



**DigiTel Group Limited**

(Incorporated in the Cayman Islands with limited liability)

Annual Report **2003**



## 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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.*

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# Corporate Information

## DIRECTORS

### *Executive Directors*

Mr. Lee Chuen Bit  
Mr. Hon Chak Sang

### *Independent Non-executive Directors*

Mr. Ho Chiu Kee  
Mr. Leung Ka Kui, Johnny

## AUTHORISED REPRESENTATIVES

Mr. Lee Chuen Bit  
Mr. Hon Chak Sang

## COMPANY SECRETARY

Mr. Ho Lok Cheong

## QUALIFIED ACCOUNTANT

Mr. Tam Tak Wah, *FCCA, FHKSA*

## COMPLIANCE OFFICER

Mr. Lee Chuen Bit

## AUDIT COMMITTEE

Mr. Ho Chiu Kee (*Chairman*)  
Mr. Leung Ka Kui, Johnny

## AUDITORS

GRAHAM H.Y. CHAN & CO.  
*Certified Public Accountants*  
Unit 1, 15/F, The Center  
99 Queen's Road Central  
Hong Kong

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Room 1408A, 14/F,  
West Tower, Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## COMPANY HOMEPAGE

<http://www.digitelgroup.com>

## PRINCIPAL BANKERS

Wing Hang Bank Limited  
B2 New Henry House  
10 Ice House Street  
Hong Kong

Wing Lung Bank Limited  
112 Connaught Road Central  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited  
P.O. Box 705  
Butterfield House  
Fort Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited  
Ground Floor  
Bank of East Asia  
Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## STOCK CODE

8030

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of DigiTel Group Limited (the "Company") will be held at Room 1609, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 10 May, 2004 at 3:00 p.m. for the following purposes:

- (1) To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors for the financial year ended 31 December 2003;
- (2) To re-elect the retiring director and to authorise the board of directors to fix the remuneration of the directors;
- (3) To re-appoint the auditors and to authorise the board of directors to fix their remuneration;
- (4) As special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

(A) **"THAT**

- (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers, be and the same is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of any securities which are convertible into shares of the Company or the exercise of options granted under any share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

# Notice of Annual General Meeting

- (iv) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.

"Rights Issue" means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(B) **"THAT**

- (i) subject to paragraph (ii) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to purchase issued shares in the capital of the Company on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which the Company is authorised to purchase pursuant to the approval in paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

# Notice of Annual General Meeting

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the date of passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting."

(C) **"THAT** conditional upon ordinary resolutions nos. 4(A) and 4(B) above being passed, the aggregate nominal amount of shares of the Company which are purchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 4(A) above."

(D) **"THAT** the directors of the Company be and hereby authorised to grant options under its share option scheme adopted on 30 June 2000 and any other share option scheme of the Company entitling participants to acquire shares of HK\$0.10 each in the share capital of the Company pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the Company at the date of the passing of this resolution."

(5) As special business, to consider and if thought fit, pass the following resolutions as special resolutions:

**"THAT** the articles of association of the Company be amended, which shall take effect on 31 March 2004, in the following aspects:

A. by adding the following definition in Article 2 immediately after the definition of "Articles":

"associate" the meaning attributed to it in the rules of the Designated Stock Exchange.

B. by deleting Article 76 and substituting thereof the following:

76. (1) No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

## Notice of Annual General Meeting

- (2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

C. by deleting Article 88 and substituting thereof the following:

88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

D. by deleting Article 103 and substituting thereof the following:

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:
- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
  - (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;



## Notice of Annual General Meeting

- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
  - (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are in aggregate beneficially interested in five (5) per cent. or more of the issued shares of any class or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
  - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the class of persons to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

## Notice of Annual General Meeting

- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

By Order of the Board  
**DigiTel Group Limited**  
**Lee Chuen Bit**  
*Chairman*

Hong Kong, 29 March 2004

*Registered office:*  
Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
British West Indies

*Principal place of business:*  
Room 1408A  
West Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

# Notice of Annual General Meeting

*Notes:*

- (i) A member is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority), must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) An Explanatory Statement containing further details regarding ordinary resolution no. 4(B) as required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange will be despatched to the members of the Company together with the 2003 annual report.



## Chairman's Statement

On behalf of the board of directors (the "Board") of DigiTel Group Limited (the "Company"), I am pleased to present to the shareholders the 2003 annual report of the Company and its subsidiaries (together the "Group").

The year 2003 has been a year of consolidation for the Group. After seriously hit by the burst of the Internet bubble in the previous years, the Group has been able to recover with cautious steps of progress. Under the stringent financial resources, the Group has re-defined its corporate strategies. By capturing its long-term business relationship with its customers in power plant, property management and networking industries, the Group will focus on business opportunities in these areas by providing consultancy, trading, system integration and maintenance services, in particular, in the field of energy saving, desulfuration of power plants and telecommunication networking.

The Group will position itself as a total solution service provider and will associate with its business partners with a view to accelerate its business expansion plan, increase its client base and widen its range of services. The Board will continue to negotiate with its creditors with a view to settle the claims and litigations so that the Group can re-track to its core business and generate value to shareholders.

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders, customers, banks, business partners, creditors for their understanding and support. In addition, I would like to make a special thank to the hardworking staff of the Group for their dedication and enthusiasm during this year.

**Lee Chuen Bit**

*Chairman*

Hong Kong, 29 March 2004

# Management Discussion and Analysis

## BUSINESS REVIEW AND OUTLOOK

During the year under review, the Group engaged in the trading of network equipment, system integration service and consultancy service for Hong Kong and the PRC market. The Group has strategically allied with its business partners for joint marketing and promotion. This is essential given the fact that the Group has maintained a small but efficient marketing team.

The radical downturn of the Internet business and the telecommunication markets in previous years has worsen the financial position of the Group. The tight cash flow position of the Group has resulted in less business activities being conducted. However, the Group is actively looking for new business opportunities in the PRC and Hong Kong through its established business network and business partners.

The Group foresees that the competition in network equipment will continue to be keen. In view of this, the Group has broadened its customer base from power supply and telecommunication industries into other sectors. The Group has identified the building automation system for the commercial and residential buildings in Hong Kong as an area with prospects. The Group has developed a series of solutions for the enhancement of the overall efficiency in electricity utilization which would reduce the electricity consumption in the public area of the buildings thereby reducing the electricity costs.

## FINANCIAL REVIEW

For the year 2003, the Group's turnover was approximately HK\$3.4 million, representing a 56% decrease from approximately HK\$7.7 million for the year 2002. The Group recorded a loss attributable to shareholders approximately HK\$6.9 million for the year 2003, a 96% improvement, as compared to the loss of approximately HK\$162.0 million for the year 2002.

Turnover for the year 2003 mainly comprised trading of network equipment of approximately HK\$1.7 million, system integration service of approximately HK\$0.9 million and rental income of approximately HK\$0.8 million.

Though the selling and administration expenses of the Group has been reduced to approximately HK\$6.1 million as compared to approximately HK\$28.3 million in the year 2002, the operating results of the year 2003 was a loss of approximately HK\$5.0 million.

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group had total assets of approximately HK\$2.5 million (as at 31 December 2002: approximately HK\$19.3 million), including cash and bank balances of approximately HK\$0.7 million (as at 31 December 2002 : approximately HK\$0.5 million).

Bank overdrafts and trust receipt loans as at 31 December 2003 were approximately HK\$10.9 million and HK\$7.2 million respectively (as at 31 December 2002: approximately HK\$10.1 million and HK\$9.9 million respectively). All the bank borrowings were secured by the corporate guarantees given by the Company.

The Group's borrowings were mainly in Hong Kong dollars. The Group did not have any unutilised banking facilities as at 31 December 2003.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group was not applicable as the Group suffered capital deficiency in both 31 December 2003 and 31 December 2002.

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 31 December 2003, the amount of short-term bank and other borrowings of the Group which will be repayable within one year was approximately HK\$48.0 million (as at 31 December 2002: approximately HK\$56.7 million) and the amount of long-term liabilities which will be repayable after more than one year was approximately HK\$16,000 (as at 31 December 2002: approximately HK\$35,000).

