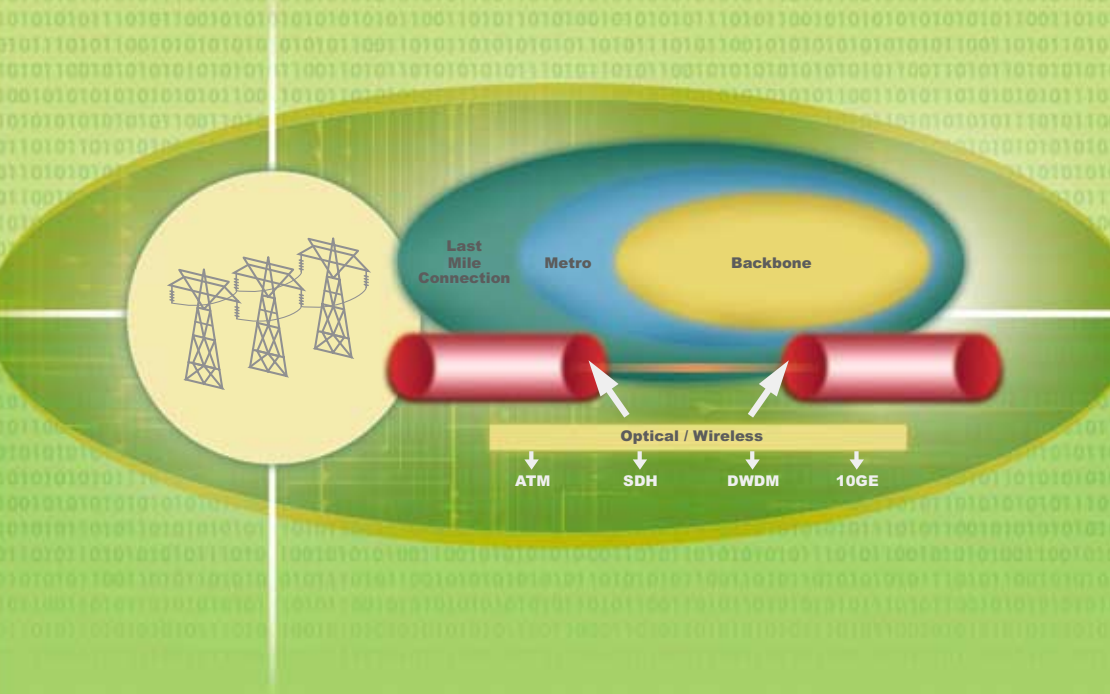


DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)



Interim 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 INTERIM PERIOD

- The Group achieved turnover of approximately HK\$34.1 million.
- Loss attributable to shareholders was approximately HK\$18.4 million.
- System integration and engineering of broadband multimedia communication networks remained to be the core business of the Group which generated turnover of HK\$6.7 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 six months (the "Interim Period") and the three months (the "Three-Month Period") ended 30 June 2001 respectively, together with the unaudited comparative figures for the corresponding periods as follows:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	18,978	52,571	34,146	84,775
Cost of sales		(12,649)	(25,309)	(23,222)	(42,130)
Gross profit		6,329	27,262	10,924	42,645
Other revenues		2,813	323	3,297	578
Selling expenses		(1,593)	(2,410)	(3,955)	(6,567)
Administrative expenses		(11,667)	(14,039)	(27,921)	(18,811)
Operating (loss)/profit		(4,118)	11,136	(17,655)	17,845
Finance costs		(836)	(358)	(1,520)	(824)
Share of losses of associated companies		(255)	(5)	(478)	(5)
(Loss)/profit before taxation		(5,209)	10,773	(19,653)	17,016
Taxation	3	—	(2,296)	—	(3,626)
(Loss)/profit after taxation		(5,209)	8,477	(19,653)	13,390
Minority interests		—	—	1,214	—
(Loss)/profit attributable to shareholders		(5,209)	8,477	(18,439)	13,390
(Loss)/earnings per share — basic (cents)	4	(0.519)	0.942	(1.840)	1.488

*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:

	For the three months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
System integration contracts revenue	3,598	37,125	6,706	66,542
Customized solution services income	47	—	732	—
Web application services income	677	9,757	3,998	9,761
Internet service provider services income	3,842	178	7,624	178
Sale of goods and services at invoiced value, net of returns and discounts	10,814	2,816	13,714	3,955
Maintenance services income	—	1,765	859	2,609
Consultancy services income	—	930	513	1,730
	18,978	52,571	34,146	84,775

3. Taxation

	For the three months ended 30 June		For the six months ended 30 June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	—	2,296	—	3,626

No provision for Hong Kong profits tax for the Interim Period and the Three-Month Period has been made as the Group has no estimated assessable profit. Hong Kong profits tax for the corresponding six months and three months ended 30 June 2000 was calculated at 16% on the basis of the estimated assessable profits of the subsidiaries operating in Hong Kong.

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

4. (Loss)/earnings per share

The calculation of basic loss per share for the Interim Period is based on the Group's loss attributable to shareholders of HK\$18,439,000 (six months ended 30 June 2000: profit of HK\$13,390,000) and the weighted average of 1,002,022,398 shares (six months ended 30 June 2000: 899,987,963 shares deemed to be in issue).

The calculation of basic loss per share for the Three-Month Period is based on the Group's loss attributable to shareholders of HK\$5,209,000 (three months ended 30 June 2000: profit of HK\$8,477,000) and the weighted average of 1,004,022,571 shares (three months ended 30 June 2000: 900,000,000 shares deemed to be in issue).

In determining the weighted average number of shares deemed to be in issue for the six months and three months ended 30 June 2000, the 199,969,574 shares issued as consideration for the acquisition by the Company of the issued capital of DGBL and the capitalization issue of 700,000,000 shares as a result of the reorganization 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.

The diluted loss per share has not been presented for the Interim Period and the Three-Month Period as there is no dilution effect arising from the potential ordinary shares. There were no potential dilutive shares during the three months and six months ended 30 June 2000.

5. Movement in reserves*HK\$'000***Share premium**

At 1 January 2001 and 1 April 2001	10,978
New shares issued	24,103
	<hr/>
At 30 June 2001	35,081
	<hr/> <hr/>

There was no share premium account for the corresponding period in 2000.

*HK\$'000***(Accumulated losses)/Retained earnings**

At 1 January 2001	9,713
Loss for the three months ended 31 March 2001	(13,230)
At 1 April 2001	<hr/> (3,517)
Loss for the three months ended 30 June 2001	(5,209)
	<hr/>
At 30 June 2001	(8,726)
	<hr/> <hr/>
At 1 January 2000	7,203
Profit for the three months ended 31 March 2000	4,913
At 1 April 2000	<hr/> 12,116
Profit for the three months ended 30 June 2000	8,477
	<hr/>
At 30 June 2000	20,593
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Capital reserve on consolidation*HK\$'000*

At 1 January 2001 and 1 April 2001	37,521
Disposal of interests in a subsidiary	451
	<hr/>
At 30 June 2001	37,972
	<hr/> <hr/>
At 1 January 2000	—
Acquisition of a subsidiary	(11,370)
	<hr/>
At 1 April 2000	(11,370)
Acquisition of an associated company	(12,027)
	<hr/>
At 30 June 2000	(23,397)
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Investment revaluation reserve*HK\$'000*

At 1 January 2001 and 30 June 2001	(30,102)
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There was no investment revaluation reserve account for the corresponding period in 2000.

INTERIM DIVIDEND

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

BUSINESS REVIEW AND OUTLOOK

For the Interim Period, the Group achieved a turnover of HK\$34.1 million representing a 60% decrease from HK\$84.8 million for the corresponding period of 2000. The Group recorded an unaudited consolidated loss attributable to shareholders of HK\$18.4 million for the Interim Period as compared to an unaudited consolidated profit attributable to shareholders of HK\$13.4 million in the corresponding period of 2000.

Turnover for the Three-Month Period is HK\$19.0 million which shows a decrease of 64% from the turnover of HK\$52.6 million for the corresponding period of 2000 but an increase of 25% from the turnover of HK\$15.2 million for the previous quarter ended 31 March 2001. The unaudited consolidated loss attributable to shareholders for the Three-Month Period is HK\$5.2 million while there was a profit of HK\$8.5 million for the corresponding period in 2000. Nevertheless, it shows an improvement as compared to the unaudited consolidated loss attributable to shareholders of HK\$13.2 million for the previous quarter ended 31 March 2001.

