



## **DIGITEL GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

### **THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR 2004**

#### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

## HIGHLIGHTS FOR THE NINE-MONTH PERIOD RESULTS

- The Group's turnover was approximately HK\$3.0 million.
- Profit attributable to shareholders was approximately HK\$44.8 million.
- The Directors do not recommend the payment of an interim dividend.

## RESULTS

The Directors announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the nine months (the "Nine-Month Period") and the three months (the "Three-Month Period") ended 30 September 2004 together with the comparative unaudited figures for the corresponding period as follows:

	<i>Note</i>	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
		<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
		<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	733	763	3,034	2,834
Cost of sales		<u>(246)</u>	<u>(26)</u>	<u>(1,233)</u>	<u>(1,991)</u>
Gross profit		487	737	1,801	843
Other revenues		–	328	826	616
Administrative expenses		<u>(627)</u>	<u>(840)</u>	<u>(2,401)</u>	<u>(4,869)</u>
Operating profit/(loss)		(140)	225	226	(3,410)
Finance costs		(191)	(1,026)	(963)	(2,098)
Wavier of debts due to creditors		2,879	–	45,378	–
Recovery of impairment of investment securities		<u>–</u>	<u>–</u>	<u>126</u>	<u>211</u>
Profit/loss before taxation		2,548	(801)	44,767	(5,297)
Taxation	3	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit/loss attributable to shareholders		<u>2,548</u>	<u>(801)</u>	<u>44,767</u>	<u>(5,297)</u>
Earnings/loss per share	5				
Basic (cents)		<u>0.22</u>	<u>(0.07)</u>	<u>3.92</u>	<u>(0.46)</u>

*Notes:*

**1. Basis of preparation**

The results have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards.

The results are unaudited but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation of the results are the same as those used in the preparation of the Group's audited financial statements for the year ended 31 December 2003.

**2. Turnover**

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

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>30 September</b>	30 September	<b>30 September</b>	30 September
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
System integration contracts revenue	<b>733</b>	182	<b>2,893</b>	182
Sale of goods at invoiced value, net of returns and discounts	–	7	–	1,699
Customized solution services income	–	290	–	290
Rental income	–	284	<b>141</b>	663
	<u><b>733</b></u>	<u>763</u>	<u><b>3,034</b></u>	<u>2,834</u>

**3. Taxation**

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

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

**4. Dividend**

The Directors do not recommend the payment of an interim dividend for ordinary shares for the Nine-Month Period (2003: Nil).

## 5. Earnings/loss per share

The calculation of basic earnings/loss per share for the Three-Month Period and Nine-Month Period are based on the profit attributable to shareholders of approximately HK\$2,548,000 and HK\$44,767,000 respectively (for the three months and nine months ended 30 September 2003: loss HK\$801,000 and HK\$5,297,000) and the weighted average of 1,140,730,792 (for the three months and nine months ended 30 September 2003: 1,140,730,792) ordinary shares in issue.

## 6. Reserves

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserve on consolidation <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2004	36,247	(269,796)	59,368	(67)	(174,248)
Exchange realignment	–	–	–	67	67
Profit for the six months ended 30 June 2004	–	42,219	–	–	42,219
As at 30 June 2004	36,247	(227,577)	59,368	–	(131,962)
Profit for the three months ended 30 September 2004	–	2,548	–	–	2,548
<b>As at 30 September 2004 (Unaudited)</b>	<b><u>36,247</u></b>	<b><u>(225,029)</u></b>	<b><u>59,368</u></b>	<b><u>–</u></b>	<b><u>(129,414)</u></b>
As at 1 January 2003	36,247	(262,935)	59,368	(67)	(167,387)
Loss for the six months ended 30 June 2003	–	(4,496)	–	–	(4,496)
As at 30 June 2003	36,247	(267,431)	59,368	(67)	(171,883)
Loss for the three months ended 30 September 2003	–	(801)	–	–	(801)
As at 30 September 2003 (Unaudited)	<b><u>36,247</u></b>	<b><u>(268,232)</u></b>	<b><u>59,368</u></b>	<b><u>(67)</u></b>	<b><u>(172,684)</u></b>

## 7. Comparative figures

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW AND OUTLOOK**

The Group is principally engaged in system integration service and the trading of network equipment in Hong Kong and the PRC.

During the Three-Month Period, the Group has provided service for an ATM network system located in Fujian province of the PRC. Meanwhile, the Group has jointly worked with a PRC enterprise for the bidding for a network maintenance contract in the Guangdong province of the PRC for an ATM network system. The contract, if awarded, will last for a period of 12 months and shall be renewable thereafter.

