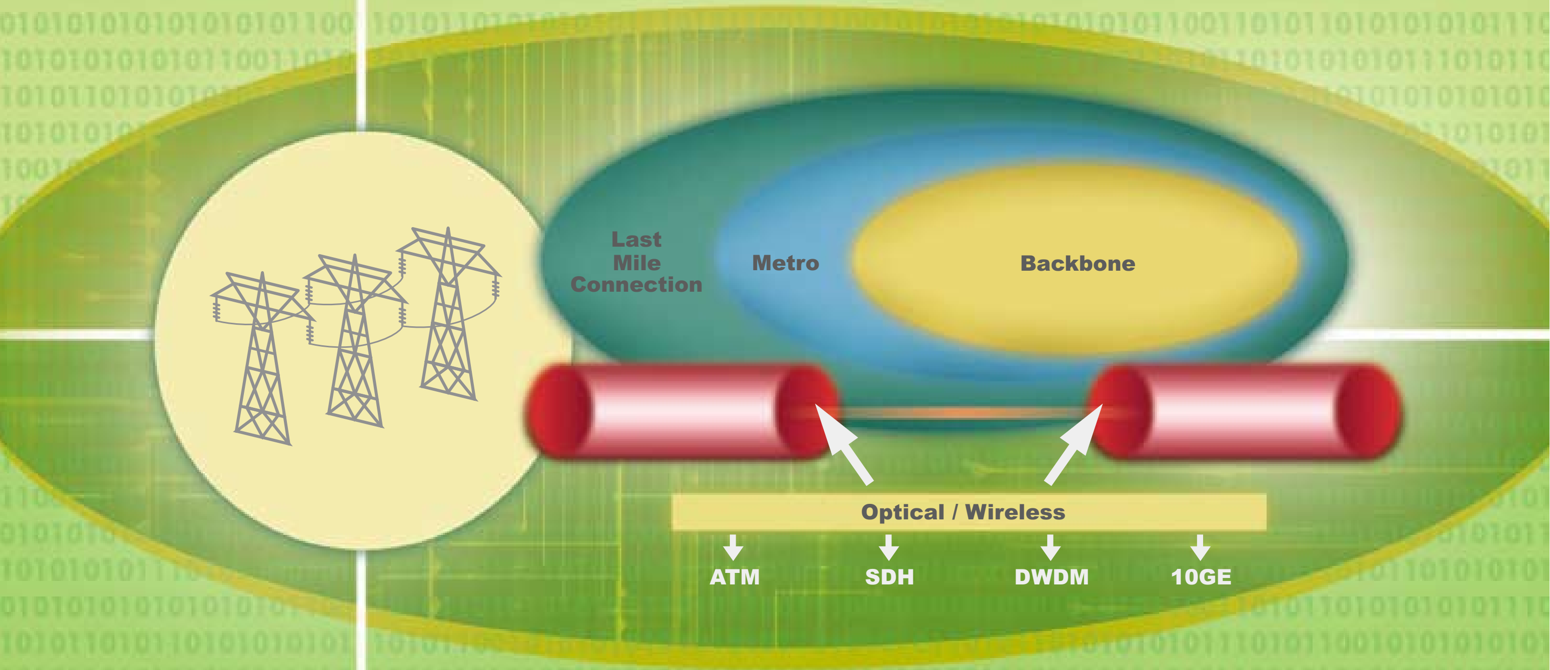
数通集團

DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)



Annual Report

2000

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

Stock Code : 8030

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 on 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.

Contents

Corporate Information

Directors

Executive Directors
Mr. Lee Chuen Bit
Mr. Hung Hin Cheong
Mr. Wong Siu Wa
Mr. Tsang Hing Lun

Non-executive Director
Mr. Fan Ren Da, Anthony

Independent Non-executive Directors
Mr. Ho Chiu Kee
Mr. Leung Ka Kui, Johnny

Authorized Representatives

Mr. Lee Chuen Bit
Mr. Tam Tak Wah

Company Secretary

Mr. Tam Tak Wah, *FHKSA, FCCA*

Qualified Accountant

Mr. Tam Tak Wah, *FHKSA, FCCA*

Compliance Officer

Mr. Tsang Hing Lun, *FHKSA, FCCA, FCMA*

Audit Committee

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

Joint Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Graham H. Y. Chan & Co.
Certified Public Accountants
Unit 1, 15th Floor
The Center
99 Queen's Road Central
Hong Kong

Registered Office

Zephyr House
Mary Street
George Town
Grand Cayman
British West Indies

Head Office & Principal Place of Business

43rd Floor, The Center
99 Queen's Road Central
Central
Hong Kong

Corporate Information

Company Homepage

http://www.digitelgroup.com

Principal Bankers

The Bank of East Asia Limited
314-324 Hennessy Road
Hong Kong

Standard Chartered Bank
13th Floor
Standard Chartared Tower
388 Kwun Tong Road
Kwun Tong
Hong Kong

Industrial and Commercial Bank
of China (Asia) Limited
Ground Floor
162-164 Connaught Road Central
Hong Kong

Hong Kong Branch Share Registrar and Transfer Office

Abacus Share Registrars Limited
2401 Prince's Building
Central
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 43/F., The Center, 99 Queen's Road Central, Central, Hong Kong on Thursday, 26th April 2001 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 auditors for the financial year ended 31st December 2000;

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 auditors and to authorise the board of directors to fix their remuneration; and

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

(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

(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."

Notice of Annual General Meeting

(D) "**THAT** the directors of the Company be and hereby authorized to grant options under its share option scheme adopted on 30th 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 from time to time."

By Order of the Board
Lee Chuen Bit
Chairman

Hong Kong, 30th March 2001

Registered office:
Zephyr House
Mary Street
George Town
Grand Cayman
British West Indies

Principal place of business:
43rd Floor
The Center
99 Queen's Road Central
Central
Hong Kong

Notes:

(i) A member 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 2401, Prince's Building, Central, 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 the GEM of the Stock Exchange will be despatched to the members of the Company together with the 2000 annual report.

Chairman's Statement

It gives me great pleasure to present to the shareholders the first annual report of DigiTel Group Limited (the "Company") and its subsidiaries (collectively, the "Group") since the Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in July 2000.

RESULTS AND DIVIDENDS

The year 2000 has been a remarkable year for the Group. With the strategically formulated promotion and business development plans and the well performance of our technical colleagues, the Group enjoyed satisfactory results by making a profit attributable to shareholders of HK$2,510,000. Turnover soared by 215% from HK$42,710,000 in 1999 to HK$134,695,000 in 2000. The overall gross profit margin has been raised from 36% in 1999 to 52% in 2000.

No interim dividend has been declared and the Board of Directors (the "Directors") do not recommend the payment of a final dividend. All earnings will be retained to finance the continuing development of the Group's businesses.

ATTRACTION OF STRATEGIC INVESTOR

On 13th March 2001, Precision Management Limited ("PML"), an independent third party, entered into an agreement with the Group to acquire a 49% interest in iGreatLink.com Limited ("iGreatLink"), a subsidiary of the Group that provides Internet Service Provider ("ISP") services and an inter-company loan to iGreatLink, at a total consideration of HK$78,400,000. The transaction is scheduled to be completed on or before 31st December 2001. Upon completion, the Group will record a gain of approximately HK$69,200,000.

PML is principally engaged in the investment of various high technology projects in the PRC such as data centre facilities management, Internet and broadband-related applications and provision of network infrastructure. With the business knowledge and network of PML's management team in the information technology industry, the Directors believe that the introduction of PML into the Group's ISP business will enhance iGreatLink's competitiveness within the industry and bring a synergetic effect on the Group's overall business.

Chairman's Statement

The Directors consider the transaction as a vote of confidence from PML in the prospects of iGreatLink. It shows that the Group's consistent approach in being an infrastructure developer of communication networks can be rewarding.

Details of the transaction have been published in an announcement dated 13th March 2001.

BUSINESS REVIEW

The business goal of the Group is to become a leading "total communication solutions provider". Other than the satisfactory performance of the core business of system integration and engineering of broadband multimedia communication networks, the Group launched the new Internet businesses in the year 2000 in order to support and strengthen its core business. The Group has extended a firm pace towards its business goal.

Continued Growth of the Core Business

Compared with 1999, the core business's turnover for 2000 grew by 163% to HK$98,005,000, operating profit surged by 169% to HK$25,300,000 and operating profit margin rose by 2% to 25.8%. It continued to be the major source of income of the Group, accounting for 73% of the Group's total turnover in 2000.

During the year, the Group's core business arm served 6 major projects, most of which were completed on schedule.

Growth in the New Internet Businesses

The new Internet businesses were launched in the first quarter of 2000. It marked a turnover of HK$20,834,000 for the year.

For the Internet businesses to grow, capital investment and operating expenses are required to ensure the quality of services, attract customers and build up customer loyalty, which are the cost to pay in any new business. The Group has been successful in establishing a market presence for its new Internet businesses following their launch in the first quarter of 2000.

Chairman's Statement

Fine Tuning of Development Strategy

The Internet business

To cope with the recent market sentiment of the Internet businesses, the Group has revised the operation modules of its Internet businesses to increase their revenues. The Internet businesses have since targeted at large-sized projects, instead of following the original plan of targeting small and medium-sized enterprises, small office and home office clients. The rationale behind is that the Group should capitalize on niche marketing of knowledge and expertise in order to get customers.

This change in direction is illustrated by the Group's success in securing a contract from the Education Department of the Hong Kong Government, for the provision of an intranet with web-based applications for data management of the secondary and primary schools in Hong Kong. It shows that the Group's efforts in incorporating the Internet services into its core business of network development have begun to yield fruit. Such strategy should provide long-term benefits to the Internet businesses.

The core business

As said, the Group's strategy has been focused on being a "total communication solutions provider" with network development as its core business and Internet services as the supporting businesses.

The Group will concentrate on the PRC and Hong Kong markets where the Group have long presence and strong connections. In particular, the Group will focus on the market of new telecommunications carriers emerged from the rapid growth of the telecommunications market in the PRC.

More importantly, as the PRC is preparing to join the World Trade Organization ("WTO"), the country's private and public companies alike are seeking improvements in telecommunications as part of the means to become more competitive in the new environment. In Hong Kong, the Government is taking a leading role in promoting e-communications and is encouraging the private sector to do so. Such developments provide substantial opportunities for the Group's system integration and engineering business and Internet businesses.

