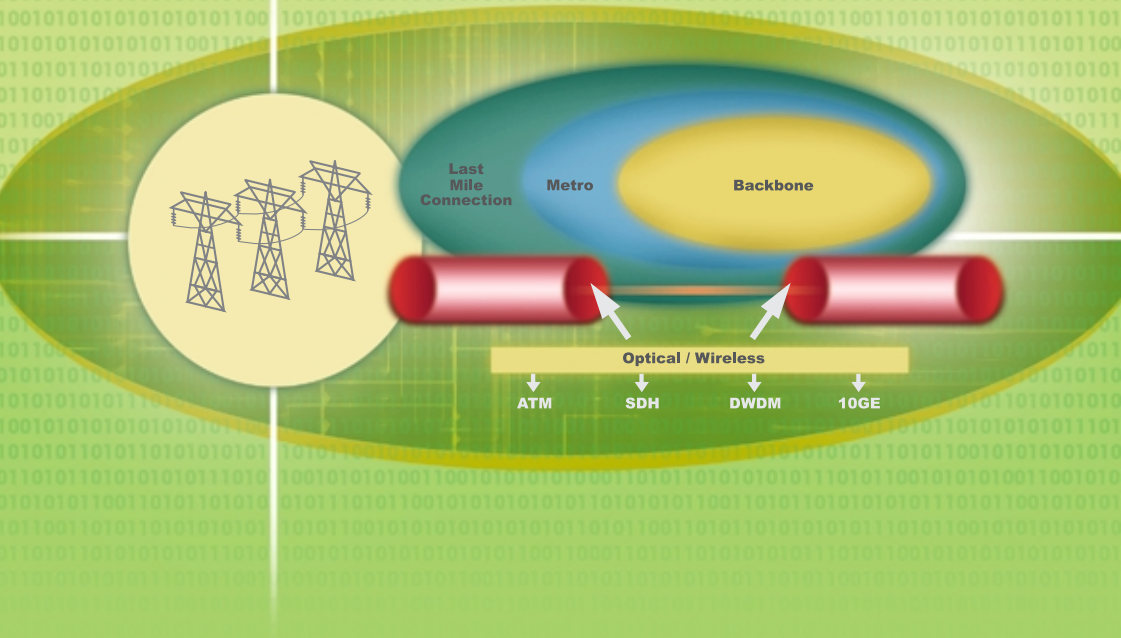




# DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)



## First Quarter Report 2001

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

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

## Highlights for the Three–Month Period

- The Group achieved turnover of approximately HK\$15.2 million.
- Loss attributable to shareholders was approximately HK\$13.2 million.
- System integration and engineering of broadband multimedia communication networks remained to be the core business of the Group which generated turnover of HK\$3.1 million for the period.

## Results

The Directors are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2001 (the “Three-Month Period”), together with the unaudited comparative figures for the corresponding three months ended 31 March 2000 as follows:

	Notes	For the three months ended 31 March	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	<b>15,168</b>	32,204
Cost of sales		<b>(10,573)</b>	(16,821)
Gross profit		<b>4,595</b>	15,383
Other revenues		<b>484</b>	255
Selling expenses		<b>(2,362)</b>	(4,157)
Administrative expenses		<b>(16,254)</b>	(4,772)
Operating (loss)/profit		<b>(13,537)</b>	6,709
Finance costs		<b>(684)</b>	(466)
Share of loss of an associated company		<b>(223)</b>	—
(Loss)/profit before taxation		<b>(14,444)</b>	6,243
Taxation	3	—	(1,330)
(Loss)/profit after taxation		<b>(14,444)</b>	4,913
Minority interests		<b>1,214</b>	—
(Loss)/profit attributable to shareholders		<b>(13,230)</b>	4,913
(Loss)/earnings per share			
— basic (cents)	4	<b>(1.323)</b>	0.546

Notes:

## 1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 9 March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. On 30 June 2000, pursuant to a group reorganisation in preparation for the listing of the Company's shares on GEM, 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. The shares of the Company were successfully listed on GEM on 12 July 2000.

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

The results of the Group comprise the results of companies now comprising the Group using the merger basis of accounting as if the current Group structure had been in existence since 1 January 2000 and where applicable, from their respective dates of incorporation or acquisition by the Group, whichever is later.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

## 2. Turnover

Analysis of turnover of the Group on the basis set out in note 1 above was as follows:

	<b>For the three months ended 31 March</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
System integration contracts revenue	<b>3,108</b>	29,417
Customized solution services income	<b>685</b>	—
Web application services income	<b>3,321</b>	1,139
Internet service provider services income	<b>3,782</b>	4
Sale of goods and services at invoiced value, net of returns and discounts	<b>2,900</b>	844
Maintenance services income	<b>859</b>	800
Consultancy services income	<b>513</b>	—
	<b><u>15,168</u></b>	<b><u>32,204</u></b>

**3. Taxation**

	<b>For the three months ended 31 March</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<i>HK\$'000</i>
Hong Kong profits tax	—	1,330
	<u>—</u>	<u>1,330</u>
	<b><u>—</u></b>	<b><u>1,330</u></b>

No provision for Hong Kong profits tax for the Three-Month Period has been made as the Group has no estimated assessable profit. Hong Kong profits tax for the three months ended 31 March 2000 was calculated at 16% on the basis of the estimated assessable profits of the subsidiaries operating in Hong Kong.