In addition, the Group has continued its service for the provision of energy saving system in two commercial buildings in Hong Kong and has extended this service to the provision of energy saving solutions to a water supply company located in Dongguan city of the Guangdong province. The Group expects that it would have the ability to conclude more projects of similar nature in the coming years and the Group will continue to market this service to other potential customers in Hong Kong and the PRC.

The Directors are optimistic to the future prospects of the Group and believe that the strategy of the Group will ultimately create value to its shareholders.

### **FINANCIAL REVIEW**

For the Nine-Month Period, the Group turnover was approximately HK\$3.0 million, representing a 7.1% increase from approximately HK\$2.8 million for the corresponding period in 2003. The Group recorded a profit attributable to shareholders approximately HK\$44.8 million for the Nine-Month Period, which shows an improvement as compared to the loss attributable to shareholders approximately HK\$5.3 million recorded in the corresponding period in 2003.

Turnover mainly comprises of system integration service of approximately HK\$2.9 million and rental income of approximately HK\$0.1 million.

During the Nine-Month Period, the Group has entered into settlement arrangement with its creditors for the full and final settlement of their debts. As the agreed settlement sum was lower than the respective liabilities of the Group, a gain on waiver of debts due to creditors of approximately HK\$45.4 million was recognized in the Nine-Month Period.

The administrative expenses for the Nine-Month Period were approximately HK\$2.4 million, being reduced by 50.7% as compared to the corresponding period in 2003. The administrative expenses mainly comprises of employee remunerations, legal and professional fee and marketing expenses.

## LITIGATIONS

As at the date of this report, the Group has been involved in 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 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.

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

- (b) On 11 March 2002, a writ was issued, amended on 22 August 2002 and 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.
- (c) 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. On 7 June 2004, the High Court gave notice to Regal Policy Limited stated that The Center (43) intended to proceed with this action. Except for this, no further action has been taken by either party thereafter.
- (d) 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.

## SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) of the Company adopted on 30 June 2000, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price of HK\$1.05 each. All options have a duration of 10 years from the date of grant of the options and exercisable after six months from the date of listing of the shares of the Company on GEM and each option shall be lapsed on the date after three months of cessation of the employment of the relevant grantee. No share options can be granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company on 12 July 2000. As at 30 September 2004, there were no outstanding share options granted under the Pre-IPO Share Option Scheme (as at 31 December 2003: 20,000,000). No share options were exercised under the Pre-IPO Share Option Scheme since its adoption.

Under the share option scheme (the “Share Option Scheme”) of the Company adopted on 30 June 2000, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price determined by the Directors and shall be no less than the higher of (i) the closing price of the shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one director or employee shall not be more than 25% of the number of shares in respect of all the options granted under the Share Option Scheme. A non-refundable nominal consideration of HK\$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant. No share options were granted under the Share Option Scheme since its adoption.

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

As at 30 September 2004, the interests and short positions of the directors and chief executives in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules were as follows:

### **Long positions in shares**

#### **(a) The Company**

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

#### *Note 1*

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

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

#### **(b) Associated Corporations**

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

### **Long positions in underlying shares and debentures**

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



## Short positions in shares, underlying shares and debentures

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

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons (other than the directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO.

### Long positions in shares

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

#### Note 1

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

#### Note 2

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

*Note 3*

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

*Note 4*

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

**Long positions in underlying shares**

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

**Short positions in shares and underlying shares**

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

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

Pursuant to the Share Option Scheme of the Company, the Directors and employees of Group may be granted share options to subscribe for shares of the Company at an exercise price. During the Nine-Month Period, no options were granted or exercised by the Directors and as at 30 September 2004, there were no outstanding options which were granted to the Directors.

Apart from the above, at no time during the Nine-Month Period neither the Company nor 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 such right.

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

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

**COMPETING INTEREST**

The Directors are not aware of, as at 30 September 2004, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## **AUDIT COMMITTEE**

In compliance with rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee comprises three independent non-executive directors, namely Mr. Ha Kee Choy Eugene, Mr. Ho Chiu Kee and Mr. Leung Ka Kui Johnny. The principal duties of the audit committee's are the review and supervision of the Company's financial reporting process and internal control systems.

The Group's unaudited consolidated results for the Nine-Month Period have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules throughout the Nine-Month Period.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the Stock Exchange's required standard of dealings. The Company had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the Stock Exchange's required standard of dealings and its code of conduct regarding securities transactions by the Directors.

By Order of the Board  
**Lee Chuen Bit**  
*Chairman*

Hong Kong, 12 November 2004

*As at the date hereof, Mr. Lee Chuen Bit is the chairman and executive director; Mr. Hon Chak Sang is the executive director; Mr. Ha Kee Choy, Eugene, Mr. Ho Chiu Kee and Mr. Leung Ka Kui, Johnny are the independent non-executive directors of the Company.*

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