As such, the Group has started to put a stronger emphasis on the PRC and Hong Kong markets rather than the Asian region. In particular, the Group is targeting the telecommunications sector in the PRC, where the development potential is huge. Along this refocusing strategy is the increase of resources for promoting new products and services, such as Local Multi-points Distribution System, to customers in the PRC.

The Group is also negotiating with customers in relation to 15 system integration and engineering of broadband multimedia communication networks contracts, the aggregate value of which is expected to amount to approximately HK$200 million.

FUTURE PROSPECTS

The Directors believe that a solid business model capable of providing stable income and good profitability is taking shape within the Group. The business model is built on the Group's positioning as a "total communication solutions provider", with the core business of network development gradually integrating with the Internet businesses to spearhead the growth momentum.

In order to realize these benefits, the Group plans to fully utilize its long presence and strong connections in the PRC and Hong Kong markets for further penetration. The PRC, in particular, offers promising opportunities as both public and private corporations are looking for more sophisticated communication systems to increase their productivity in light of the country's entry into the WTO. The huge territory and the rapid economic development of the PRC also make communication improvement an urging need.

Chairman's Statement

The Group is studying the feasibility of introducing piggybacking optical fibres on top of electricity cables into prime office buildings in the southern provinces of the PRC to capture the growing opportunities arising from the country's rapid telecommunication development. This represents a new business area for the Group to utilize its experience and expertise in network development for the potential of making highly lucrative gains.

The optical fibre network, or Last Mile Connection ("LMC") network, can be plugged into the existing telecommunication infrastructure and Metropolitan Area Network ("MAN"). It is therefore a time and cost-efficient way to improve the telecommunication services in the cities. The Group is evaluating the feasibility of the project with the Provincial Electric Power Bureau of a southern province in the PRC.

Meanwhile, the Group is also negotiating for contracts and other joint development opportunities with parties in both Hong Kong and the PRC.

As a concluding statement, to develop the telecommunication network over the existing power grid system of the PRC is an important and precious resource in the PRC. The Group has accumulated years of experience and technical knowhow in this aspect which will bring valuable opportunities for our business development and direction. How to make use of the existing power grid system to penetrate into telecommunication service will be the main subject of the Group in the coming future. We believe that the Group would be able to benefit from this development and will create value to shareholders and long-term business opportunities.

Chairman's Statement

APPRECIATION

On behalf of the board, I would like to express my gratitude to all shareholders for their continued support and our staffs for their loyal and diligent service. I would also like to thank our customers, suppliers and bankers for their trust and confidence.

Lee Chuen Bit
Chairman

Hong Kong, 27th March 2001

Management Discussion and Analysis

OVERVIEW

For the year ended 31st December 2000, the Group's core business of system integration and engineering of broadband multimedia communication networks generated a turnover of HK$98,005,000, representing an increase of 163% from 1999. Its operating profit grew by 169% to HK$25,300,000, while its operating profit margin rose by 2% to 25.8%.

The Group diversified into application service provider ("ASP") and Internet service provider ("ISP") businesses in February 2000 and March 2000 respectively. Up to the year-end, they contributed a turnover of HK$20,834,000, but recorded a loss of HK$14,157,000 due to the initial costs for launch and promotion and related operating costs. Subsequent to the year-end, an unrelated investor has entered into an agreement with the Group to acquire a 49% interest in iGreatLink.com Limited ("iGreatLink"), the Group's ISP business and an inter-company loan to iGreatLink, at a total consideration of HK$78,400,000. Completion of the agreement will result in a capital gain of approximately HK$69,200,000 for the Group.

Turnover from the distribution and maintenance of digital and multimedia communication equipment and software products amounted to HK$8,363,000 (1999: HK$4,750,000), accounting for 6% (1999: 11%) of the Group's total turnover. It incurred an operating loss of HK$2,961,000, compared to profit of HK$212,000 in 1999.

In terms of market, the PRC accounted for 48% (1999: 32%) of the Group's turnover, while Hong Kong accounted for the remaining 52% (1999: 68%).

SYSTEM INTEGRATION AND ENGINEERING OF BROADBAND MULTIMEDIA COMMUNICATION NETWORKS

This remained the Group's core business in 2000, accounting for 73% of the Group's total turnover compared to 87% in 1999.

Its continued strong growth in turnover and operating profit can be attributed to the expertise and experience in offering comprehensive infrastructure solutions to customers in the PRC and Hong Kong, and the ability to complete the projects in a timely manner.

Management Discussion and Analysis

Completed Projects

During the year, the Group's core business arm served 6 major projects, most of which were completed on schedule.

The Shunde Electric Power Bureau project, commenced in November 1997, was completed in March 2000. The project related to the development of an optical fibre network covering the whole Shunde city in Guangdong, which enabled the Shunde Electric Power Bureau to integrate different types of communication over the same network for its substations.

Another major project completed during the year was the Far East Gateway project. It concerned the design, installation and implementation of a worldwide voice over Internet protocol ("VoIP") system for Far East Gateway Limited, an international carrier based in Hong Kong providing international telephony service. The project commenced in July 1999 and was completed in July 2000.

Projects on Hand

Commenced in December 1999, the Zhongshan Electric Power Company Limited project Phase 1 was originally scheduled for completion in August 2000. Due to additional time required for customer to purchase appropriate assets for integration with the system, completion is now expected to take place in early 2001.

The project relates to the development of a multimedia switching and transporting system that covers the whole Zhongshan city with 19 nodes, so that the customer can integrate different types of communication including data, voice and video. The system also provides broadband multimedia applications and point to point connection.

The Jinjiang Electric Power Company project, commenced in December 1999, was originally scheduled for completion in August 2000. Due to additional time required for customer to purchase appropriate assets for integration with the system, completion is now expected to take place in early 2001. The project is similar to the Zhongshan one but Jinjiang Electric Power Company will use the system in the Jinjiang city.

Management Discussion and Analysis

The Group was appointed by Diyixian.com Limited as its prime system integrator for network equipment, installation, commissioning, integration and subsequent maintenance of a data and multimedia communication network to be used by Diyixian.com Limited in the PRC, Hong Kong and Taiwan (the "Greater China Region"). Diyixian.com Limited provides ISP services and operates data centres in the Greater China Region. The term of the appointment commenced in March 2000 and will expire in December 2001.

Apart from the above, the Group has secured new contracts that include VoIP network development contracts with points of presence in the United States, the PRC and Hong Kong.

Potential Projects

The Group is negotiating with customers in relation to 15 system integration and engineering of broadband multimedia communication networks contracts, the aggregate value of which is expected to amount to approximately HK$200 million.

In order to secure more projects, the Group is actively seeking business partnerships to develop the e-government and office automation markets in the PRC. Such partnerships can explore the business opportunities related to the research and development of computer networks, communication and application procedures, development of hardware and software for office automation, system integration, advisory and consultancy services, and sale of computer and related products. Targeted customers include government bodies as well as public and private enterprises.

In addition, the Group is studying the feasibility of introducing piggybacking optical fibres on top of electricity cables into prime office buildings in the southern provinces of the PRC to capture the growing opportunities arising from the country's rapid telecommunication developments. The optical fibre network, or Last Mile Connection ("LMC") network, can be plugged into the existing telecommunication infrastructure and Metropolitan Area Network ("MAN"). It is therefore a time and cost-efficient way to improve the telecommunication services in the cities. The Group is now evaluating the feasibility of the project with the Provincial Electric Power Bureau of a southern province in the PRC.

Management Discussion and Analysis

INTERNET BUSINESSES

ASP Business

In February 2000, the Group launched its ASP portal, corp2net.com, which provides a common platform for software companies and customers to host their data and applications over the Internet and intranet. It was intended that through providing a total application service solution, corp2net.com would be able to attract customers that include small and medium-sized enterprises, small office and home office clients and professionals in Hong Kong.

In line with this direction, corp2net.com has introduced many services, such as sub-domain web hosting, unified messaging system, virtual desktop, enterprises resource planning services, wireless application protocol ("WAP") services and WAP2WEB services. New applications were also introduced, such as CorpSearch, Corp2Ad, Corp2Web and Corp2Biz.

Moreover, corp2net.com has formed a number of strategic alliances or business partnerships to enhance the development of its business. They are mainly about the sharing of information and joint marketing.

With strong marketing and promotional efforts, corp2net.com has successfully built a presence in the market. The expertise of corp2net.com has also enabled the Group to secure a contract from the Education Department of the Hong Kong Government for the provision of an intranet with web-based applications for data management of the secondary and primary schools in Hong Kong.

However, the revenue base of corp2net.com has been relatively small compared to the operating costs it incurred. As a result, a loss of HK$704,000 was recorded by corp2net.com for the year ended 31st December 2000. The Group is now reviewing the operations of corp2net.com, with a number of options under consideration.

Management Discussion and Analysis

ISP Business

In March 2000, the Group launched its ISP services in Hong Kong through iGreatLink, with a view to link up corporate users to the Internet and provide them with "managed" value-added services. Following the launch, several services have been introduced, including dedicated Internet access, broadband Internet access and content delivery services.

The services bear the hallmarks of the Group in both quality and variety. As a result, iGreatLink has been able to provide a high speed, round-the-clock and reliable Internet connection and inter-networking with minimum latency and packet loss.

However, in view of high competition in the marketplace, iGreatLink had to continuously invest in infrastructure enhancement, marketing and promotion, and research and development. These resulted in major capital investment and an increase in headcount and overhead.

The initial development costs of iGreatLink and its relatively low revenue have resulted in a loss of HK$13,453,000 for the year ended 31st December 2000.

In March 2001, PML, an unrelated investor has entered into an agreement with the Group to acquire a 49% interest in iGreatLink and an inter-company loan to iGreatLink at a total consideration of HK$78,400,000. Upon completion of the agreement, there will be an exceptional gain of approximately HK$69,200,000 for the Group in the year ending 31st December 2001 (such calculation is based on the total consideration of HK$78,400,000 less the inter-company loan to iGreatLink assigned to PML and PML's share of the profit/loss of iGreatLink upon completion). The Directors consider the transaction as a vote of confidence from the investor in the prospects of iGreatLink. It will also enable the Group to lower its operating costs and expand the strategic alliance for its ISP business. Other ways are being explored to increase the revenue of the operations.