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.

# Management Discussion and Analysis

## SEGMENTAL INFORMATION

During the year, the sale of communication and network equipment and the system integration service constitute the major source of income of the Group. Geographical markets are mainly in the PRC while in last year were in Hong Kong.

## CONTINGENT LIABILITIES

As at 31 December 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 31 December 2003, there was no charge of assets.

## LITIGATIONS

As at the date of this report, the Group has been involved in material outstanding claims and litigations with details as follows:-

*Litigations and claims involved the Company and/or its subsidiaries and/or associated companies*

- (a) On 1 June 2002, a writ was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for the outstanding printing charges of approximately HK\$0.16 million. The Company filed a defence on 26 June 2002 which denies all the allegations. No further action has been taken by either party thereafter.
- (b) On 26 June 2002, a writ was issued by Strong River Investments Incorporated and Montrose Investments Limited (the "Plaintiffs") against the Company for redemption payments in the sum of US\$1.66 million pursuant to a redemption agreement dated 3 December 2001 together with interest thereon. Summary judgment was granted against the Company on 26 August 2002 for (i) US\$1.66 million and (ii) interest on US\$1.66 million at 18% per annum from 7 March 2002 until 26 August 2002 and thereafter at the judgment rate until payment. On 7 October 2002, a stay of execution was granted by the court.

## Management Discussion and Analysis

- (c) On 19 August 2002, Nortel Networks (Asia) Limited ("Nortel Networks") appointed receiver and manager for the Group's certain network equipment purchased from Nortel Networks. The corresponding equipment was repossessed by Nortel Networks and the outstanding indebtedness was approximately US\$0.74 million of which the Company and two wholly owned subsidiaries are guarantors.
- (d) On 24 September 2002, Key Equipment Finance Asia Limited ("KEF") issued a statutory demand for lease payment in the sum of approximately US\$0.50 million. The Company is a guarantor for the lease agreement. KEF repossessed the equipment on 12 September 2002.

*Litigations and claims not involved the Company but involved the Company's subsidiaries and/or associated companies*

- (e) On 11 March 2002, a writ was issued, amended on 22 August 2002 and further amended on 24 October 2002 by The Center (65) Limited ("The Center (65)") against three wholly owned subsidiaries of the Company and one associated company of the Group (collectively "the Defendants") for the unpaid rent, other charges and damages for the previous office of the Defendants in an aggregate sum of approximately HK\$1.95 million. The Group has settled all rental payment up to 31 March 2002, delivered vacant possession on 9 May 2002 and its 3-month rental deposit of approximately HK\$1.18 million is being retained by The Center (65). The Group, therefore, does not consider that it has material obligation to pay any further sum to The Center (65). No further action has been taken by either party thereafter.
- (f) On 2 September 2002, a writ was issued by The Center (43) Limited ("The Center (43)") against Regal Policy Limited, a wholly owned subsidiary of the Company for outstanding rent of approximately HK\$4.4 million for the period from 1 June 2002 to the expiry date under the tenancy agreement dated 18 April 2000. Regal Policy Limited filed its defence on 27 September 2002, denying the claim. Vacant possession was delivered on 1 August 2002. No further action has been taken by either party thereafter.
- (g) On or about 17 January 2003, a writ was issued by the Inland Revenue Department to DigiTel Communication (Asia) Limited ("DCAL") for the sum of approximately HK\$0.34 million, being profits tax for the year 2000/01. Summary judgment was entered on 23 April 2003 against DCAL for a judgment debt of \$309,829.83 together with interest and legal costs. No further action has been taken by either party thereafter.

Apart from the actions against the Group disclosed above, there are no other material outstanding claims and litigations against the Group.



# Management Discussion and Analysis

## EMPLOYEES

The total employees' remuneration, including that of the Directors, for the year amounted to approximately HK\$3.0 million (year ended 31 December 2002: approximately HK\$7.3 million). The full-time employees as at 31 December 2003 was 9 (as 31 December 2002 : 9). 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, 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 2003, there were 20,000,000 (as at 31 December 2002: 20,000,000) outstanding share options granted under the Pre-IPO Share Options 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, 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. 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.



# Management Discussion and Analysis

## 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 its subsidiaries exceeds 25% of the Group's net tangible assets. As at 31 December 2003, the net tangible assets of the Group is negative, therefore, the relevant disclosures are applicable as follows:

Trade receivable represents rental income received by the receivers and managers of the investment property of the Group amounting to approximately HK\$850,000. Such amount has been applied for the settlement of the outstanding amount due to the mortgagee bank subsequently to the year end date.

The trade receivable is an independent third party 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.

# Biographical Details of Directors and Senior Management

## DIRECTORS

### *Executive Directors*

#### **Mr. Lee Chuen Bit**

Mr. Lee, aged 50, is the Chairman of the Board and founder of the Group. He has over 18 years of experience in the management of infrastructure-related companies. He holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. Mr. Lee has extensive experience in the management in the information technology, telecommunication and power plant companies in Hong Kong and the PRC.

#### **Mr. Hon Chak Sang**

Mr. Hon, aged 51. He has extensive experience in project negotiation and management. He graduated from the Chinese University of Hong Kong with a Bachelor of Social Science (Economics) degree. He had worked for 2 international insurance companies for over 20 years. He worked for Lit Cheong Group, a privately owned group of companies which is principally engaged in power engineering related business in the PRC for over 5 years as senior manager and responsible for project execution and management. He was previously the project director of the Group for the period from February 2000 to November 2001 and re-joined the Group in September 2002.

### *Non-executive Directors*

#### **Mr. Leung Ka Kui, Johnny**

Mr. Leung, aged 46, was appointed as an independent non-executive director in June 2000. He has over 18 years of experience in legal field and is the managing partner of Messrs. Johnny K. K. Leung & Co., Solicitors and Notaries. He is a qualified solicitor in Hong Kong, England & Wales and Singapore, and is a Notary Public and China Appointed Attesting Officer. He holds a Bachelor of Laws from the University of London, United Kingdom. He is an independent non-executive director of Cardlink Technology Group Limited, Celestial Asia Securities Holdings Limited and Jackin International Holdings Limited. He was a director of Yan Chai Hospital for the years from 1997 to 2000, a consultant to the board of directors of Yan Chai Hospital for the years from 2000 to 2001 and was the president of Rotary Club of Kwai Chung for the years from 1997 to 1998.

#### **Mr Ho Chiu Kee**

Mr. Ho, aged 51, was appointed as an independent non-executive director in June 2000. He has over 25 years of experience in management and administration. He is the managing director of Guardian Group, the immediate past president of The Hong Kong Association of Property Management Companies Limited, a vice president of Hong Kong Institute of Real Estate Administration, and has actively participated in public and community services. He holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong.



## Biographical Details of Directors and Senior Management

### SENIOR MANAGEMENT

#### Mr. Tam Tak Wah

Mr. Tam, aged 38, is the financial controller and qualified accountant of the Company. He is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a fellow member of the Hong Kong Society of Accountants and has over 15 years of experience in accounting, corporate finance and corporate development. He has worked for Price Waterhouse Hong Kong in his early years and assisted a number of corporations in corporate finance, accounting and business development. He worked for the Group during the period from April 2000 to May 2002 as corporate development director, company secretary, financial controller, authorised representative and qualified accountant and re-joined the Group in August 2003.



# Directors' Report

The directors of the Company (the "Directors") present their report together and the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The activities of the principal subsidiaries are set out on pages 53 and 54.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated profit and loss account on page 29.

The directors do not recommend the payment of a dividend.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to result by principal activities and geographical area of performance for the year ended 31 December 2003 is set out in note 5 to the accounts.

## FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the last five financial years is set out on page 68.

## FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the accounts.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 15 to the accounts.

## BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in notes 21,22 and 27 to the accounts.

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 23 to the accounts.

# Directors' Report

# DigiTel

## RESERVES

The movements of the reserves of the Company and the Group during the year are set out in note 25 to the accounts and in the consolidated statement of changes in equity on page 32 respectively.

## DONATIONS

The Group did not make any charitable donation during the year.

## DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company had no distributable reserves.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:-

### Purchases

- the largest supplier	40%
- five largest suppliers combined	100%

### Sales

- the largest customer	95%
- five largest customers combined	100%

None of the Directors or any of their associates (as defined in the GEM Listing Rules) or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest suppliers or customers during the year.

# Directors' Report

## DIRECTORS

The Directors during the year and up to the date of this report were:

### Executive directors

Mr. LEE Chuen Bit

Mr. HON Chak Sang

### Independent non-executive directors

Mr. HO Chiu Kee

Mr. LEUNG Ka Kui, Johnny

In accordance with Article 87 of the Company's Articles of Association, Mr. Leung Ka Kui, Johnny will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election. There is no fixed term of office for the independent non-executive directors.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group as at the date of this report are set out on pages 17 and 18.

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals of the Group are set out in note 12 to the accounts.

## DIRECTORS' SERVICE CONTRACTS

Mr. Lee Chuen Bit and Mr. Hon Chak Sang, the executive directors, have entered into service contracts with the Company on 1 April 2000 and 1 August 2002 respectively for a term of three years from 1 April 2000 and 1 August 2002 respectively and shall continue thereafter unless and until terminated in accordance with the provisions of the respective service contract with an aggregate monthly salary of HK\$160,000. Under the service contracts, after each completed year of service, their remuneration may be increased by not more than 15% at the discretion of the directors and they will each be entitled to a discretionary bonus provided that the total amount of bonus payable to all the directors for such year shall not exceed 15% of the consolidated profit after taxation but before extraordinary items of the Group for the relevant year.

The Company shall be entitled to terminate the contracts without any compensation to the directors by not less than three months' notice, or by summary notice with immediate effect, in writing under certain conditions as stipulated in the service contracts.

## Directors' Report

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2003, the interests and short positions of the directors and chief executive in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of 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 position in shares*

(a) The Company

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

*Note:*

The Shares 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.



(b) Associated corporations

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

*Long positions in underlying shares and debentures*

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

*Short positions in shares, underlying shares and debentures*

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

## **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHT TO ACQUIRE SHARES AND DEBENTURES**

Pursuant to the Share Option Scheme of the Company, the Directors and employees of the 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 chief executive and as at 31 December 2003, there were no outstanding options which were granted to the Directors and chief executive.

Apart from the above, at no time during the year neither the Company, any of its subsidiaries nor its holding company was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any of such right.

## **INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

As at 31 December 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.

# Directors' Report

# DigiTel

## Long positions in shares

Name	Capacity	Type of interests	Number of shares of the Company	Percentage of issued shares
Lit Cheong Holdings Limited	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 Cheung holds the shares of the Company for Lit Cheong Holdings Limited as its trustee.

# Directors' Report

## *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.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## **RETIREMENT SCHEME**

The Group operates a defined contribution Mandatory Provident Fund retirement scheme (the "MPF Scheme") under the Mandatory Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. Contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's contribution to the MPF Scheme charged to the consolidated profit and loss account was approximately HK\$60,000 (2002: approximately HK\$96,000) for the year.

In the opinion of the Directors, the Group had no significant obligation for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2003.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.



# Directors' Report

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## 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 are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Leung Ka Kui, Johnny and Mr. Ho Chiu Kee. The audit committee met four times during the financial year.

## 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 2003.

## AUDITORS

On 30 January 2002, Messrs. PricewaterhouseCoopers and Messrs. Graham H. Y. Chan & Co. tendered their resignation as the joint auditors of the Company. At the same day, RSM Nelson Wheeler were appointed as auditors of the Company by the Board.

On 21 February 2003, 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 by an ordinary resolution at the extraordinary general meeting.

The accounts have been audited by Messrs. Graham H.Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Lee Chuen Bit**  
*Chairman*

Hong Kong, 29 March 2004

# Auditors' Report



**GRAHAM H.Y. CHAN & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS  
HONG KONG

## AUDITORS' REPORT TO THE SHAREHOLDERS OF DIGITEL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 29 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### 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 and 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.



# Auditors' Report

## *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 approximately HK\$6,861,000 for the year ended 31 December 2003 and at that date its current liabilities exceeded its current assets by approximately HK\$60,282,000 and the net liabilities of the Group amounted to approximately HK\$60,175,000. Further, as explained in note 1 to the accounts, the Group is subject to various litigations from certain creditors. Other creditors have also demanded immediate payment of the amounts due to them. The Group is presently engaged in negotiations with the creditors regarding the settlement terms of their debts. The accounts have been prepared on a going concern basis, the validity of which depends upon the success of the debts restructuring arrangement with major creditors and availability of new working capital. 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 2003 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.

**Graham H. Y. Chan & Co.**  
Certified Public Accountants

Hong Kong, 29 March 2004

# Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	4		
Continuing operations		3,382	7,113
Discontinued operations		-	586
		<u>3,382</u>	<u>7,699</u>
Cost of sales		<u>(1,974)</u>	<u>(12,193)</u>
Gross profit/(loss)		1,408	(4,494)
Waiver of debts due to creditors		1,182	-
Other revenues	4	387	27
Selling expenses		(5)	(86)
Administrative expenses		(6,085)	(28,257)
Other operating expenses		<u>(1,867)</u>	<u>(60,146)</u>
Operating loss	6		
Continuing operations		(4,980)	(60,945)
Discontinued operations		-	(32,011)
		<u>(4,980)</u>	<u>(92,956)</u>
Finance costs	7		
Continuing operations		(2,734)	(4,010)
Discontinued operations		-	(2,988)
		<u>(2,734)</u>	<u>(6,998)</u>
Recovery of impairment of investment securities		853	227
Impairment of investment securities		-	(51,000)
Impairment of financial asset		-	(10,500)
Impairment of investment in associates		-	(690)
		<u>-</u>	<u>(690)</u>
Loss before taxation		<u>(6,861)</u>	<u>(161,917)</u>
Taxation	8		
Continuing operations		-	(84)
Discontinued operations		-	-
		<u>-</u>	<u>(84)</u>
Loss attributable to shareholders	9	<u>(6,861)</u>	<u>(162,001)</u>
Basic loss per share	11	<u>(0.60) cents</u>	<u>(14.72) cents</u>

# Consolidated Balance Sheet

AS AT 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Fixed assets	13	123	13,703
Investment securities	16	-	-
Financial asset	17	-	-
		<u>123</u>	<u>13,703</u>
<b>Current assets</b>			
Inventories	18	783	991
Trade and other receivables	19	899	4,131
Cash and bank balances		700	466
		<u>2,382</u>	<u>5,588</u>
<b>Current liabilities</b>			
Trade and other payables	20	13,583	14,837
Current portion of long-term borrowings	21	19,763	26,474
Convertible debentures	22	10,140	10,140
Tax payable		1,082	1,082
Trust receipt loans, secured	27	7,173	9,946
Bank overdrafts, secured	27	10,923	10,091
		<u>62,664</u>	<u>72,570</u>
Net current liabilities		<u>(60,282)</u>	<u>(66,982)</u>
Total assets less current liabilities		<u>(60,159)</u>	<u>(53,279)</u>
<b>Capital and reserves</b>			
Share capital	23	114,073	114,073
Reserves		(174,248)	(167,387)
Capital deficiency		(60,175)	(53,314)
<b>Non-current liabilities</b>			
Long-term borrowings	21	16	35
		<u>(60,159)</u>	<u>(53,279)</u>

On behalf of the Board

Lee Chuen Bit  
Director

Hon Chak Sang  
Director



# Balance Sheet

AS AT 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Investment in subsidiaries	15	(3,581)	(1,795)
<b>Current assets</b>			
Prepayments and deposits		-	150
Cash and bank balances		-	18
		-	168
<b>Current liabilities</b>			
Other payables and accruals		4,449	4,884
Convertible debentures	22	10,140	10,140
		14,589	15,024
Net current liabilities		(14,589)	(14,856)
Total assets less current liabilities		(18,170)	(16,651)
<b>Capital and reserves</b>			
Share capital	23	114,073	114,073
Reserves	25	(132,243)	(130,724)
Capital deficiency		(18,170)	(16,651)
On behalf of the Board			