During the Three-Month Period, no profits or income tax was charged on the associated company of the Group. Accordingly, there was no share of taxation in the associated company.

**4. (Loss)/earnings per share**

The calculation of basic loss per share for the Three-Month Period is based on the Group's loss attributable to shareholders of HK\$13,230,000 (three months ended 31 March 2000: profit HK\$4,913,000) and the weighted average of 1,000,000,000 shares (three months ended 31 March 2000: 899,975,927 shares deemed to be in issue) for the Three-Month Period. In determining the weighted average number of shares deemed to be in issue for the three months ended 31 March 2000, 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 a result of the reorganisation of the Group prior to the initial public offering of its ordinary shares on 12 July 2000 were deemed to have been in issue on 1 January 2000.

There is no dilution arising from the outstanding share options granted by the Company and the convertible notes issued by the Group. Accordingly no diluted (loss)/earnings per share for the Three-Month Period is presented. There were no potential dilutive shares during the three months ended 31 March 2000.

**5. Movement in reserves**

	<i>HK\$'000</i>
<b>Share premium</b>	
At 1 January 2001 and 31 March 2001	<u>10,978</u>
<b>Retained earnings</b>	
At 1 January 2001	9,713
Loss for the Three-Month Period	<u>(13,230)</u>
At 31 March 2001	<u>(3,517)</u>
<b>Capital reserve on consolidation</b>	
At 1 January 2001 and 31 March 2001	<u>37,521</u>
<b>Investment revaluation reserve</b>	
At 1 January 2001 and 31 March 2001	<u>(30,102)</u>

**Interim Dividend**

The Directors do not recommend the payment of an interim dividend for the Three-Month Period (2000: Nil).

## **Business Review and Outlook**

For the Three-Month Period, the Group achieved a turnover of HK\$15.2 million, representing a 53% decrease from HK\$32.2 million for the same period in the previous year. The Group recorded a loss attributable to shareholders HK\$13.2 million for the Three-Month Period as compared to HK\$4.9 million profit for the same period in the previous year.

The downturn of the business results is mainly resulted from the insubstantial income generated from the system integration contracts while the operating expenses remain in the same level as previous quarter. Given the nature of our core business, system integration and engineering of broadband multimedia communication networks, income is recognized on project basis, and therefore, will be susceptible to unstable income flows pattern. The Group will actively pursue new business opportunities by devoting more resources on marketing and business development. Moreover, tighter cost control will be implemented by adapting a prudent and planned approach for operating expenses as well as capital investment.

The Group's core business sector, system integration and engineering of broadband multimedia communication networks, has achieved turnover of HK\$3.1 million, representing 20% of the total turnover of the Group for the Three-Month Period.

Leveraging our on-going efforts on business development, during the Three-Month Period, the Group has continued to focus on the marketing of ATM, SDH and IP network equipment. The Group has actively pursued several system integration projects in Guangdong region of the People's Republic of China (the "PRC") and has concluded a SDH project in Dongguan, the PRC, which is expected to be completed over 12 months and will generate consultancy services income to the Group in due course.

In the meantime, the Group has managed to expand the customer base and income source for our software research and development team by capitalizing our competitive edge of ASP services. The Group has been able to conclude two contracts for the design and implementation of web-based intranet application for the Education Department of the Hong Kong Government and is negotiating in the final stage for the development of intranet application for the Legislative Council of the Hong Kong Government. The Group considers that the provision of customized solutions to customers either in intranet or

internet bases is one of the directions for the path to profitability. During the Three-Month Period, the income from the provision of customized solutions is HK\$685,000, representing 5% of the total turnover of the Group for the Three-Month Period.

The Group's ISP services have been operated in a prudent manner. The Group has regularly reviewed the services with a view to focusing on services which generate steady income to the Group. During the Three-Month Period, the income from the provision of ISP services is HK\$3.8 million, representing 25% of the total turnover of the Group for the Three-Month Period.

In March 2001, an unrelated investor has entered into an agreement with the Group to acquire a 49% interest in iGreatLink.com Limited ("iGreatLink") and an inter-company loan to iGreatLink at a total consideration of HK\$78.4 million. Upon the completion of the agreement, there will be an exceptional gain of approximately HK\$69.2 million for the Group in the year ending 31 December 2001 (such calculated is based on the total consideration of HK\$78.4 million less the inter-company loan to iGreatLink assigned to the investor and the investor'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.