Management Discussion and Analysis

DISTRIBUTION AND MAINTENANCE OF DIGITAL AND MULTIMEDIA COMMUNICATION EQUIPMENT AND SOFTWARE PRODUCTS

The Group is also engaged in the distribution and maintenance of digital and multimedia communication equipment and software products. For the year ended 31st December 2000, this business generated a turnover of HK$8,363,000, which represented 6% of the Group's total turnover.

The Group markets and distributes a comprehensive range of multimedia communication equipment such as digital voice recording systems, and software products such as accounting and logistics enterprises resource planning software.

PURCHASE CONTRACT AND FACILITY AGREEMENT WITH NORTEL NETWORKS

In August 2000, the Group entered into a purchase contract and a facility agreement with Nortel Networks (Asia) Limited ("Nortel Networks").

Under the purchase contract, the Group will purchase multimedia communication equipment and related services from Nortel Networks at a value of not less than approximately HK$60 million during the period up to 31st December 2001.

Under the facility agreement, Nortel Networks will provide a facility of approximately HK$39 million to finance the Group's purchase by way of convertible notes, which can be converted into the Company's shares at HK$1.05 each starting from the eighth month of the date of drawdown of the facility.

The Group made its first drawdown in October 2000. As at 31st December 2000, the Group has purchased multimedia communication equipment and related services from Nortel Networks at a value of approximately HK$8.5 million, of which approximately HK$5.6 million was financed by Nortel Networks.

Management Discussion and Analysis

INVESTMENT

In January 2000, the Group entered into an agreement to subscribe for a 0.9% interest in Diyixian.com Limited which provides ISP services and operates data centres in the Greater China Region.

In February 2000, the Group entered into an agreement to subscribe for a 1.0% interest in Quam.net Limited which operates a website known as www.quamnet.com that publishes financial news, commentary, stock quotes and other financial information aimed at helping readers make informed investment decisions.

In March 2000, the Group entered into an agreement to subscribe for a 2.9% interest in netalone.com Limited. netalone.com Limited is a company listed on the Stock Exchange which engaged in the development, integration and operation of e-commerce software applications and system platforms for enterprises.

FINANCE

As at 31st December 2000, the Group's shareholders' funds amounted to approximately HK$128 million. Total debts amounted to approximately HK$23 million, of which approximately HK$7.4 million was short-term debt and approximately HK$15.6 million was long-term debt. The debt-to-equity ratio was 18%.

The Group's available undrawn bank facilities together with bank deposits as at 31st December 2000 amounted to HK$90 million. The undrawn amount in relation to the facility granted by Nortel Networks was HK$33.4 million.

In July 2000, the Group raised net proceeds of approximately HK$91 million through an initial public offering. Taking into account the changes in market condition, the Directors have been prudent in pursuing the development plans. As a result, the Group has been able to maintain a healthy cash flow with proper financial controls to ensure stability in the Group's development. Cash and bank balance of the Group as at 31st December 2000 amounted to HK$45.7 million, representing the unused proceeds from the initial public offering and funds generated from the Group's operations.

Management Discussion and Analysis

USE OF PROCEEDS

The actual use of proceeds for the 6 months ended 31st December 2000 as compared to the proposed amount set out in the prospectus of the company dated 6th July 2000 are as follows:—

	Proposed	**Actual**
	HK$'000	*HK$'000*
Research and development of web-based applications and software	2,700	5,416
Marketing and promotional activities	1,800	6,332
Enhancement of the Internet infrastructure of the Group	6,500	5,628
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP businesses	2,500	—
Establishment of a sales and customer support service centre and a research and development centre in Guangzhou for the system integration business and the ASP business	5,000	—
	18,500	**17,376**

Use of proceeds for research and development of web-based applications and software and marketing and promotional activities were more than the original scheduled amount as the Group intended to enrich its applications and content in corp2net website and establish its market place in a fast pace. The Directors consider this would benefit the Group in long run and will control the cost in these two areas for the next two years.

No equity investment in companies has been made due to the change of market sentiment and the Directors have scrutinized investment opportunity in a very prudent way. However, the Group will continue its objective to look for equity investment which the Directors perceive to have synergy with our businesses.

A sales and customer support service center and a research and development center in Guangzhou is rescheduled to be set up in the first half of 2001 to cope with the business development of the Group. Fund to be incurred shall be deferred to the relevant period.

Management Discussion and Analysis

The Directors consider the above changes in use of proceeds will not affect the business objectives of the Group. As a result of such changes, the use of proceeds as set out in the prospectus dated 6th July 2000 shall be revised as follows:—

	For the 6 months ending				
	30th June 2001	**31st December 2001**	**30th June 2002**	**31st December 2002**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Research and development of web-based applications and software	3,900	3,900	5,400	2,700	15,900
Marketing and promotional activities	2,200	2,200	3,900	—	8,300
Enhancement of the Internet infrastructure of the Group	5,400	4,500	4,500	4,500	18,900
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP businesses	7,500	2,500	—	—	10,000
Establishment of a sales and customer support service centre and a research and development centre in Guangzhou for the system integration business and the ASP business	5,000	—	—	—	5,000
	24,000	13,100	13,800	7,200	58,100

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

Comparison of business objectives as set out in the prospectus of the company dated 6th July 2000 with actual business progress

Business Objectives	Actual Business Progress
System integration and engineering of broadband multimedia communication networks	
1. Continue to fulfill obligations under the existing projects on hand.	By maintaining good quality control on products and services, close monitoring on project progress and regular communications with customers, the Group has been able to fulfill its project obligations to customers' satisfaction and encountered no major disputes for all its existing 6 projects on hand.
2. Finalise the implementation of the ATM projects for Zhongshan Electric Power Company Limited and Jinjiang Electric Power Company.	The projects are now in the final phase of completion and due to additional time required for customers to purchase assets for integration with the system, both projects are expected to be completed before June 2001.
3. Continue to bid infrastructure projects comprising new contracts of supply, implementation and maintenance of broadband infrastructure networks.	The Group has submitted 2 tenders during and subsequent to the year 2000, to potential customers in both Hong Kong and the PRC and pending for results which will be known in the first quarter of 2001. Other tender opportunities are being actively pursued.
4. By way of direct marketing, expand clientele base to private enterprises in Hong Kong and the PRC for setting up infrastructure networks for B2B e-commerce business portals.	As a result of the marketing effort, the Group has secured a major contract for developing a data and multimedia communication network for a customer in the PRC, which contributed to a turnover of HK$13.7 million for the year, representing 10% of the Group's total turnover.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

5.	Evaluate and improve applications of technologies such as IP over DWDM and ATM.	Regular technical meetings with suppliers and customers have been conducted on a continuous basis to provide customers with the best available solutions that meet their needs.
6.	Recruit new technical staff up to about 5 staffs.	As at 31st December 2000, the Group had 11 technical staffs, 3 of whom were recruited subsequent to July 2000. The Group will review the staff level regularly in order to maintain good quality of service.
7.	Recruit new marketing staff up to about 5 staffs.	As at 31st December 2000, the Group had 7 marketing staffs, 1 of whom was recruited subsequent to July 2000. The Group will review the staff level regularly in order to maintain good quality of service.

ASP

1.	Develop new application features for subscribers by in-house research and development or by modifying the applications developed by the Group's business partners, provided that such modifications are authorized.	The Group has developed new applications and features, such as CorpSearch, Corp2Ad, Corp2Web and Corp2Biz, for the corp2net.com website. UMS, information broadcasting, trading mart and tendering systems have not been implemented due to the unfavourable market responses.
2.	Upgrade and promote ERP services.	Applications including accounting and treasury applications have been introduced and promoted under the ERP services.
3.	Launch CRM services.	The Group has held back from launching these services in view of thin profit margin due to keen competition in this market and will not implement these services.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

4. Plan and implement the following marketing strategies to penetrate SMEs, Soho clients and professionals :	
— Increase direct sales staff up to about 70 personnel to solicit potential clients who do not have their domain or web page.	Having considered the changes in market condition, the Group has favoured a leaner operation. As at 31st December 2000, there were 29 sales staffs responsible for the Internet businesses, 5 of whom were recruited subsequent to July 2000. The Group considers the existing staff level is able to cope with the business development and achieve the business objectives.
— Recruitment of part-time workers to distribute leaflets in busy locations to create awareness of the brand name "corp2net.com".	Recruitment of part-time workers for such work was performed in the third quarter of 2000.
— Increase customer service staff up to about 5 to inform existing subscribers of the latest service and handle customers' enquiries.	As at 31st December 2000, the Group had 5 customer services staffs, 1 of whom was recruited subsequent to July 2000.
— Line-up with about 10 Internet companies to provide all corp2net.com service to their clients, thereby expanding client base.	The Group has lined up with 7 Internet companies to provide corp2net.com service to their clients. The Group considers this is adequate but will continue to look for other opportunity for similar co-operation.
— Provide a series of premium gifts for new subscribers.	A series of premium gifts such as Palm III were provided for new subscribers under the Group's various marketing campaigns.
— Use mass fax system to send out promotion letters of corp2net.com service to SMEs, Soho clients and professionals.	Using mass fax system to send out promotion letters were performed in the third quarter of 2000.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

— Launch a series of marketing program to promote the brand "corp2net.com" through advertising on newspapers, business magazines, bus and Mass Transit Railway advertising boards and direct mailing and distribution of corporate newsletters and leaflets to the public.	The Group has advertised on newspapers, magazines, bus and Mass Transit Railway advertising boards and direct mailing and distribution of corporate newsletters to corp2net subscribers and leaflets to the public.
5. Through Corpartner Limited, provide tailor-made e-commerce solutions and portal building to 1 to 2 customers.	The Group has secured and subsequently completed 1 contract for portal building, which generated turnover of approximately HK$8.9 million representing 6.6% of the Group's turnover.
6. Incorporate new applications such as bidding system that have been developed by third parties to enhance application services.	The Group has incorporated new applications such as accounting systems and treasury systems, but will not introduce the bidding system following the negative result of the further assessment of its potential contribution to the enhancement of the Group's application services.
7. Form content alliances with about 5 content providers to acquire industry news and general interest topics and continue to identify content providers whose contents have synergy with the Group and form content alliances with them to acquire industry news and general interest topics.	The Group has formed content alliances with 5 companies to source information such as financial information, hotel information, online travel service, Hong Kong property market information and Greater China information to enrich the content of corp2net.com website.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

8. Form business partnerships with about 5 Internet companies (one of which is under preliminary discussion with the Group) for joint promotion and to improve brand image and continue to identify Internet companies whose businesses have synergy with the Group and form business partnerships with them for joint promotion and new business development.	The Group has formed business partnerships with 4 companies for joint promotion and brand development (including the one which was under preliminary discussion with the Group at the date of prospectus). The Group considers this is adequate but new partnership opportunities will be considered if they are considered to be beneficial to the Group's business development.
9. Recruit web content editors and web designers to enhance the Group's content and presentation.	The Group has built up a team of content editors and web designers with 2 staffs at the year end date.
10. Increase the regional coverage by means of partnership to start operations in different Asian countries. The Group is currently under preliminary negotiations with companies in Taiwan, Japan and Korea for a possible joint development of ASP business in such countries.	Having considered the costs and economic benefits, the Group has not proceeded with the original plan and the business objective will be changed back to focus on Hong Kong and the PRC markets.

