Grand Will (Cayman) Limited holds 100% equity interests in Grand Will Limited. Grand Will Limited holds 50% equity interests in Lit Cheong Holdings Limited.

Note 3

Royal Bank of Canada Trust Company (Cayman) Limited is the trustee of Grand Nature (Cayman) Limited and Grand Will (Cayman) Limited.

Note 4

Mr. Ho Lok Cheong holds the shares of the Company for Lit Cheong Holdings Limited as its trustee.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares and underlying shares

No short positions of other persons and substantial shareholders in the shares and underlying shares of equity derivatives of the Company were recorded in the register.

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

Pursuant to the 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 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.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Interim Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTEREST

The Directors are not aware of, as at 30 June 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 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, 13 August 2003