Lee Chuen Bit  
Director

Hon Chak Sang  
Director

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
At 1 January 2002	104,073	36,533	(100,934)	59,368	(65)	98,975
Placement of shares	10,000	-	-	-	-	10,000
Share issuance expenses	-	(286)	-	-	-	(286)
Exchange realignment	-	-	-	-	(2)	(2)
Loss for the year	-	-	(162,001)	-	-	(162,001)
At 31 December 2002	<u>114,073</u>	<u>36,247</u>	<u>(262,935)</u>	<u>59,368</u>	<u>(67)</u>	<u>(53,314)</u>
At 1 January 2003	<b>114,073</b>	<b>36,247</b>	<b>(262,935)</b>	<b>59,368</b>	<b>(67)</b>	<b>(53,314)</b>
Loss for the year	-	-	(6,861)	-	-	(6,861)
At 31 December 2003	<u>114,073</u>	<u>36,247</u>	<u>(269,796)</u>	<u>59,368</u>	<u>(67)</u>	<u>(60,175)</u>

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Net cash used in operating activities	26	(1,729)	(7,745)
Investing activities			
Purchase of fixed assets		(22)	(151)
Net proceeds from disposal of fixed assets		11,104	812
Net cash from investing activities		11,082	661
Financing activities			
Net proceeds from issue of shares		–	9,714
(Decrease)/increase in trust receipt loans, secured		(2,773)	388
Increase/(decrease) in bank overdrafts, secured		832	(3,546)
Repayment of bank loans		(7,161)	(746)
Repayments of capital element of finance leases		(17)	(410)
Redemption of debentures		–	(2,730)
Repayments of convertible notes		–	(300)
New other loan raised		–	4,600
Repayments of other loan		–	(1,700)
Net cash (used in)/from financing activities		(9,119)	5,270
Net increase/(decrease) in cash and cash equivalents		234	(1,814)
Cash and cash equivalents at 1 January		466	2,282
Effect of foreign exchange rate changes		–	(2)
Cash and cash equivalents at 31 December		700	466
Analysis of balances of cash and cash equivalents			
Bank and cash balances		700	466

# Notes to the Accounts

## 1 GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 9 March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 July 2000. The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 15 to the accounts.

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 (the "Banks") and creditors and other external funding being available.

During the year ended 31 December 2003, the Group incurred a loss attributable to the shareholders of approximately HK\$6,861,000 and at that date its net current liabilities exceeded its current assets by approximately HK\$60,282,000 and the net liabilities of the Group amounted to approximately HK\$60,175,000. At present, the Banks have suspended all trade lines and overdraft facilities. As detailed in note 30, the Group is subject to various litigations from certain creditors, other creditors also demanded immediate payments of amounts due by the Group. In the absence of any additional funding, the Group cannot meet the demand for immediate payments of its debts.

The Group is presently engaged in negotiations with the creditors regarding the settlement terms of their debts. During the year, the Group and several creditors had reached final settlement agreements pursuant to which the Group had settled their respective debts at a sum lower than their respective recorded amounts and a gain of approximately HK\$1,182,000 from the waiver of debts was recognised in the accounts. Moreover, as detailed in note 31, subsequent to the balance sheet date, the Company entered into a loan agreement with an independent third party (the "Lender"). Pursuant to the loan agreement, the Lender agreed to make available to the Company a loan of up to HK\$7 million, for the sole purpose of the settlement of the amount due to major creditors as set out in the schedule of the agreement. Up to the date of this report, the Company has drawn HK\$3.5 million from the loan, of which approximately HK\$3.2 million has been used for the full and final settlement of the amount due to three creditors. As the agreed settlement sum was lower than the respective liabilities of the Group, a gain on waiver of debts for the year 2004 is anticipated.

The directors are of the opinion that the Group will be able to finalise the debts restructuring arrangement with other major creditors 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 were 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 liabilities which might arise.

# Notes to the Accounts

## 2 IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA") which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the profit and loss account liability method, i.e. a liability was recognised in respect of timing differences between taxable profit and accounting profit to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of the revised SSAP12 has had no material impact on the accounts of the Group for the current and prior accounting periods. Accordingly, no prior year adjustment has been required.

## 3 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the HKSA. The accounts have prepared under the historical cost convention as modified by the revaluation of investment property. The principal accounting policies adopted in the preparation of these accounts are set out below:

### *(a) Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power or holds more than half of the issued share capital, or controls the composition of the board of directors, or by way of having power to govern its financial and operating policies so that the Group obtains benefits from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

# Notes to the Accounts

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(a) Consolidation (Continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### *(b) Revenue recognition*

The recognition of revenue/attribution profit from contracts commences when the outcome of a contract can be estimated reliably. Contract revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date, being the percentage of the contract costs incurred at the end of the year to the estimated total contract costs on completion, to the extent of amount of contract revenue received and subject to due allowances for contingencies. Provision is made for foreseeable losses as soon as they are anticipated by management.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Revenue from consultancy, web application and Internet service provider ("ISP") services is recognised when the services are rendered, or pro-rata over the life of the agreement, where appropriate and corresponding to notional delivery of the service.

Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

# Notes to the Accounts

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) *Investment property*

Investment property is interests in land and buildings in respect of which construction work and development have been completed and which is held for their long-term investment potential, any rental income being negotiated at arm's length.

Investment property is stated at its open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment property is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the profit and loss account.

On disposals of investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the profit and loss account.

No depreciation is provided on investment property which is held on leases with an unexpired term of more than 20 years.

### (d) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold improvements are depreciated over the estimated useful lives or lease period, whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:-

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Network, computer and demo equipment	20%-50%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

# Notes to the Accounts

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(e) Assets under leases*

#### (i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in obligation under finance lease in the balance sheets. The finance charges are charged to the profit and loss account over the lease periods.

#### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### *(f) Investment securities*

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

### *(g) Inventories*

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.



# Notes to the Accounts

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(h) Financial asset*

Financial asset is held for non-trading purpose and is stated at fair value at the balance sheet date. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of financial asset is recognised in the profit and loss account. Financial asset is reviewed regularly to determine whether it is impaired. When a financial asset is considered to be impaired, the impairment loss is recognised in the profit and loss account.

### *(i) Impairment of assets*

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

### *(j) Trade receivables*

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

### *(k) Cash and cash equivalents*

Cash includes cash in hand and deposits repayable on demand with any bank or other financial institution. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired.

### *(l) Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.



# Notes to the Accounts

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(m) Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### *(n) Taxation*

Taxation charged to the profit and loss account comprises current and deferred tax.

Current tax is the expected tax payable on the taxable profit for the year. Profits tax is provided on the basis of the company's profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes. The company's liability for current tax is calculated using tax rate enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the accounts and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the tax profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(o) Translation of foreign currencies*

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the assets and liabilities of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

### *(p) Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.



# Notes to the Accounts

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(q) Employee benefits*

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.
- (iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value and the excess of the exercise price per share over the nominal value of the shares are recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

# Notes to the Accounts

## 4 TURNOVER AND REVENUES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the provision of system integration services, sale of goods and rental services. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
System integration contracts revenue	917	1,741
Sales of goods at invoiced value, net of returns and discounts	1,707	3,973
Web application services income	–	579
ISP services income	–	7
Rental income	758	1,399
	<u>3,382</u>	<u>7,699</u>
Other revenues		
Other income	58	27
Forfeiture of rental deposit	329	–
	<u>387</u>	<u>27</u>
Total revenues	<u><u>3,769</u></u>	<u><u>7,726</u></u>

## 5 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) By business segments

For management purposes, the Group is currently organised into two divisions - system integration contracts and sale of goods. Others include property leasing.

# Notes to the Accounts

## 5 SEGMENTAL INFORMATION (Continued)

### (a) By business segments (Continued)

Segmental information about these businesses is presented below.