ISP

1. Continue to launch the service of high speed, round-the-clock and reliable with unlimited usage Internet access in Hong Kong.	The Group has been able to maintain the high speed, round-the-clock and reliable with unlimited usage Internet access service following its launch in Hong Kong in the first quarter of 2000.
2. Promote broadband Internet access and dedicated Internet access services and CDS in Hong Kong.	The Group has actively promoted these services in Hong Kong, which form part and parcel of the Group's ISP services.

Comparison of the Business Objectives set out in the Prospectus with Actual Business Progress

3. Launch IPVPN.	The Group has launched this service in the second half of 2000.
4. Set up the CDS network and negotiate with business partners for co-locating CDS servers in their sites, such as Hong Kong, Beijing, Guangzhou, Taiwan, Singapore, Japan and the US.	The Group has developed the CDS network, which is linked by servers co-located in the premises of other business partners in Hong Kong, Beijing, Guangzhou, Taiwan, Japan and the US.
5. Explore business opportunities with other networking companies for joining the Group's reseller program for IPVPN service.	The Group has identified 2 partners in the PRC for jointly developing the IPVPN service that connects Hong Kong and the PRC.
6. Plan and launch marketing strategies for promoting the service of iGreatLink and brand building through newspapers, business magazines and distribution of corporate newsletters and leaflets to the public.	The Group has continued to market iGreatLink through various channels in order to promote the brand and expand its customer base.

Other

Establish a sales and customer support service center and a research and development centre in Guangzhou for the system integration business and the ASP business.	The Group has identified a suitable candidate for overseeing the management of the 2 centres, which are expected to be opened in Guangzhou this year.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lee Chuen Bit

Mr. Lee, aged 47, is the Chairman and one of the co-founders of the Group. He has over 15 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. He is a director and one of the co-founders of Lit Cheong Group and its related companies. Mr. Lee has extensive experience in the management in the information technology and telecommunication sectors including networks integration, e-commerce service, international telephony service, national-wide paging services in the PRC and VSAT communication services in the PRC.

Mr. Hung Hin Cheong

Mr. Hung, aged 49, is the Vice-Chairman and one of the co-founders of the Group. He is responsible for identifying new project opportunities and the Group's overall strategic planning. He has over 15 years of experience in the marketing and management in companies in the power generation sector. He is a director and one of the co-founders of Lit Cheong Group and its related companies. He also has over 20 years of experience in China trade.

Mr. Wong Siu Wa

Mr. Wong, aged 29, is the Managing Director and Chief Executive Officer of the Group. He holds a Bachelor of Science degree from the Chinese University of Hong Kong and has hands-on experience in developing different technology-related opportunities in voice and data communication. Prior to joining the Group in 1997, Mr. Wong had about 4 years of experience in data communication industry in Hong Kong and the Greater China Region. He has extensive exposure in Internet-related technologies and e-commerce business. His achievements include obtaining the ATM and SDH infrastructure contracts in Shunde, Zhongshan, Jinjiang and Guangdong.

Biographical Details of Directors and Senior Management

Mr. Tsang Hing Lun

Mr. Tsang, aged 51, is the Executive Director and Chief Operating Officer of the Group. Prior to joining the Group in March 2000, he had over 20 years of experience in the banking sector and was previously an assistant general manager and head of planning and development division of the Hang Seng Bank Group and an alternate chief executive and a deputy general manager of China Construction Bank, Hong Kong Branch. He was also the Executive Director – Finance and Operations of the Stock Exchange. Mr. Tsang holds a Bachelor of Business Administration degree (1st Class Honors) from the Chinese University of Hong Kong. He is a Fellow Member of the Association of Chartered Certified Accountants of the United Kingdom, a Fellow Member of the Hong Kong Society of Accountants, a Fellow Member of Chartered Institute of Management Accountants, a Fellow Member of the Hong Kong Computer Society, a Fellow Member of the Hong Kong Institute of Taxation, a Member of Hong Kong Securities Institute and a Member of Hong Kong Institute of Real Estate Administration.

Non-executive Director

Mr. Fan Ren Da, Anthony

Mr. Fan, aged 40, was appointed as Non-executive Director in June 2000. He is the managing director of AsiaTech Ventures Limited, a fund manager of a number of technology funds. Mr. Fan has expertise in general management, corporate finance, mergers and acquisitions, company consolidation and restructuring. Prior to his appointment as the managing director of AsiaTech Ventures Limited, he was the managing director of Ta Fu International Holdings Limited for the period from August 1994 to September 1998. Before that, Mr. Fan held senior positions in a number of international financial institutions. Mr. Fan obtains a Master of Business Administration degree in the United States. He is an independent non-executive director of Raymond Industrial Limited and South East Asia Wood Industries Holdings Limited (both companies listed on the Stock Exchange) and also holds directorships in a number of high technology and Internet-related companies and is an assessor of the Hong Kong Innovation and Technology Fund SERAP Project Assessment Panel.

Biographical Details of Directors and Senior Management

Independent non-executive Directors

Mr. Leung Ka Kui, Johnny

Mr. Leung, aged 43, was appointed as Independent Non-executive Director in June 2000. He has over 15 years of experience in legal field and is the senior partner of Messrs. Johnny K.K. Leung & Co., Solicitors & Notaries. He is a qualified solicitor in Hong Kong, England & Wales and Singapore, and is a Notary Public and China Appointed Attesting Officer. He is an independent non-executive director of Celestial Asia Securities Holdings Limited, 401.com Limited and Jackin International Holdings Limited, 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 1997 to 1998.

Mr. Ho Chiu Kee

Mr. Ho, aged 48, was appointed as Independent Non-executive Director in June 2000. He has over 10 years of extensive experience in management and administration. He is the managing director of Guardian Group, a vice president of Hong Kong Institute of Real Estate Administration, the president of Hong Kong Association of Property Management Companies, the president of Homantin Government Secondary School Alumni Association, a vice president of the Friends of Scouting, Scout Association of Hong Kong, a member of Security Services Training Board – Vocational Training Council, a member of Waste Reduction Task Force for the Private Housing Sector – Waste Reduction Committee, a member of Appeal Board Panel – Electricity Ordinance (Cap 406) and a member of Sub-Committee on Promotion of Volunteering in Community Organizations. 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. Tse Kwok Shek

Mr. Tse, aged 44, is the System Integration Director of the Group. He has extensive experience in system integration service and logistics control. Mr. Tse had worked in Industrial and Commercial Bank of China (Asia) Limited (former name: Union Bank of Hong Kong Limited) and Chiyu Banking Corporation Limited for over 15 years in the area of trade finance and business operations. Prior to joining the Group in April 2000, he had worked for Lit Cheong Group for over 10 years.

Mr. Hon Chak Sang

Mr. Hon, aged 48, is the Project Director of the Group. 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. Prior to joining the Group in February 2000, he had worked for Lit Cheong Group for over 5 years.

Mr. Lau Kin Wah

Mr. Lau, aged 30, is the Sales Director of the Group. He had more than 6 years of experience in sales and marketing of telecommunication related services in Hong Kong and the PRC and was an associate sales director of City Telecom (HK) Limited prior to joining the Group in January 2000. He holds a Bachelor of Management degree from the University of Lethbridge, Canada.

Mr. Tam Tak Wah

Mr. Tam, aged 35, is the Corporate Development Director, Company Secretary and Financial Controller of the Group. He is a Fellow Member of Hong Kong Society of Accountants and a Fellow Member of the Association of Chartered Certified Accountants of the United Kingdom and has over 10 years of experience in accounting, corporate finance and corporate development. He had worked for Price Waterhouse Hong Kong in his early years and assisted a number of corporations in corporate finance, accounting and business development. Prior to joining the Group in April 2000, he had worked for Lit Cheong Group for over 4 years. He is now responsible for the Group's commercial contracting, documentation, financial and legal matters.

Biographical Details of Directors and Senior Management

Mr. Ng Bo Kwon

Mr. Ng, aged 31, is the Technical Director – Infrastructure of the Group. He has over 8 years of experience in data and telecommunication network design. He has been actively involved in and gained extensive experience in a number of system integration and engineering of broadband multimedia communication network projects. He is now responsible for the development of Optical Metropolitan Area Network and Last Miles Access Network Design. He is the member of Optical Networks International Technical Group. He obtained his Master of Science degree in Engineering and Bachelor of Engineering degree in Computer Engineering from the University of Hong Kong. Mr. Ng joined the Group in November 1997.

Mr. Wong Siu Hung

Mr. Wong, aged 28, is the Technical Director – Ecommerce Solution of the Group. He is responsible for the Group's e-commerce strategic planning and implementation. Mr. Wong holds a Master of Science degree in Computer Science and Engineering from the Chinese University of Hong Kong and Bachelor of Science degree in Applied Computing from Baptist University of Hong Kong. He has more than 5 years of experience in the field of Internet. Prior to joining the Group in November 1999, Mr. Wong was a manager of several leading Internet corporations. In the past, Mr. Wong successfully built a vertical portal site for teenagers in Beijing and Shanghai and implemented a web-based content management system. He is the brother of Mr. Wong Siu Wa.