The downturn of the business results is mainly attributable to the fact that less system integration contracts have been completed during the Interim Period as compared to the corresponding period in 2000. The pre-sales cycle for system integration contracts are generally prolonged in this year as more customers prefer to use open bid method for the selection of system integrator which involves more time for preparation and documentation before contract is awarded.

The administrative expenses for the Interim Period have increased by 48% to approximately HK\$27.9 million despite a decrease in turnover by 60% to approximately HK\$34.1 million as compared to that for the corresponding period of 2000. This is attributable to the fact that for the Interim Period, the Group has undertaken 3 lines of business, namely, system integration and engineering of broadband multimedia communication networks, ASP and ISP businesses. However, the ASP and ISP businesses commenced operation in February 2000 and March 2000 respectively and became in full operation in the third quarter of the year 2000. Hence, there is a substantial increase in depreciation charge as a result of fixed assets investment in computer and network equipment, office rent and rates, research and development and salaries in the Interim Period as compared to the corresponding period of 2000.

In light of the current market conditions and slowdown of the Internet economy, the Group has implemented a tighter cost control in operating expenses as well as capital investment for the Three-Month Period. As such, the selling expenses decreased from HK\$2.4 million to HK\$1.6 million and the administrative expenses significantly decreased from HK\$16.3 million to HK\$11.7 million respectively as compared to the previous quarter ended 31 March 2001.

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. The Group has negotiated in the final stage for 2 contracts in the PRC with an aggregate value of approximately HK\$35 million.

Meanwhile, the Group has established business relationship with an international reputable equipment supplier for the supply of high quality and features-rich networking switch routers, which would enable the Group to deliver comprehensive data communication solutions to the Group's target customers.

The Group has actively pursuing projects in the PRC and has established a representative office in Beijing of the PRC to facilitate its marketing activities in the northern part of the PRC. The Group also proceeds to form wholly-owned enterprises in Guangzhou of the PRC to cater for the business opportunities in the southern part of the PRC.

For the ASP business, the Group has focused on the provision of customized solutions to customers either in intranet or internet bases. The Group has identified 4 main areas for business pursuit, namely, (i) the electricity sector in the PRC, (ii) the hotel sector in the PRC, (iii) the government and public utilities sectors in both the PRC and Hong Kong and (iv) large enterprises in both the PRC and Hong Kong. Applications to be marketed include but not limited to, management information system; office automation, call center and human resource management etc. The Group will make use of its existing applications that have already been developed, such as the ERP and CRM modules and the know-how accumulated as a foundation to customize for individual customers.

As for the ISP business, the competition in Hong Kong remains to be keen and such competition has reflected in the substantial price reduction by the major ISPs for broadband and VPN services. To react to this market trend, the Group has slowed down its development plan on these areas in Hong Kong and became more focused on the PRC market, which the Directors believe that, with the potential entry of the PRC to WTO, the demand for ISP services in the PRC will be very high.

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 calculation 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 to be a vote of confidence from the investor in the prospects of iGreatLink.

The market conditions and operating environment for telecommunication and Internet projects in the PRC and Hong Kong continue to be challenging and are expected to undergo a period of consolidation after a period of significant and rapid expansion in previous years. Looking forward, the Directors will ensure every effort is made to preserve the best interest of the shareholders and will continue to exercise high financial control and to explore new opportunities in cautious manner so as to create value to the shareholders.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

<i>Business Objectives</i>	<i>Actual Business Progress/change of objective (if any)</i>
<i>System integration and engineering of broadband multimedia communication networks:</i>	
1. Continue to source new projects through direct sales and provide services to existing customers who plan to develop new phases of construction of their networks.	The Group has concluded 4 new projects through direct sales. Among the projects concluded, 2 new projects, one for video conferencing system and one for multi-access switch networks have been completed during the period. The Group also has regular contact with existing customers to explore opportunity for new orders.
2. Keep abreast of technological advancement and customers' requirement to provide new system integration and engineering service by making use of new technology and equipment to satisfy customers' specification.	Through regular contact with customers and equipment suppliers, the Group has kept abreast of technological advancement and customers' requirement to provide new system integration and engineering services.
3. Plan and develop strategies for expanding the Group's business in the Beijing and Shanghai regions.	The Group has opened a representative office in Beijing and recruited 5 new staff to promote its services to customers located in the northern part of China, in particular, the Beijing and Shanghai regions.