For the year ended 31 December 2003

	Continuing operations			Discontinued operations		Total HK\$'000
	Sale of goods HK\$'000	System integration contracts revenue HK\$'000	Other operations HK\$'000	Web application services income HK\$'000	ISP services income HK\$'000	
Turnover						
External revenue	<u>1,707</u>	<u>917</u>	<u>758</u>	<u>-</u>	<u>-</u>	<u>3,382</u>
Result						
Segment result	<u>(261)</u>	<u>(1,615)</u>	<u>(1,753)</u>	<u>-</u>	<u>-</u>	<u>(3,629)</u>
Waiver of debts due to creditors						1,182
Other revenue						387
Unallocated corporate expenses						<u>(2,920)</u>
Loss from operations						<u>(4,980)</u>
Finance costs						<u>(2,734)</u>
Recovery of impairment of investment securities						<u>853</u>
Loss before taxation						<u>(6,861)</u>
Taxation						<u>-</u>
Loss after taxation						<u><u>(6,861)</u></u>
Assets						
Segment assets	821	819	854	-	-	2,494
Unallocated corporate assets						<u>11</u>
Consolidated total assets						<u><u>2,505</u></u>
Liabilities						
Segment liabilities	8,731	19,487	19,622	-	-	47,840
Unallocated corporate liabilities						<u>14,840</u>
Consolidated total liabilities						<u><u>62,680</u></u>
Other information						
Capital additions	-	22	-	-	-	
Depreciation and amortisation	-	95	-	-	-	
Inventories recovery	(72)	-	-	-	-	
Bad debt recovery	-	(393)	-	-	-	

# Notes to the Accounts

## 5 SEGMENTAL INFORMATION (Continued)

### (a) By business segments (Continued)

For the year ended 31 December 2002

	Continuing operations			Discontinued operations		Total HK\$'000
	Sale of goods HK\$'000	System Integration contracts revenue HK\$'000	Other operations HK\$'000	Web application services income HK\$'000	ISP services income HK\$'000	
Turnover						
External revenue	<u>3,973</u>	<u>1,741</u>	<u>1,399</u>	<u>579</u>	<u>7</u>	<u>7,699</u>
Result						
Segment result	<u>(31,340)</u>	<u>(14,422)</u>	<u>(8,439)</u>	<u>(5,536)</u>	<u>(26,475)</u>	(86,212)
Other revenue						1
Unallocated corporate expenses						<u>(6,745)</u>
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						<u>(690)</u>
Loss before taxation						(161,917)
Taxation						<u>(84)</u>
Loss after taxation						<u>(162,001)</u>
Assets						
Segment assets	1,297	3,762	13,880	25	120	19,084
Unallocated corporate assets						<u>207</u>
Consolidated total assets						<u>19,291</u>
Liabilities						
Segment liabilities	8,524	20,308	7,791	376	20,326	57,325
Unallocated corporate liabilities						<u>15,280</u>
Consolidated total liabilities						<u>72,605</u>
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	

# Notes to the Accounts

## 5 SEGMENTAL INFORMATION (Continued)

### (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	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,063	5,372	–	586	1,063	5,958
The PRC	2,319	1,741	–	–	2,319	1,741
	<u>3,382</u>	<u>7,113</u>	<u>–</u>	<u>586</u>	<u>3,382</u>	<u>7,699</u>

The following is an analysis of the carrying amount of segment assets, and additions to fixed 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	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,456	18,637	–	135	2,456	18,772
The PRC	38	302	–	10	38	312
Unallocated corporate assets					11	207
	<u>2,494</u>	<u>18,939</u>	<u>–</u>	<u>145</u>	<u>2,505</u>	<u>19,291</u>



# Notes to the Accounts

## 5 SEGMENTAL INFORMATION (Continued)

### (b) Geographical segments (Continued)

	Additions to fixed assets (continuing operations)		Additions to fixed assets (discontinued operations)		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	22	151	-	-	22	151
The PRC	-	-	-	-	-	-
					<u>22</u>	<u>151</u>

## 6 OPERATING LOSS

Operating loss is stated after charging the following:

	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration		
– current year	238	323
– over provision in prior year	-	(142)
Bad debts (recovery)/written off	(393)	21,517
Cost of goods sold	1,974	12,193
Deficit arising on revaluation of investment property	-	6,000
Depreciation		
– leased fixed assets	11	2,890
– owned fixed assets	84	2,596
Fixed assets written off	-	3,219
Inventories (recovery)/written off	(72)	18,897
Loss on disposal of fixed assets	2,403	10,405
Net exchange (gain)/loss	(71)	28
Operating leases rental in respect of land and buildings	136	5,732
Provision for non-recoverable of loan to a related company	-	80
Staff costs (excluding directors' remuneration)	<u>1,995</u>	<u>4,490</u>

# Notes to the Accounts

## 7 FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on bank loan and overdrafts	2,101	1,464
Interest on convertible notes	–	169
Finance leases charges	453	2,819
Interest on convertible debentures	–	2,397
Other loan interest	180	149
	<u>2,734</u>	<u>6,998</u>

## 8 TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong profits tax		
– current year (note (a))	–	–
– tax surcharge (note (b))	–	84
Overseas taxation-current year (note (c))	–	–
	<u>–</u>	<u>84</u>

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit for the year (2002 : Nil).
- (b) Tax charge of 2002 represented 5% tax surcharge on the profits tax payable of year 2000 to be settled by installments.
- (c) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC have no assessable income for PRC taxation purpose.
- (d) As at 31 December 2003, the Company had unrecognised deferred tax asset of approximately HK\$22,788,000 (2002: approximately HK\$22,203,000) which represents the tax effect of unused tax losses. Such deferred tax asset was not recognised in the accounts as it is uncertain whether future taxable profits will be available against which deductible temporary differences can be utilised.

# Notes to the Accounts

## 9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of approximately HK\$1,519,000 (2002 : approximately HK\$164,661,000).

## 10 DIVIDENDS

No dividends had been paid or declared by the Company during the year (2002 : Nil).

## 11 LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately HK\$6,861,000 (2002: approximately HK\$162,001,000) and the weighted average of 1,140,730,792 (2002: 1,100,730,792) ordinary shares in issue.

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.

## 12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	-	-
Other emoluments:		
– basic salaries and allowances	1,020	2,750
– retirement scheme contributions	5	33
	<u>1,025</u>	<u>2,783</u>

During 2003 and 2002, none of the non-executive director and independent non-executive directors received any directors' emolument.

# Notes to the Accounts

## 12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

The number of executive directors whose emoluments fell with the following band was as follows:-

	2003	2002
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	<u>-</u>	<u>1</u>

For the year ended 31 December 2003, two executive directors received individual emoluments of approximately HK\$294,000 and HK\$731,000 respectively.

For the year ended 31 December 2002, two executive directors received individual emoluments of approximately HK\$1,212,000 and HK\$305,000 respectively, three executive directors resigned during that year received individual emoluments of approximately HK\$405,000, HK\$533,000 and HK\$328,000 respectively.

During the year, one executive director waived salaries of totally HK\$900,000. The amount had not been included in the above disclosure. Other than this, no directors waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2002 and 2003.

- (b) The five individuals whose emoluments were the highest in the Group for the year include two (2002 : three) directors, details of whose emoluments are set out above. The emoluments payable to the remaining three (2002 : two) individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, allowances and other benefits in kind	1,496	1,257
Retirement scheme contributions	<u>34</u>	<u>17</u>
	<u>1,530</u>	<u>1,274</u>

The emoluments of the three (2002 : two) individuals with the highest emoluments are within the band of nil to HK\$1,000,000.

No emoluments were paid or payable to the directors or senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2002 and 2003.