Mr. Chiu Chi Yeung, John

Mr. Chiu, aged 49, is the Business Development Director of the Group. He has been involved in the management role in the information technology field for more than 25 years. He worked in numerous large corporations in Australia including Broken Hill Proprietary Company Limited and Tubemakers Australia Pty Limited. He holds a Bachelor of Computer Science degree from the University of Queensland, Australia and a Postgraduate High Diploma in Computer Science from the University of Newcastle, Australia. He was one of the founder members of the Information Technology Federation of Hong Kong in 1985, the founding members and the managing director of Asia Tech Holdings Limited, a 51% held subsidiary of the Company, which was acquired by the Group in March 2000. Mr. Chiu joined the Group in March 2000.

Biographical Details of Directors and Senior Management

Ms. To Siu Wai

Ms. To, aged 34, is the Treasurer of the Group. She is an Associate Member of the Hong Kong Society of Accountants and a Fellow Member of the Association of Chartered Certified Accountants of the United Kingdom. Previously, she had worked for Coopers & Lybrand Hong Kong for over 3 years. Prior to joining the Group in April 2000, she had worked for Lit Cheong Group for over 8 years.

Mr. Kwok Tak Wai

Mr. Kwok, aged 36, is the Area Sales Manager of the Group. He has over 10 years of experience in the telecommunication sector especially in Hong Kong and the PRC, among which he has been involved over 6 years in the sales and marketing of networking products and solutions to various customers in the PRC market. Mr. Kwok has been involved in major projects of the Group including selling DDNs and frame relays, ATM networks, routers and remote access server solutions to telecommunication companies and ISPs. Previously, Mr. Kwok was also actively involved in formulating Internet solutions with bundled e-commerce applications. Mr. Kwok joined the Group in May 1998.

Report of the Directors

The directors submit their first annual report together with the audited accounts for the year ended 31st December 2000.

Group reorganisation

The company was incorporated in the Cayman Islands on 9th March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

On 30th June 2000, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the company acquired the entire issued share capital of DigiTel Group (BVI) Limited ("DGBL") through a share swap and became the holding company of DGBL and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the company dated 6th July 2000. The shares of the company were successfully listed on the GEM of the Stock Exchange on 12th July 2000.

The Reorganisation has been reflected in these accounts by regarding the company had been the holding company of the group from the beginning of the earliest period presented. The basis of preparation for these accounts is set out in note 1 to the accounts.

Report of the Directors

Principal activities and geographical analysis of operations

The principal activity of the company is investment holding. The principal activities of the principal subsidiaries are set out in note 13 to the accounts.

An analysis of the group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

Principal activities	**Turnover**	**Operating profit/(loss)**
	HK$'000	*HK$'000*
System integration and engineering of broadband multimedia communication networks	98,005	25,300
Web application services	16,699	(704)
Distribution of software and digital and multimedia communication equipment	8,363	(2,961)
Maintenance of digital communication equipment	4,443	(1,328)
Provision of Internet service provider ("ISP") services	4,135	(13,453)
Provision of consultancy services	3,050	(950)
	134,695	5,904
Markets		
Hong Kong	69,702	(28,926)
The People's Republic of China excluding Hong Kong ("PRC")	64,993	34,830
	134,695	5,904

Report of the Directors

Results and appropriations

The results of the group for the year are set out in the consolidated profit and loss account on page 48.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the group and the company during the year are set out in note 18 to the accounts.

Distributable reserves

Distributable reserves of the company as at 31st December 2000 amounted to HK$9,653,000. Under Section 34 of the Companies Law (2000 Revision) of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the articles of association of the company and no distribution may be paid to shareholders out of the share premium unless the company shall be able to pay its debts as they fall due in the ordinary course of business.

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.

Fixed assets

Details of the movements in fixed assets of the group are set out in note 12 to the accounts.

Share capital

Details of the movements in share capital of the company are set out in note 17 to the accounts.

Financial summary

A summary of the published results and of the assets and liabilities of the group for the last three financial years is set out on page 82.

Report of the Directors

Purchase, sale or redemption of shares

The company has not redeemed any of its shares during the year. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares during the year.

Particulars of bank and other borrowings

Bank and other borrowings of the group as at 31st December 2000 are repayable as follows:

	Bank loans, trust receipt loans and overdrafts	**Convertible note and obligations under finance leases**
	HK$'000	*HK$'000*
Within one year	11,925	5,463
In the second year	2,173	5,179
In the third to fifth year	5,884	2,328
	19,982	12,970

Principal subsidiaries

Particulars of the principal subsidiaries of the company as at 31st December 2000 are set out in note 13 to the accounts.

Report of the Directors

Directors

The directors during the year were:

	Mr. Lee Chuen Bit	(appointed on 13th March 2000)
	Mr. Hung Hin Cheong	(appointed on 13th March 2000)
	Mr. Wong Siu Wa	(appointed on 13th March 2000)
	Mr. Tsang Hing Lun	(appointed on 9th June 2000)
^	Mr. Fan Ren Da, Anthony	(appointed on 9th June 2000)
*	Mr. Leung Ka Kui, Johnny	(appointed on 9th June 2000)
*	Mr. Ho Chiu Kee	(appointed on 9th June 2000)
	Ms. Theresa L. Pearson	(first director, appointed on 9th March 2000 and resigned on 13th March 2000)

^ *Non-executive director*

* *Independent non-executive directors*

Mr. Hung Hin Cheong shall retire at the forthcoming annual general meeting in accordance with article 87 of the company's articles of association and being eligible, offer himself for re-election.

Directors' service contracts

Each of Mr. Lee Chuen Bit, Mr. Hung Hin Cheong, Mr. Wong Siu Wa and Mr. Tsang Hing Lun, the executive directors, has entered into a service contract with the company on 1st April 2000 for a term of three years from 1st April 2000 with an aggregate monthly salary of HK$240,000. 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 combined/consolidated profit after taxation but before extraordinary items of the group for relevant year.

Report of the Directors

Directors' service contracts *(Continued)*

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.

Save as disclosed herein, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the company which is not determinable within one year without payment of compensation, other than statutory compensation.

Biographical details of directors and senior management

Brief biographical details of directors and senior management are set out on pages 29 to 34.

Directors' interests in contracts

Save as disclosed in note 24 to the accounts, no contracts of significance in relation to the company's business to which the company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected transactions

Significant related party transactions entered by the group during the year, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market on the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules, are disclosed in note 24 to the accounts.

Report of the Directors

Directors' interests in equity or debt securities

At 31st December 2000, the interests of the directors in the share capital and options of the company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the company under Section 29 of the SDI Ordinance or as notified to the company were as follows:

	Number of shares of HK$0.1 each in the company	
Name of directors	**Corporate interests**	**Personal interests**
Mr. Lee Chuen Bit	649,242,469 *(note)*	—
Mr. Hung Hin Cheong	649,242,469 *(note)*	—
Mr. Wong Siu Wa	—	99,502,779
Mr. Tsang Hing Lun	—	3,158,819

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 ("GWT").

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.

Under the terms of GWT, certain members of the family of Mr. Hung Hin Cheong are potential capital beneficiaries of the trust (so that they may become capital beneficiaries of the trust). Mr. Hung Hin Cheong is not at present a potential capital beneficiary of GWT, 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 GWT, 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.

Report of the Directors

Directors' rights to acquire shares or debentures

Pursuant to the pre-IPO share option scheme of the company adopted on 30th June 2000 (the "Pre-IPO Share Option Scheme"), 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.

As at 31st December 2000, 20,000,000 options, 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 the GEM, were granted to Mr. Tsang Hing Lun under the Pre-IPO Share Option Scheme.

Under the share option scheme of the company adopted on 30th June 2000 (the "Share Option Scheme"), 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 (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 options are exercisable within a period not less than 3 years and not more than 10 years from the date of grant and subject to the following conditions:

(1) the total number of shares which may be acquired pursuant to the exercise of options under the Share Option Scheme and any other share 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;

(2) subject to (1) above, the company may seek approval by shareholders of the company ("Shareholders") in general meeting to grant options under the Share Option Scheme and any other share option scheme of the company (other than Pre-IPO Share Option Scheme) entitling participants to acquire shares pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the company at the time of approval ("General Mandate Limit"), which may be renewed by shareholders in general meeting from time to time;

Directors' rights to acquire shares or debentures *(Continued)*

(3) subject to (1) above, the company may seek a separate shareholder's approval in general meetings to grant options beyond the General Mandate Limit to participants specified by the company before such approval is sought;

(4) if options are to be granted to a connected person (as defined in the GEM Listing Rules), the granting of such options will be subject to the approval of all independent non-executive directors;

(5) where options are proposed to be granted to a connected person who is also a substantial shareholder or any of his respective associates, and the proposed grant of options when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1 per cent. of the total issued shares for the time being and the value of which is excess of HK$5 million, the granting of such options will be subject to approval of the independent shareholders;

(6) in seeking the approval of the independent shareholders referred to in (5) above, the company shall send a circular to its shareholders and the circular must contain a generic description of the specified participants who will be granted options beyond the 0.1 per cent. limit, the number and terms of the options to be granted and the recommendation of the independent non-executive directors on whether or not to vote in favour of the proposed grant; and

(7) details of the options granted to the directors of the company and its subsidiaries and other employees specified in Rule 23.08 of the GEM Listing Rules and a summary of the major terms of each share option scheme adopted by the company shall be disclosed in the company's interim reports as well as annual reports.

As at 31st December 2000, no options were granted to the directors of the company under the Share Option Scheme.

Directors' rights to acquire shares or debentures *(Continued)*

Apart from the above,

(a) at no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares in or debentures of the company and its associated corporations (within the meaning of the SDI Ordinance); and

(b) at no time during the year was the company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

Substantial shareholders

At 31st December 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the company had not been notified of any substantial shareholders' interests, being 10% or more of the company's issued share capital, other than those of the directors as disclosed above under the heading "Directors' interests in equity or debt securities".

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

With effect from 1st December 2000, a mandatory provident fund scheme has been set up for all the eligible employees of the group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the group and employees are calculated as a percentage of employees' basic salaries. The assets of the scheme are held separately from those of the group in an independently administered fund. The group's contribution to the retirement scheme charged to the profit and loss account was approximately HK$111,000 for the year.

Report of the Directors

Major customers and suppliers

The percentages of purchases and sales for the year attributable to the group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	33%
— five largest suppliers combined	66%
Sales	
— the largest customer	27%
— five largest customers combined	70%

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the company's share capital) had interest in the major suppliers or customers noted above.

Board practices and procedures

The company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM of the Stock Exchange.