Notwithstanding to the unsatisfactory results of this quarter, the Directors are optimistic to the future prospects of the Group as the PRC market potential on system integration and engineering of broadband multimedia communication networks is huge, in particular, the Group is negotiating with certain local power supply companies with promising progress for certain system integration projects in respect of broadband internet access networks. The Directors are confident that the Group would conclude at least one contract in the coming quarters. Should the negotiations came to final agreements, the Group may be able to benefit from it and improve the financial position.

The Directors will continue to preserve the best interest to the shareholders and will exercise high financial control and to explore new opportunities in cautious manner so as to create value to the shareholders.



## Directors' Interests in Share Capital and Options

### Interests in Share Capital

As at 31 March 2001, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 of the GEM Listing Rules, the interests of Directors, chief executive and their associates in shares of the Company were as follows:

<b>Name</b>	<b>Type of interest</b>	<b>Number of shares of the Company</b>
Mr. Lee Chuen Bit	Corporate ( <i>note</i> )	643,242,469
Mr. Hung Hin Cheong	Corporate ( <i>note</i> )	643,242,469
Mr. Wong Siu Wa	Personal	96,502,779
Mr. Tsang Hing Lun	Personal	12,158,819

*Note:*

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

### **Interests in Share Options**

Pursuant to the pre-IPO share option scheme of the Company adopted on 30 June 2000 (the "Pre-IPO Share Option Scheme"), options to subscribe for 20,000,000 shares of the Company were granted to Mr. Tsang Hing Lun, an executive director of the Company, on 3 July 2000 (such options have a duration of 10 years from the date of grant of the options, and each is exercisable after six months from the date of listing of the shares of the Company on GEM at an exercise price equals to the issue share price upon listing of the shares of the Company, but each shall lapse if the relevant grantee ceases to be employed by the Group).

Pursuant to the share option scheme of the Company adopted on 30 June 2000 (the "Share Option Scheme"), the directors and employees of the Company and its subsidiaries may be granted share options to subscribe for the shares of the Company subject to the following conditions:

- (1) the total number of shares of the Company 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 of the Company pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the Company at the time of approval ("General Mandate Limit"), which may be renewed by Shareholders in general meeting from time to time;

- (3) subject to (1) above, the Company may seek a separate Shareholders' 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 of the Company 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.

## **Directors' and Chief Executive's Rights to Acquire Securities**

Save for the Pre-IPO Share Option Scheme and the Share Option Scheme, as at 31 March 2001, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## **Outstanding Share Options**

As at 31 March 2001, options to subscribe for an aggregate of 90,000,000 shares of the Company had been granted to directors and employees of the Group pursuant to the Pre-IPO Share Option Scheme (the terms of which have been disclosed in the prospectus of the Company dated 6 July 2000), including options to subscribe for 20,000,000 shares of the Company granted to Mr. Tsang Hing Lun, an executive director and the balance to 7 employees of the Group.

Save as disclosed above, no other options have been granted by the Company during the period from 12 July 2000 (the date on which dealings in the shares of the Company first commenced on GEM) to 31 March 2001.

## **Convertible Notes**

Pursuant to the facility agreement (the "Agreement") dated 23 August 2000 and entered into between the Company, its subsidiary, iGreatLink.com Limited and Nortel Networks (Asia) Limited ("Nortel Networks"), as at 31 March 2001, an aggregate of US\$904,333.58 convertible notes were issued to Nortel Networks which are exchangeable into shares of the Company, subject to the terms of the Agreement.

Pursuant to the subscription agreement dated 23 March 2001 and the deed of variation dated 3 April 2001 (the "Subscription Agreements") and entered into between the Company and 2 unrelated third party investors (the "Investors"), the Company agreed to issue debentures to the Investors of the aggregated amount of up to US\$10,000,000. The debentures, when issued, will carry the right to convert into shares of the Company. As at 31 March 2001, no debenture has been issued under the Subscription Agreements.

## Substantial Shareholder

Other than the interests disclosed above in respect of directors, chief executive and their associates, as at 31 March 2001, according to the register of substantial shareholders required to be kept under Section 16(1) of the SDI Ordinance, the following person was interested in 10% or more of the issued share capital of the Company.

<b>Name</b>	<b>Number of shares of the Company held</b>
Lit Cheong Holdings Limited	643,242,469

## Purchase, Sale and Redemption of the Company'S Listed Securities

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

## Sponsor's Interest

Immediately upon dealing in the shares of the Company on GEM on 12 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 31 December 2002.

As at 31 March 2001 and 14 May 2001, 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 interests in any class of securities of the Company or any other company in the Group, including options or rights to subscribe for such securities.

## 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 31 March 2001, 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.

## Year 2000 Compliance

The Group has successfully made the transition to the Year 2000 with all its systems functioning normally. The Directors are confident that the Group's computer systems are Year 2000 compliant.

## Audit Committee

In compliance with Rules 5.23 to 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

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

Hong Kong, 14th May 2001