# Notes to the Accounts

## 13 FIXED ASSETS

Group	Investment property HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Network, computer and demo equipment HK\$'000	Total HK\$'000
Cost or valuation					
Brought forward	13,500	-	301	326	14,127
Additions at cost	-	18	-	4	22
Disposals/write off	(13,500)	-	(18)	-	(13,518)
Carried forward	-	18	283	330	631
Aggregate depreciation					
Brought forward	-	-	133	291	424
Charge for the year	-	2	57	36	95
Eliminated on disposals/write off	-	-	(11)	-	(11)
Carried forward	-	2	179	327	508
Net book value					
At 31 December 2003	<u>-</u>	<u>16</u>	<u>104</u>	<u>3</u>	<u>123</u>
At 31 December 2002	<u>13,500</u>	<u>-</u>	<u>168</u>	<u>35</u>	<u>13,703</u>
The analysis of the cost or valuation of the above assets at 31 December 2003 is as follows:					
At cost	<u>-</u>	<u>18</u>	<u>283</u>	<u>330</u>	<u>631</u>
The analysis of the cost or valuation of the above assets at 31 December 2002 is as follows:					
At cost	-	-	301	326	627
At 2002 valuation	13,500	-	-	-	13,500
	<u>13,500</u>	<u>-</u>	<u>301</u>	<u>326</u>	<u>14,127</u>

- (a) At 31 December 2003, the net book value of fixed assets held by the Group under finance leases included in the total amounts of office equipment amounted to approximately HK\$42,000 (2002 : approximately HK\$53,000).

# Notes to the Accounts

# DigiTel

## 14 GOODWILL

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cost		
At 1 January	30,343	30,343
Disposal/write off of investments in associates	(30,343)	-
At 31 December	-	30,343
Impairment loss		
At 1 January	30,343	30,343
Eliminated on disposal/write off	(30,343)	-
At 31 December	-	30,343
Net book value		
At 31 December	-	-

## 15 INVESTMENT IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost (note a)	19,997	19,997
Amounts due from subsidiaries (note b)	135,820	136,646
Amounts due to subsidiaries (note b)	(3,581)	(1,795)
	152,236	154,848
Less: Provision	(155,817)	(156,643)
	(3,581)	(1,795)

# Notes to the Accounts

## 15 INVESTMENT IN SUBSIDIARIES (Continued)

- (a) The table below lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year and formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At 31 December 2003 the Company held shares in the following principal subsidiaries:

Name of company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Shares held directly:-				
DigiTel Group (BVI) Limited	British Virgin Islands	Ordinary US\$34,190	100%	Investment holding in Hong Kong
Shares held indirectly:-				
Corp2Net.com Limited	Hong Kong	Ordinary HK\$2	100%	Dormant
DigiTel Communication (Asia) Limited	Hong Kong	Ordinary HK\$2	100%	Distribution of digital communication equipment in Hong Kong
DigiTel Communication Limited	Hong Kong	Ordinary HK\$2	100%	Provision of system integration and trading in Hong Kong and the PRC
DigiTel Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding in Hong Kong
DigiTel Venture Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding in Hong Kong

## Notes to the Accounts

### 15 INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Goway Investments Limited	Hong Kong	Ordinary HK\$2 Non-voting HK\$18	100%	Property leasing in Hong Kong
iGreatLink.com Limited	Hong Kong	Ordinary HK\$51	100%	Dormant
Lit Cheong DigiTel Limited	British Virgin Islands	Ordinary US\$1	100%	Dormant
Regal Policy Limited	Hong Kong	Ordinary HK\$2	100%	Property leasing in Hong Kong

(b) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.



# Notes to the Accounts

## 16 INVESTMENT SECURITIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities, at cost		
Unlisted investment	51,000	51,000
Less : Provision for impairment loss	(51,000)	(51,000)
	<u>-</u>	<u>-</u>

At 31 December 2003, the carrying amount of the Group's holding on the following company exceeded 10% of the total assets of that company:

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Netpolis Communications Hong Kong Limited ("Netpolis")	British Virgin Islands	Ordinary US\$100	17%	Dormant

In last year, the Group had reviewed the investment in Netpolis.

Netpolis and its subsidiaries had been engaged in the ISP and telecommunication business in Hong Kong, the PRC and overseas. As part of the Group's business strategy, the Group acquired 17% interest in Netpolis in 2001, so that the Group would continue to roll out its plan in development of Internet and telecommunication markets. Netpolis has ceased operation in last year due to the unfavourable market conditions and its subsidiaries have been involved in various legal proceedings.

After considering the current market situation, a full provision on the investment in Netpolis was made in 2002.

# Notes to the Accounts

## 17 FINANCIAL ASSET

	Group	
	2003	2002
	HK\$'000	HK\$'000
Equity option, at cost	10,500	10,500
Less : Provision for impairment loss	(10,500)	(10,500)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	-	-
	<u>          </u>	<u>          </u>

Pursuant to an agreement dated 30 November 2001 entered into by the Group and two third parties, the Group purchased an irrevocable option (the "Option") to acquire the 100% equity ("Option Asset") of a PRC company (the "subject company") in Guangzhou. The subject company is a domestic limited liability company organised and existing under the laws of the PRC with a total registered capital of RMB 57 million. The subject company represented to the Group that it had obtained all necessary approvals to operate as a provider of Internet services at various cities in Guangdong province.

The total fee for the grant of the Option is HK\$10,500,000. The Group has the total discretion to exercise the Option in part or in full within a term of 5 years from the date of the agreement. The purchase price for acquiring the Option Asset would be computed proportionately with regard to the higher of HK\$60 million or the net book value of the subject company according to the prevailing PRC accounting regulations at the date of exercise.

However, due to the financial difficulty suffered by the Group, although the period of exercising the option is 5 years from the date of agreement, the Group is unable to exercise the option in the coming years. Besides, due to the unfavourable market conditions, the subject company is also in a difficult position and will not proceed for the project of providing Internet services. In the opinion of the directors, the option is of no value and the Group will not exercise it.

In view of the above, a full provision for the option was made in 2002.

## 18 INVENTORIES

At 31 December 2003, the inventories that are carried at net realisable value amounted to approximately HK\$783,000 (2002 : approximately HK\$991,000).

# Notes to the Accounts

## 19 TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers with credit period normally ranged from 30 to 90 days or terms in accordance with sales contract. The aging analysis of trade receivables is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0-30 days	-	-
31-60 days	-	95
61-90 days	95	95
91-120 days	-	95
Over 120 days	<u>755</u>	<u>592</u>
Total trade receivables	<b>850</b>	877
Other receivables	-	3,000
Prepayments and deposits	<u>49</u>	<u>254</u>
	<b><u>899</u></b>	<b><u>4,131</u></b>

## 20 TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0-30 days	-	51
31-60 days	-	-
61-90 days	-	232
91-120 days	-	-
Over 120 days	<u>1,946</u>	<u>1,856</u>
Total trade payables	<b>1,946</b>	2,139
Other payables and accruals	<u>11,637</u>	<u>12,698</u>
	<b><u>13,583</u></b>	<b><u>14,837</u></b>

# Notes to the Accounts

# DiGiTel

## 21 LONG TERM BORROWINGS

	Group	
	2003 HK\$'000	2002 HK\$'000
Convertible notes (note c)	5,643	5,643
Bank loan, secured	–	7,161
Other loan, unsecured	2,900	2,900
	<u>8,543</u>	<u>15,704</u>
Obligations under finance leases (note b)	11,236	10,805
	<u>19,779</u>	<u>26,509</u>
Current portion of long term borrowings	(19,763)	(26,474)
	<u>16</u>	<u>35</u>

(a) The bank loan, other loan and convertible notes are all repayable within one year.

(b) Obligations under finance leases are repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount payable				
Within one year	11,223	10,775	11,220	10,770
In the second year	<u>17</u>	<u>39</u>	<u>16</u>	<u>35</u>
	<u>11,240</u>	<u>10,814</u>	<u>11,236</u>	<u>10,805</u>
Future finance charges	<u>(4)</u>	<u>(9)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u>11,236</u>	<u>10,805</u>	<u>11,236</u>	<u>10,805</u>
Amount due within one year, included under current liabilities			<u>11,220</u>	<u>10,770</u>
			<u>16</u>	<u>35</u>

# Notes to the Accounts

## 21 LONG TERM BORROWINGS (Continued)

- (c) Pursuant to an agreement dated 23 August 2000 entered into by the Group and a supplier, the Group will purchase from the supplier network equipment of not less than approximately HK\$60 million within the period from 23 August 2000 to 31 December 2001. Under the agreement, 35% of each order value shall be payable upfront by the Group and the 65% balance will be financed by the issuance of convertible notes (the "Notes"), which bear interest at LIBOR + 0.5% per annum and repayable semi-annually in arrears in five equal instalments commencing from the 12th month from the date of each drawdown. The Notes, at the option of the holder, will be convertible into shares of the Company at a conversion price of HK\$1.05 per share. Shares issued on conversion will rank pari passu in all respect with shares in issue at the time of conversion. Title of network equipment will pass to the Group only upon repayment in full by the Group.