Sponsor's interest

Immediately upon dealing in the shares on GEM on 12th July 2000 and pursuant to Rule 6.59 of the GEM Listing Rules, First Shanghai Capital Limited ("First Shanghai") has received and will receive a fee for acting as the company's retained sponsor for the period up to 31st December 2002.

As at 31st December 2000, neither First Shanghai nor its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the company or any other company in the group, including options or rights to subscribe for such securities.

Report of the Directors

Competing interest

Save as the Non-executive director, Mr. Fan Ren Da, Anthony who holds directorships in high technology and Internet-related companies, the directors are not aware of, as at 31st December 2000, any business or interest of each director, initial 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

As required by Rule 5.23 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 and comprises the two independent non-executive directors, Mr. Leung Ka Kui, Johnny and Mr. Ho Chiu Kee, and an executive director, Mr. Tsang Hing Lun. The audit committee met two times during the year to review and supervise the group's financial reporting process and internal control systems.

Post balance sheet events

Details of the post balance sheet events which have taken place subsequent to the balance sheet date are set out in note 26 to the accounts.

Auditors

The accounts have been jointly audited by PricewaterhouseCoopers and 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, 27th March 2001

Auditors' Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central,
Hong Kong

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

Graham H.Y. Chan & Co.
Certified Public Accountants
Unit 1, 15th Floor, The Center
99 Queen's Road Central,
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 48 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The 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 to you.

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 judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and the group as at 31st December 2000 and of the profit 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27th March 2001

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

Hong Kong, 27th March 2001

Consolidated Profit and Loss Account

For the year ended 31st December 2000

	Note	2000	1999
		HK$'000	*HK$'000*
Turnover	3	**134,695**	42,710
Cost of sales		**(64,613)**	(27,410)
Gross profit		**70,082**	15,300
Other revenues	3	**3,442**	8
Selling expenses		**(19,702)**	(1,110)
Administrative expenses		**(47,918)**	(4,332)
Operating profit	4	**5,904**	9,866
Finance costs	5	**(2,237)**	(115)
Share of loss of an associated company		**(409)**	—
Profit before taxation		**3,258**	9,751
Taxation	6	**(2,850)**	(1,058)
Profit after taxation		**408**	8,693
Minority interests		**2,102**	—
Profit attributable to shareholders	7 and 18	**2,510**	8,693
		HK cents	*HK cents*
Basic earnings per share	9	**0.26**	0.97

Consolidated Balance Sheet

As at 31st December 2000

	Note	**2000** *HK$'000*	1999 *HK$'000*
Intangible assets	11	**8,190**	—
Fixed assets	12	**41,495**	765
Investment in an associated company	14	**1,245**	—
Investment securities	15	**6,398**	—
Current assets			
Inventories		**220**	220
Trade and other receivables		**74,768**	2,201
Contracts in progress	16	**6,564**	—
Amount due from a former ultimate holding company		**—**	37,558
Bank balances and cash		**45,689**	185
		127,241	40,164
Current liabilities			
Trade and other payables		**26,151**	16,717
Current portion of long-term liabilities	19	**7,405**	—
Amounts due to customers for contract works	16	**—**	3,756
Taxation payable		**1,861**	2,536
Dividend payable		**—**	10,000
Trust receipt loans, secured	21	**5,358**	—
Bank overdrafts, secured	21	**4,625**	717
		45,400	33,726
Net current assets		**81,841**	6,438
Total assets less current liabilities		**139,169**	7,203
Financed by:			
Share capital	17	**100,000**	19,997
Reserves	18(a)	**28,110**	(12,794)
Shareholders' funds		**128,110**	7,203
Minority interests		**(4,505)**	—
Long-term liabilities	19	**15,564**	—
		139,169	7,203

On behalf of the Board

Lee Chuen Bit
Director

Hung Hin Cheong
Director

Balance Sheet

As at 31st December 2000

	Note	*HK$'000*
Investments in subsidiaries	13	110,724
Current assets		
Prepayments and deposits		253
Current liabilities		
Other payables and accruals		(1,324)
Net current liabilities		(1,071)
Total assets less current liabilities		109,653
Financed by:		
Share capital	17	100,000
Reserves	18(b)	9,653
Shareholders' funds		109,653

On behalf of the Board

Lee Chuen Bit
Director

Hung Hin Cheong
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2000

	Note	2000 HK$'000	1999 HK$'000
Net cash outflow from operating activities	20(a)	(25,046)	(2,108)
Returns on investments and servicing of finance			
Interest received		2,426	8
Interest paid		(2,237)	(115)
Dividend paid		(10,000)	—
Net cash outflow from returns on investments and servicing of finance		(9,811)	(107)
Taxation			
Hong Kong profits tax paid		(3,525)	—
Investing activities			
Development and trademark costs		(9,927)	—
Purchase of subsidiaries	20(d)	(19,062)	—
Purchase of fixed assets		(24,258)	(472)
Sales of fixed assets		21	—
Purchase of investment securities		(6,500)	—
Net cash outflow from investing activities		(59,726)	(472)
Net cash outflow before financing		(98,108)	(2,687)
Financing	20(b)		
Net proceeds from issue of shares		128,346	—
Proceeds from sale and leaseback arrangements		7,393	—
Repayments of bank loans		(1,317)	—
Repayments of capital element of finance leases		(76)	—
Net cash inflow from financing		134,346	—
Increase/(decrease) in cash and cash equivalents		36,238	(2,687)
Cash and cash equivalents at 1st January		(532)	2,155
Cash and cash equivalents at 31st December		35,706	(532)
Analysis of balances of cash and cash equivalents			
Bank balances and cash		45,689	185
Trust receipt loans		(5,358)	—
Bank overdrafts		(4,625)	(717)
		35,706	(532)

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December 2000

	Note	**2000**	1999
		HK$'000	*HK$'000*
Deficit on revaluation of investment securities not recognised in the profit and loss account	18(a)	**(30,102)**	—
Profit attributable to shareholders		**2,510**	8,693
Total recognised (losses)/gains		**(27,592)**	8,693
Goodwill eliminated directly against reserves	18(a)	**(21,847)**	—
		(49,439)	8,693

Notes to the Accounts

1 Group reorganisation and basis of preparation

(a) The company was incorporated in the Cayman Islands on 9th March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

(b) On 30th June 2000, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the company acquired the entire issued share capital of DigiTel Group (BVI) Limited ("DGBL") through a share swap and became the holding company of DGBL and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the company dated 6th July 2000. The shares of the company were successfully listed on the GEM of the Stock Exchange on 12th July 2000.

(c) Merger accounting is adopted in the presentation of the group's consolidated accounts pursuant to Hong Kong Statement of Standard Accounting Practice 2.127 "Accounting for group reconstructions". The consolidated accounts of the group for the year ended 31st December 2000, including the comparative figures, are prepared as if the company had been the holding company of the group from the beginning of the earliest period presented.

(d) The difference between the nominal value of the shares of DGBL acquired pursuant to the Reorganisation and the nominal value of the company's shares issued in exchange therefor is dealt with in the capital reserve on consolidation.

(e) No balance sheet of the company as at 31st December 1999 is presented in the accounts, as the company was not incorporated on that date.

(f) The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the company had been the holding company of the group from the beginning of the earliest period presented. The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st December. Apart from the Reorganisation referred to in note 1 above, 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 intercompany transactions and balances within the group are eliminated on consolidation.

A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

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 goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

(b) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

2 Principal accounting policies *(Continued)*

(c) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

(d) Intangible assets

(i) Research and development costs

Research and development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identified and a market exists for the product such that it is probable for it will be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than three years to reflect the pattern in which the related economic benefits are recognised.

(ii) Trademarks

Trademarks are stated at cost and written off on a straight-line basis over their expected useful lives or over a period of two years, whichever is shorter.

(e) Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of lease while leasehold buildings and leasehold improvements are depreciated over the estimated useful life or lease period, whichever is shorter. Other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold buildings	4%
Leasehold improvements	33%
Network, computer and demo equipment	20% to 50%
Furniture, fixtures and office equipment	20%
Motor vehicles	33%

2 Principal accounting policies *(Continued)*

(e) Fixed assets *(Continued)*

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 carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

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.

(f) 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 a finance lease 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 balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets 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.

2 Principal accounting policies *(Continued)*

(g) Investment securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the 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.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated by reference to the invoiced value on the first in first out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

2 Principal accounting policies *(Continued)*

(j) Contracts in progress

Contracts in progress represent system integration contracts in progress and are stated at cost plus attributable profit recognised on the basis set out in note 2(l)(i), less provision for foreseeable losses and progress payments received and receivable, if any. Contract cost includes direct materials, direct labour and an appropriate proportion of overhead expenditure.

Where progress payments received and receivable exceed contract cost incurred to date plus recognised profits less recognised losses, the net amount is treated as an amount due to customers for contract works.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(l) Revenue recognition

(i) The recognition of revenue/attributable 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.

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

2 Principal accounting policies *(Continued)*

(l) Revenue recognition *(Continued)*

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Revenue from consultancy, maintenance, 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.

(v) Licence fee income is recognised on an accrual basis.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(n) Retirement benefit costs

The group's contributions to the defined contribution retirement scheme are expensed as incurred.

(o) 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 period in which they are incurred.

During the year, all borrowing costs are expensed as incurred.

Notes to the Accounts

3 Revenues and turnover

The group is principally engaged in providing system integration, maintenance, consultancy, web application and Internet services and the sale of software and communication equipment. Revenues recognised during the year are as follows:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Turnover		
System integration contracts revenue	**98,005**	37,313
Web application services income	**16,699**	—
Sale of goods at invoiced value, net of returns and discounts	**8,363**	4,750
Maintenance services income	**4,443**	239
ISP services income	**4,135**	—
Consultancy services income	**3,050**	408
	134,695	42,710
Other revenues		
Interest income	**2,426**	8
Licence fee income *(note 24(a))*	**1,016**	—
	3,442	8
Total revenues	**138,137**	42,718

4 Operating profit

Operating profit is stated after charging the following:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Contract costs	**43,631**	23,845
Cost of goods sold	**4,985**	3,565
Auditors' remuneration	**880**	200
Depreciation		
Owned fixed assets	**3,381**	125
Leased fixed assets	**1,414**	—
Operating leases in respect of		
Land and buildings	**6,758**	543
Communication network and equipment rack rental	**3,174**	—
Staff costs	**27,207**	3,585
Amortisation of intangible assets	**1,737**	—

5 Finance costs

	Group	
	2000	1999
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**1,996**	115
Interest on convertible note wholly repayable within five years	**75**	—
Interest element of finance leases	**166**	—
	2,237	115

Notes to the Accounts

6 Taxation

The taxation charge comprises:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Hong Kong profits tax *(note (a))*	**2,850**	966
Overseas taxation *(note (b))*	**—**	92
	2,850	1,058

(a) Hong Kong profits tax has been calculated at 16% (1999: 16%) on the basis of the estimated assessable profits of the subsidiaries operating in Hong Kong.