As at 31 December 2003, the Group had outstanding convertible notes amounting to HK\$5,643,000 (2002 : HK\$5,643,000).

## 22 CONVERTIBLE DEBENTURES

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
3% convertible debentures	<u>10,140</u>	<u>10,140</u>

Pursuant to the Subscription Agreement dated 23 March 2001, entered into between the Company and certain independent subscribers (the "Subscribers"), the Company agreed to issue and the Subscribers agreed to subscribe for up to HK\$78 million (US\$10 million) 3% convertible debentures (the "Debentures"). The Debentures comprise three separate tranches of HK\$23,400,000 (US\$3,000,000), HK\$23,400,000 (US\$3,000,000) and HK\$31,200,000 (US\$4,000,000) respectively.

The conversion prices shall equal:

- (i) for the first thirty days after and including the date of issuance of the Debentures, 125% of the average closing price of the shares of the Company over the 10 consecutive trading days immediately prior to the date of issuance of the Tranche 1 Debenture ("Price 1"); or
- (ii) commencing on the thirty-first day after and including the date of issuance of the Debentures, the lower of Price 1 and the greater 93% of the average of the lowest 4 closing prices during the 20 consecutive trading days prior to the date of conversion; or

# Notes to the Accounts

## 22 CONVERTIBLE DEBENTURES (Continued)

- (iii) in the event the closing price per share for any 15 consecutive trading days shall equal, or fall below 35% of the relevant Price 1, subject to equitable adjustment following any stock splits, reverse stock splits or similar events affecting the shares after the establishment of such Tranche Base Price (the "Optional Redemption Price"), the Subscribers may give not less than 15 days notice in writing requiring the Company to redeem the whole or part of the outstanding debentures, in which event the relevant outstanding debentures and such redemption amount together with any interest accrued and other amounts owing thereon shall be paid to the Subscribers.

By 31 December 2001, only the first Tranche had been issued to the extent of HK\$23,400,000 (US\$3,000,000) of which a total amount of HK\$4,680,000 (US\$600,000) was converted into shares of the Company.

On 3 December 2001, the Company entered into a Redemption Agreement with the Subscribers, pursuant to which the Company and the Subscribers have agreed to redeem the outstanding debentures of HK\$18,720,000 (US\$2,400,000). The total consideration for the Redemption of the outstanding debentures is HK\$21,528,000 (US\$2,760,000) ("Redemption Price") which is equal to 115% of the outstanding debentures.

Upon execution of the Redemption Agreement, the Company paid to the Subscribers HK\$5,460,000 (US\$700,000).

The balance of HK\$16,068,000 (US\$2,060,000) is payable as follows:

- (i) For the 9 months commencing from 30 December 2001, the Company shall pay the Subscribers HK\$1,560,000 (US\$200,000) each of the first 8 months and HK\$780,000 (US\$100,000) in the last month; and
- (ii) On or before 30 August 2002 the Company shall pay to the Subscribers a payment of HK\$2,808,000 (US\$360,000) representing interest on the outstanding balance of said Debentures held by the Subscribers at the annual rate of 15% per annum; provided, however, that if all prior payments of the Redemption Price are made in full, all in a timely fashion, pursuant to the terms of the Redemption Agreement, the Company may at its option, instead of this cash payment of HK\$2,808,000 (US\$360,000), make payment in shares, valued for purposes of this payment at the lower of HK\$0.36 or the average closing bid price of the shares on 20 consecutive trading days prior to 30 August 2002 or the date said payment is made.

# Notes to the Accounts

## 22 CONVERTIBLE DEBENTURES (Continued)

Accordingly, the Subscription Agreement was terminated and no further convertible debentures can be issued effective from the date of the Redemption Agreement.

The movement of the Debentures is summarised as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1 January	10,140	12,870
Less :		
Redemption during the year	–	(1,170)
Set-off with prepayment	–	(1,560)
	<u>10,140</u>	<u>10,140</u>
At 31 December	<u>10,140</u>	<u>10,140</u>

During the year ended 31 December 2002, the Company failed to redeem the Debentures according to the Redemption Agreement. The Subscribers issued a writ of summons against the Company for breaching of the Redemption Agreement, details of which are set out in note 30 below.

## 23 SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 December 2002 and 2003	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2002	1,040,730,792	104,073
Placing of new shares	<u>100,000,000</u>	<u>10,000</u>
At 31 December 2002 and 2003	<u>1,140,730,792</u>	<u>114,073</u>

# Notes to the Accounts

## 23 SHARE CAPITAL (Continued)

There was no movement in the share capital of the Company during the year ended 31 December 2003. Details of movements in share capital of the Company during the year ended 31 December 2002 are as follows:

On 27 May 2002, an aggregate of 100,000,000 new ordinary shares of the Company at a price of HK\$0.10 (the "Price") each were issued to Lit Cheong Holdings Limited ("LCH") pursuant to a subscription agreement entered into by the Company and LCH on 14 May 2002. These shares were issued upon the completion of the placing of an aggregate of 100,000,000 existing ordinary shares of the Company registered in the name of LCH to two independent third parties, namely Crystal Source Assets Limited which is beneficially owned by Mr. Chung Ting Tru, Daniel and Mr. Chan Man Sau, Joey by Ong Asia Securities (HK) Limited ("Ong Asia") as placing agent pursuant to a placing agreement entered into by LCH and Ong Asia on 14 May 2002. The Price represents a discount of approximately 33.33% to the closing price of HK\$0.15 per share as quoted on the Stock Exchange on 14 May 2002, being the last trading day immediately prior to the date of the placing agreement and a discount of approximately 37.11% to the average closing price of approximately HK\$0.159 per share as quoted on the Stock Exchange for the last ten trading days up to and including 14 May 2002 and a premium of approximately 18.34% over the unaudited net tangible asset value per share as at 31 March 2002.

The net proceeds raised of approximately HK\$9.7 million by way of issuing 100,000,000 new shares through this top-up placement were used as to approximately HK\$6 million for settlement of trade and other payables and the balance of approximately HK\$3.7 million as general working capital for the Group.

## 24 EMPLOYEE BENEFITS

The Group operates a Mandatory Provident Fund scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately. The Group's contribution to the scheme charged to profit and loss account was approximately HK\$60,000 (2002: approximately HK\$96,000).

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 20 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price of HK\$1.05 each.

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.



# Notes to the Accounts

## 24 EMPLOYEE BENEFITS (Continued)

As at 31 December 2003, there were 20,000,000 (2002 : 20,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme, which 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.

During the year, no such options were exercised or cancelled.

Under the share option scheme (the "Share Option Scheme") of the Company adopted on 30 June 2000, the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company at an exercise price determined by the board of directors and shall be no less than the higher of the closing price of the Company's shares on the date of grant, and 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 less than three years and not more than ten years from the date of grant.

No share options were granted under the Share Option Scheme since its adoption.

## 25 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 32 of the accounts.

<b>Company</b>	<b>Share premium HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2002	36,533	(2,310)	34,223
Share issuance expenses	(286)	-	(286)
Loss for the year	-	(164,661)	(164,661)
At 31 December 2002	<u>36,247</u>	<u>(166,971)</u>	<u>(130,724)</u>
At 1 January 2003	36,247	(166,971)	(130,724)
Loss for the year	-	(1,519)	(1,519)
At 31 December 2003	<u>36,247</u>	<u>(168,490)</u>	<u>(132,243)</u>

The Company had no reserve available for distribution as at 31 December 2003.