(b) Overseas taxation in last year represented tax on the estimated assessable profits of a subsidiary operating in the People's Republic of China excluding Hong Kong (the "PRC") at the applicable rate of 33% for the year ended 31st December 1999. No provision for overseas taxation has been made for the year as the subsidiary operating in the PRC has no assessable income for PRC taxation purpose.

(c) As at 31st December 2000, the potential deferred tax (assets)/liabilities not provided for in the accounts amounts to:

	Group	
	2000	1999
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**1,192**	100
Tax losses	**(4,676)**	—
Other timing differences	**1,178**	—
	(2,306)	100

No provision for deferred taxation has been made in the accounts as it is uncertain whether the amounts will crystallise in the foreseeable future.

7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of loss of HK$1,325,000.

8 Dividends

No dividends have been paid or declared by the company during the year. Dividends in 1999 represented dividends paid by a subsidiary to its then shareholder prior to the Reorganisation. The dividend rates and the number of shares ranking for the dividends mentioned above are not presented as such information is not considered meaningful for the purpose of these accounts.

9 Earnings per share

The calculation of basic earnings per share is based on the group's profit attributable to shareholders of HK$2,510,000 (1999: HK$8,693,000) and the weighted average of 947,808,222 shares (1999: 899,969,574 shares) deemed to be issued during the year. In determining the weighted average number of shares deemed to be issue in the current year, the 199,969,574 shares issued as consideration of the acquisition by the company of the issued capital of DGBL and the capitalisation issue of 700,000,000 shares as referred to in note 17 were deemed to have been in issue on 1st January 2000.

For comparison purposes, both the 199,969,574 shares issued as consideration of the acquisition by the company of the issued capital of DGBL and the capitalisation issue of 700,000,000 shares mentioned above were also deemed to have been in issue on 1st January 1999 for the purpose of the calculation of basic earnings per share.

There is no dilution arising from the outstanding share options granted by the company and the convertible note issued by the group. Accordingly no diluted earnings per share for the year is presented. There were no potential dilutive shares during the year ended 31st December 1999.

10 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the company during the year are as follows:

	2000	1999
	HK$'000	*HK$'000*
Fees	—	—
Other emoluments		
— basic salaries and allowances	2,160	—
— provident fund contributions	4	—
	2,164	—

None of the independent non-executive directors received any fees or emoluments during the year.

During the year, two of the executive directors received emoluments of HK$451,000 (1999: Nil) each and the remaining two received emoluments of HK$631,000 (1999: Nil) each.

In addition to the directors' emoluments disclosed above, during the year, 20,000,000 options were granted to an executive director under the pre-IPO share option scheme as stated in note 17(f) to the accounts. During the year, no options had been exercised by the director.

No director waived or agreed to waive any of their emoluments in respect of the years ended 31st December 1999 and 2000.

10 Directors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the years ended 31st December 1999 and 2000 does not include directors. The emoluments payable to these individuals during the year are as follows:

	2000	1999
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**3,569**	2,173
Provident fund contributions	**5**	—
	3,574	2,173

The emoluments of the five individuals fell within the band from Nil to HK$1,000,000.

During the years ended 31st December 1999 and 2000, no emoluments have been paid by the group to the directors or the five highest paid individuals as an inducement to join the group, or as compensation for loss of office.

11 Intangible assets

	Group		
	Development costs	**Trademarks**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Additions during the year	9,054	873	9,927
Less: amortisation	(1,369)	(368)	(1,737)
At 31st December 2000	7,685	505	8,190

Notes to the Accounts

12 Fixed assets

	Group					
	Leasehold land and buildings	**Leasehold improvements**	**Furniture, fixture and office equipment**	**Network, computer and demo equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1st January 2000	—	—	852	172	—	1,024
Purchase of subsidiaries	21,000	—	64	1,873	151	23,088
Additions	—	4,340	2,617	17,301	—	24,258
Disposals	—	—	—	(469)	—	(469)
At 31st December 2000	21,000	4,340	3,533	18,877	151	47,901
Accumulated depreciation						
At 1st January 2000	—	—	103	156	—	259
Purchase of subsidiaries	—	—	25	1,666	96	1,787
Charge for the year	369	532	469	3,387	38	4,795
Disposals	—	—	—	(435)	—	(435)
At 31st December 2000	369	532	597	4,774	134	6,406
Net book value						
At 31st December 2000	20,631	3,808	2,936	14,103	17	41,495
At 31st December 1999	—	—	749	16	—	765

(a) Leasehold land and buildings are located in Hong Kong and held under a lease period of over 50 years.

(b) As at 31st December 2000, all of the leasehold land and buildings of the group were pledged as security for the group's banking facilities (1999: Nil).

(c) As at 31st December 2000, the cost and accumulated depreciation of fixed assets held under finance leases are HK$7,608,000 (1999: Nil) and HK$1,535,000 (1999: Nil) respectively.

13 Investments in subsidiaries

	Company
	HK$'000
Unlisted shares, at cost *(note (a))*	19,997
Amounts due from subsidiaries *(note (b))*	90,727
	110,724

(a) The following is a list of the principal subsidiaries at 31st December 2000:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held Directly	Interest held Indirectly
DigiTel Group (BVI) Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$34,190	100%	—
Asia Tech Holdings Limited	Hong Kong	Software development in Hong Kong	Ordinary HK$250,000	—	51%
Corp2Net.com Limited	Hong Kong	Provision of web application services in Hong Kong	Ordinary HK$2	—	100%
DigiTel Communication (Asia) Limited	Hong Kong	Provision of system integration and engineering of broadband multimedia communication networks and distribution of digital communication equipment in Hong Kong	Ordinary HK$2	—	100%

13 Investments in subsidiaries *(Continued)*

(a) *(Continued)*

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held Directly	Interest held Indirectly
DigiTel Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	—	100%
DigiTel Venture Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	—	100%
Goway Investments Limited	Hong Kong	Property holding in Hong Kong	Ordinary HK$2 Non-voting HK$18	—	100%
iGreatLink.com Limited	Hong Kong	Provision of ISP services in Hong Kong	Ordinary HK$2	—	100%
Lit Cheong DigiTel Limited	British Virgin Islands	Provision of system integration and engineering of broadband multimedia communication networks in the PRC	Ordinary US$1	—	100%
Regal Policy Limited	Hong Kong	Property leasing in Hong Kong	Ordinary HK$2	—	100%

The above table includes the subsidiaries of the company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

13 Investments in subsidiaries *(Continued)*

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

14 Investment in an associated company

	2000 *HK$'000*	1999 *HK$'000*
Share of net assets other than goodwill	2,977	—
Amount due to an associated company *(note (b))*	(1,732)	—
	1,245	—

(a) Details of the associated company at 31st December 2000 are as follows:—

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held Directly	Interest held Indirectly
Asiasoft Hong Kong Limited	Hong Kong	Provision of information system products and services in Hong Kong	Ordinary HK$1,283,333	—	20%

(b) The amount due to an associated company is unsecured, interest free and will be repayable in 2002.

15 Investment securities

	2000 HK$'000	1999 HK$'000
Equity securities, at fair value		
Listed in Hong Kong	2,640	—
Unlisted investments	3,758	—
	6,398	—

16 Contracts in progress/(amounts due to customers for contract works)

	2000 HK$'000	1999 HK$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	53,111	73,196
Less: progress payments received and receivable	(46,547)	(76,952)
	6,564	(3,756)

17 Share capital

	2000
	HK$'000
Authorised	
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**
Issued and fully paid	
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**
	1999
	HK$'000
Deemed to be issued	
199,969,574 ordinary shares of HK$0.10 each	19,997

(a) The company was incorporated in the Cayman Islands on 9th March 2000 with an authorised capital of HK$390,000 divided into 3,900,000 shares of HK$0.10 each, of which 1 share was allotted, issued and fully paid to the subscriber on 9th March 2000.

(b) On 13th March 2000, an additional 30,425 shares were allotted, issued at par and fully paid to certain investors to increase the capital base of the company.

(c) In preparation for the listing of the company's shares on the GEM of the Stock Exchange, the following changes in authorised and issued share capital of the company took place on 30th June 2000:

  (i) the authorised share capital of the company was increased to HK$1,000,000,000 by the creation of an additional 9,996,100,000 shares of HK$0.10 each,

  (ii) as consideration for the acquisition by the company of the entire issued share capital of DGBL, the holding company of the group prior to the Reorganisation, an aggregate of 199,969,574 shares of the company were allotted, issued at par and credited as fully paid to the then shareholders of DGBL.

17 Share capital *(Continued)*

(d) On 11th July 2000, 100,000,000 shares of HK$0.1 each were issued by way of placing at a price of HK$1.05 per share (the "Placing") for cash consideration of HK$105,000,000. The excess over the par value of the shares issued was credited to the share premium account. At the same date, 700,000,000 shares of HK$0.1 each were allotted, issued at par and fully paid to the shareholders whose names appeared on the register of members of the company on 30th June 2000 by way of the capitalisation of a sum of HK$70,000,000 out of the credit of share premium account of the company arising from the Placing.

(e) The share capital as at 31st December 1999 represented the issued and fully paid share capital of the company, arising from the transactions as described in note (c)(ii) above, which was deemed to have been in issue throughout the accounting years in accordance with the basis of accounting as referred to in note 2(a).

(f) Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the company adopted on 30th 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.

As at 31st December 2000, there were 90,000,000 outstanding share options granted under the Pre-IPO Share Options 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 the GEM.

(g) Under the share option scheme (the "Share Option Scheme") of the company adopted on 30th 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 (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 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.

18 Reserves

(a) Group

	Share premium HK$'000	Retained earnings HK$'000	Capital reserve on consolidation HK$'000	Investment revaluation reserve HK$'000	Total HK$'000
At 1st January 1999	—	8,510	(19,997)	—	(11,487)
Profit for the year	—	8,693	—	—	8,693
Dividends *(note 8)*	—	(10,000)	—	—	(10,000)
At 31st December 1999	—	7,203	(19,997)	—	(12,794)
Deficit on revaluation	—	—	—	(30,102)	(30,102)
Issue of shares in DGBL prior to the Reorganisation	—	—	79,365	—	79,365
Placing of shares *(note 17(d))*	95,000	—	—	—	95,000
Placing and listing expenses	(14,022)	—	—	—	(14,022)
Capitalization issue *(note 17(d))*	(70,000)	—	—	—	(70,000)
Goodwill arising on acquisition of a subsidiary and an associated company	—	—	(21,847)	—	(21,847)
Profit for the year	—	2,510	—	—	2,510
At 31st December 2000	10,978	9,713	37,521	(30,102)	28,110
Company and subsidiaries	10,978	10,122	37,521	(30,102)	28,519
Associated company	—	(409)	—	—	(409)
At 31st December 2000	10,978	9,713	37,521	(30,102)	28,110

18 Reserves *(Continued)*

(b) Company

	Share premium *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1st January 2000	—	—	—
Placing of shares *(note 17(d))*	95,000	—	95,000
Placing and listing expenses	(14,022)	—	(14,022)
Capitalisation issue *(note 17(d))*	(70,000)	—	(70,000)
Loss for the year	—	(1,325)	(1,325)
At 31st December 2000	10,978	(1,325)	9,653

19 Long-term liabilities

	Group 2000 *HK$'000*	1999 *HK$'000*
Convertible note *(note (a))*	5,553	—
Bank loans, secured *(note 21)*	9,999	—
	15,552	—
Obligations under finance leases	7,417	—
	22,969	—
Current portion of long-term liabilities	(7,405)	—
	15,564	—

19 Long-term liabilities *(Continued)*

At 31st December 2000, the group's bank loans and other borrowings were repayable as follows:

	Bank loans		Convertible note (note(a))		Obligations under finance leases	
	2000	1999	**2000**	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,942**	—	**1,111**	—	**4,352**	—
In the second year	**2,173**	—	**2,221**	—	**2,958**	—
In the third to fifth year	**5,884**	—	**2,221**	—	**107**	—
	9,999	—	**5,553**	—	**7,417**	—

(a) Pursuant to an agreement dated 23rd 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 23rd August 2000 to 31st 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 installments commencing from the 12th month from the date of each drawdown. The Notes, at the option of the holder, will be convertible to 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.

As at 31st December 2000, the group had outstanding convertible note amounting to HK$5,553,000.

Notes to the Accounts

20 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash outflow from operating activities

	Group	
	2000	1999
	HK$'000	*HK$'000*
Operating profit	**5,904**	9,866
Depreciation charge	**4,795**	125
Amortisation of intangible assets	**1,737**	—
Loss on disposal of fixed assets	**13**	—
Decrease in inventories	**—**	248
Increase in trade and other receivables, contracts in progress and amount due from a former ultimate holding company	**(32,640)**	(25,021)
(Decrease)/increase in trade and other payables, and amounts due to customers for contract works	**(2,429)**	12,682
Interest income	**(2,426)**	(8)
Net cash outflow from operating activities	**(25,046)**	(2,108)

20 Notes to the consolidated cash flow statement *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital including share premium HK$'000	Capital reserve on consolidation HK$'000	Bank loans and convertible note HK$'000	Obligations finance under leases HK$'000
At 1st January 1999 and 31st December 1999	19,997	(19,997)	—	—
Purchase of subsidiaries	—	—	11,316	100
Issue of shares of				
— the company	105,003	—	—	—
— DGBL prior to the Reorganisation	—	37,365	—	—
Issue of shares of DGBL as considerations for investments *(note (c))*	—	42,000	—	—
Placing and listing expenses	(14,022)	—	—	—
Issue of convertible note *(note 19)*	—	—	5,553	—
Goodwill arising on acquisition of a subsidiary and an associated company	—	(21,847)	—	—
Proceeds from sale and leaseback arrangements	—	—	—	7,393
Cash outflow from financing	—	—	(1,317)	(76)
At 31st December 2000	110,978	37,521	15,552	7,417

(c) Major non-cash transactions

On 28th March 2000 and 12th April 2000, the group entered into agreements to acquire investment securities and an associated company at considerations of HK$30,000,000 and HK$12,000,000 respectively, which has been satisfied by the issue of a total of 2,190 shares of DGBL of US$1 each.

20 Notes to the consolidated cash flow statement *(Continued)*

(d) Purchase of subsidiaries

	2000 *HK$'000*	1999 *HK$'000*
Net assets acquired		
Fixed assets	21,301	—
Trade and other receivables	3,380	—
Bank balances and cash	2	—
Trade and other payables	(8,107)	—
Bank overdrafts	(380)	—
Bank loans	(11,316)	—
Obligations under finance leases	(100)	—
Minority interests	2,403	—
	7,183	—
Goodwill	11,501	—
Satisfied by cash consideration	18,684	—

Analysis of the net cash outflow in respect of the purchase of subsidiaries:

	2000 *HK$'000*	1999 *HK$'000*
Cash consideration	18,684	—
Bank balances and cash of subsidiaries purchased	(2)	—
Bank overdrafts of subsidiaries purchased	380	—
Net cash outflow in respect of the purchase of subsidiaries	19,062	—

21 Banking facilities

At 31st December 2000, the group's banking facilities of HK$54,000,000 (1999: HK$26,000,000) are secured by the following:

(a) legal charge on the leasehold land and buildings of the group;

(b) corporate guarantees given by the company amounting to HK$38,000,000; and

(c) cross corporate guarantee between the company and a subsidiary amounting to HK$16,000,000.

22 Commitments

(a) Operating lease commitments

At 31st December 2000, the group had commitments to make payments in the next twelve months under operating leases as follows:

	2000 HK$'000	1999 HK$'000
Land and buildings, expire in the second to fifth year inclusive	9,075	—
Communication network and equipment rack rental, expire in the first year	5,040	—
	14,115	—

(b) Financial commitments

On 15th December 2000, DigiTel Limited, a wholly owned subsidiary of the company, entered into an agreement to purchase the entire issued capital of a company engaged in the research and development of web-based applications, at a consideration of HK$8,450,000. The consideration was paid and the transaction was completed in January 2001.

23 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 21 to the accounts, as at 31st December 2000, the company had contingent liabilities in respect of guarantees for the due performance of certain subsidiaries under obligations under finance leases and the purchase agreement as set out in note 19(a) to the accounts.

Notes to the Accounts

24 Related party transactions

Significant related party transactions, which were carried out in the normal course of the group's business are as follows:

	Note	2000 HK$'000	1999 HK$'000
Licence fee from Lit Cheong Group Limited ("LCGL")	(a)	1,016	—
Contract revenue from Far East Gateway Limited ("Far East")	(b)	—	23,433
Sales to:			
Far East	(b)	—	2,929
Lit Cheong Management Limited	(c)	—	284
LC Communications International Limited ("LCCIL")	(b)	—	588
Rental payable to:			
Lit Cheong Management Limited	(c)	—	300
LC Network Services Limited	(d)	—	165

(a) On 21st June 2000, the group entered into a licence agreement with LCGL, pursuant to which the group licenses LCGL to use the premises which are rented by the group, for a term commencing from 1st June 2000 to 18th April 2003. The total monthly licence fee, including air-conditioning and management charges, which are determined based on prevailing market rent, are approximately HK$175,000. LCGL is held by trusts in which certain family members of the directors of the company, Mr. Lee Chuen Bit and Mr. Hung Hin Cheong, are potential capital beneficiaries. These potential capital beneficiaries will become capital beneficiaries if and when so declared.

(b) During the year ended 31st December 1999, Far East was 50% owned by LCCIL, in which Lit Cheong International Limited ("LCI") had controlling beneficial interest. LCI was the ultimate holding company of the group as at 31st December 1999. Subsequent to 31st December 1999, LCI disposed of its entire equity interests in LCCIL to an independent third party and LCCIL and Far East have become unrelated parties to the group since then. Accordingly transactions with Far East for the year ended 31st December 2000 were not disclosed as related party transactions.

(c) Lit Cheong Management Limited was wholly owned by LCI.

(d) LC Network Services Limited was wholly owned by LCCIL as at 31st December 1999.

25 Ultimate holding company

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

26 Post balance sheet events

The following significant transactions took place subsequent to the balance sheet date:

(a) On 13th March 2001, the group entered into a subscription agreement (the "Subscription") with an unrelated third party (the "Party"), under which iGreatLink.com Limited ("iGreatLink"), a wholly owned subsidiary of the company, will issue and allot to the Party 49 new shares of iGreatLink at a cash consideration of HK$62,400,000 payable by instalments. The Party will own 49% of the equity interest of iGreatLink upon completion.

Under a sale and purchase agreement entered into with the Party on the same date, DigiTel Communication (Asia) Limited, a wholly owned subsidiary of the company, agrees to sell to the Party a loan due from iGreatLink of HK$16,000,000 at book value.

In accordance with the terms of the above agreements, the Subscription is expected to be completed in December 2001 and the sale and purchase agreement will complete immediately upon the completion of the Subscription.

(b) On 23rd March 2001, the company entered into an agreement with certain subscribers (the "Subscribers"), pursuant to which debentures of up to US$10 million (approximately HK$78 million) will be issued to the Subscribers in three separate tranches in April 2001, August 2001 and December 2001 amounting up to US$3 million (approximately HK$23.4 million), US$3 million (approximately HK$23.4 million) and US$4 million (approximately HK$31.2 million) respectively. The debentures bear interest of 3% per annum and will carry the right to convert into shares of the company on or before the maturity dates, which represent the third anniversary of the issue date of the debentures in each tranche, at conversion prices which 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 ("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 93% of the average of the lowest 4 closing prices during the 20 consecutive trading days prior to the date of conversion.

27 Approval of accounts

The accounts were approved by the board of directors on 27th March 2001.

Financial Summary

	2000 *HK$'000*	1999 *HK$'000*	1998 *HK$'000*
Results			
Profit attributable to shareholders	2,510	8,693	5,471
Assets and liabilities			
Total assets	184,569	40,929	17,778
Total liabilities	(60,964)	(33,726)	(9,269)
Minority interests	4,505	—	—
Shareholders' funds	128,110	7,203	8,509