# Notes to the Accounts

## 26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash used in operating activities is set out below:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(6,861)	(161,917)
Adjustments for:		
Depreciation	95	5,486
Loss on disposal of fixed assets	2,403	10,405
Deficit arising on revaluation of investment property	-	6,000
Fixed assets written off	-	3,219
Write off of loan to an associate	-	31
Impairment of investment securities	-	51,000
Impairment of financial asset	-	10,500
Impairment of investment in associate	-	690
Interest on bank loan and overdrafts	2,101	1,464
Interest on convertible debentures	-	2,397
Interest on convertible notes	-	169
Interest on other loan	180	149
Finance leases charges	453	2,819
	<hr/>	<hr/>
Operating loss before working capital changes	(1,629)	(67,588)
Decrease in inventories	208	22,441
Decrease in trade and other receivables	3,232	48,384
Decrease in trade and other payables	(1,254)	(5,926)
	<hr/>	<hr/>
Cash from/(used in) operations	557	(2,689)
Interest on bank loan and overdrafts	(2,101)	(1,464)
Interest on convertible debentures	-	(2,397)
Interest on convertible notes	-	(169)
Finance leases charges	(5)	(266)
Interest on other loan	(180)	(149)
Income taxes paid	-	(611)
	<hr/>	<hr/>
Net cash used in operating activities	<u>(1,729)</u>	<u>(7,745)</u>

# Notes to the Accounts

## 27 BANKING FACILITIES

At 31 December 2003 the Group's banking facilities which were fully utilised, were secured by corporate guarantees given by the Company.

## 28 CONTINGENT LIABILITIES

Other than the corporate guarantees given by the Company to banks for banking facilities granted to the Group as set out in note 27 to the accounts, as at 31 December 2003, the Company had contingent liabilities in respect of guarantees for the due performance of certain subsidiaries under obligations under finance leases and the Convertible Notes as set out in notes 21 to the accounts.

## 29 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2003, the Group had future aggregate minimum lease payments under non-cancelable operating leases in respect of land and building, falling due as follows:-

	2003 HK\$'000	2002 HK\$'000
Within one year	158	-
In the second to fifth years, inclusive	40	-
	<u>198</u>	<u>-</u>

## 30 LITIGATIONS

As at the date of this report, the Group has been involved in material outstanding claims and litigations with details as follows:-

- (a) On 11 March 2002, a writ was issued, amended on 22 August 2002 and further amended on 24 October 2002 by The Center (65) Limited ("The Center (65)") against three wholly owned subsidiaries of the Company and one associate of the Group (collectively "the Defendants") for the unpaid rent, other charges and damages for the previous office of the Defendants in an aggregate sum of approximately HK\$1.95 million. The Group has settled all rental payment up to 31 March 2002, delivered vacant possession on 9 May 2002 and its 3-month rental deposit of approximately HK\$1.18 million is being retained by The Center (65). The Group, therefore, does not consider that it has material obligation to pay any further sum to The Center (65). No further action has been taken by either party thereafter.

## Notes to the Accounts

### 30 LITIGATIONS (Continued)

- (b) On 1 June 2002, a writ was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for the outstanding printing charges of approximately HK\$0.16 million. The Company filed a defence on 26 June 2002 which denies all the allegations. No further action has been taken by either party thereafter. Full provision was made in the accounts.
- (c) On 26 June 2002, a writ was issued by Strong River Investments Incorporated and Montrose Investments Limited (the "Plaintiffs") against the Company for redemption payments in the sum of US\$1.66 million pursuant to a redemption agreement dated 3 December 2001 together with interest thereon. Summary judgment was granted against the Company on 26 August 2002 for (i) US\$1.66 million and (ii) interest on US\$1.66 million at 18% per annum from 7 March 2002 until 26 August 2002 and thereafter at the judgment rate until payment. On 7 October 2002, a stay of execution was granted by the court. The Group is negotiating with the Plaintiffs regarding the settlement terms and full provision of the principal outstanding was made in the accounts.
- (d) On 19 August 2002, Nortel Networks (Asia) Limited ("Nortel Networks") appointed receiver and manager for the Group's certain network equipment purchased from Nortel Networks. The corresponding equipment was repossessed by Nortel Networks and the outstanding indebtedness was approximately US\$0.74 million of which the Company and two wholly owned subsidiaries are guarantors. The Group is negotiating with the Nortel Networks regarding the settlement terms and full provision was made in the accounts.
- (e) On 24 September 2002, Key Equipment Finance Asia Limited ("KEF") issued a statutory demand for lease payment in the sum of approximately US\$0.50 million. The Company is a guarantor for the lease agreement. KEF repossessed the equipment on 12 September 2002. The Group is negotiating with KEF regarding the settlement terms and full provision was made in the accounts.
- (f) On 2 September 2002, a writ was issued by The Center (43) Limited ("The Center (43)") against Regal Policy Limited, a wholly owned subsidiary of the Company for outstanding rent of approximately HK\$4.4 million for the period from 1 June 2002 to the expiry date under the tenancy agreement dated 18 April 2000. Regal Policy Limited filed its defence on 27 September 2002, denying the claim. Vacant possession was delivered on 1 August 2002. No further action has been taken by either party thereafter.
- (g) On or about 17 January 2003, a writ was issued by the Inland Revenue Department to DigiTel Communication (Asia) Limited ("DCAL") for the sum of approximately HK\$0.34 million, being profits tax for the year 2000/01. Summary judgment was entered on 23 April 2003 against DCAL for a judgment debt of \$309,829.83 together with interest and legal costs. No further action has been taken by either party thereafter. Full provision was made in the accounts.

Apart from the actions against the Group disclosed above, there are no other material outstanding claims and litigations against the Group.

# Notes to the Accounts

## 31 POST BALANCE SHEET EVENTS

On 18 February 2004, the Company entered into a loan agreement with an independent third party (the "Lender"). Pursuant to the loan agreement, the Lender agreed to make available to the Company a loan of up to HK\$7 million during a period of 21 months from the date of the agreement (the "Loan"). The Loan shall bear interest at the fixed rate of 10% per annum calculated on a monthly compound rate on the outstanding balance. The Loan together with all interest accrued thereon is payable after 24 months from the date of the agreement. The Loan shall be used for the sole purpose of the settlement of the amount due to major creditors of the Company as set out in the schedule of the agreement. Up to the date of this report, the Company has drawn HK\$3.5 million from the Loan, of which approximately HK\$3.2 million has been used for the full and final settlement of the amounts due to three creditors. As the agreed settlement sum was lower than the respective liabilities of the Group, a gain on waiver of debts for the year 2004 is anticipated.

Apart from the above, no significant matters which occurred since the balance sheet date to the date of these accounts and which have had or may have a material effect on the financial position of the Group at 31 December 2003 or the results for the year then ended.

## 32 ULTIMATE HOLDING COMPANY

The directors regard Lit Cheong Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

## 33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 29 March 2004.

# Financial Summary

2003  
HK\$'000

2002  
HK\$'000

2001  
HK\$'000

2000  
HK\$'000

1999  
HK\$'000

## Results

### Turnover

Continuing operations	<b>3,382</b>	7,113	58,753	113,861	42,710
Discontinued operations	-	586	15,153	20,834	-
	<b><u>3,382</u></b>	<b><u>7,699</u></b>	<b><u>73,906</u></b>	<b><u>134,695</u></b>	<b><u>42,710</u></b>

### (Loss)/profit attributable to shareholders

Continuing operations	<b>(6,861)</b>	(127,002)	2,918	(35,282)	8,693
Discontinued operations	-	(34,999)	(61,616)	(14,157)	-
	<b><u>(6,861)</u></b>	<b><u>(162,001)</u></b>	<b><u>(58,698)</u></b>	<b><u>(49,439)</u></b>	<b><u>8,693</u></b>

## Assets and liabilities

Total assets	<b>2,505</b>	19,291	179,925	184,569	40,929
Total liabilities	<b>(62,680)</b>	(72,605)	(80,950)	(60,964)	(33,726)
Minority interests	-	-	-	4,505	-
(Capital deficiency)/shareholders' funds	<b><u>(60,175)</u></b>	<b><u>(53,314)</u></b>	<b><u>98,975</u></b>	<b><u>128,110</u></b>	<b><u>7,203</u></b>

### Note :

The results, assets and liabilities of the Group for the two years ended 31 December 2000 have been prepared on a combined basis as if the group structure, at the time when the Company's shares were listed on the GEM, had been in existence throughout the years concerned.