Business Objectives**Actual Business Progress/change of objective (if any)***ASP*

- | | |
|--|---|
| <p>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 authorised. Such new application features include the following:</p> | <p>From April 2001 onwards, the Group changed its strategy on the ASP services. Instead of enriching the applications and content on its web site "corp2net.com", the Group considers that the web site shall provide general applications and functions and content information to its customers, sophisticated applications will not be provided in the web site and will be marketed on tailor-made basis to individual customers. As such, the following applications have been developed and integrated in our ERP modules and will be modified and provided to individual customers on a tailor-made basis.</p> |
| <p>— Enterprise Performance Management such as enterprise warehouse, funds transfer pricing, risk transfer pricing, risk weighted capital, activity based management, balanced scorecard, workforce analysis, workbenches and performance measurement.</p> | <p>As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.</p> |
| <p>— Human Resources Management such as personnel and benefits administration, pension administration, payroll, payroll interface, time and labour and stock administration.</p> | <p>As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.</p> |
| <p>— Project Management such as purchasing, payables, receivables, asset management, inventory, time and labour, payroll and budgets.</p> | <p>As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.</p> |

Business Objectives**Actual Business Progress/change of objective (if any)**

- | | |
|--|---|
| <p>— Sales and Logistics such as remote sales and logistics, remote order entry, order management, product configuration, billing, receivable, order processing and inventory.</p> | <p>As mentioned above, this application has been developed and integrated in its ERP modules. Such application will be provided to customers on a tailor-made basis.</p> |
| <p>2. Continue its direct sales effort to market its service of providing tailor-made e-commerce solutions and portal building to at least 2 new customers.</p> | <p>Proceeded as planned. During the period, the Group has concluded 5 new contracts for the Education Department and the Legislative Council of the Hong Kong Government.</p> |
| <p>3. Continue marketing effort in brand building and product promotion through direct mailing and distribution of corporate premiums, newsletters and leaflets to SMEs, Soho clients and professionals to consolidate its client base. The Group will also launch seminars and exhibitions relating to ASP business for SMEs, Soho clients and professionals.</p> | <p>No direct mailing and distribution of corporate premiums, newsletters and leaflet has been made as the Group considers such marketing channels are not cost effective. During the period under review, the Group has participated in Hong Kong Information Infrastructure Expo 2001 in February 2001 for promoting our ASP services to SMEs, Soho clients and professionals.</p> |
| <p>4. Review and monitor effectiveness of new applications developed by third parties that have been incorporated and seek appropriate new applications.</p> | <p>Our technical team has monitored the applications which are either developed by third parties or developed by its own on a regular basis and has modified the applications from time to time.</p> |
| <p>5. Identify content providers whose contents have synergy with the Group and form content alliances with them to acquire industry news and general interest topics and to monitor the effectiveness of the content alliances already in place.</p> | <p>During the period under review, the Group has not entered into alliance with new content providers and the Group considers the present information provided in its web site "corp2net.com" is sufficient. The Group has modified the outlook and design of the web site "corp2net.com" so as to provide a more convenient way to access such information.</p> |

Business Objectives

Actual Business Progress/change of objective (if any)

- | | |
|---|---|
| <p>6. Identify Internet companies whose businesses have synergy with the Group and form business partnerships with them for joint promotion and new business development.</p> | <p>During the period under review, the Group has partnered with 5 solution provider companies in Hong Kong and the PRC to draw their support for the provision of tailor-made solutions to its customers.</p> |
|---|---|

ISP

- | | |
|--|--|
| <p>1. Review the quality of broadband Internet access and dedicated Internet access services in Hong Kong through market research.</p> | <p>Proceeded as planned. The technical staffs have ensured its quality of services by doing market research such as the bandwidth demand, customer services standard and complaint response rate in order to keep abreast to the similar services standard provided by other competitors.</p> |
| <p>2. Review and improve the quality of the services of IPVPN and CDS in Hong Kong by reacting promptly to market response and customers' requirement and by keeping abreast of the latest technological advances.</p> | <p>Proceeded as planned. The Group is constantly reviewing the quality of its IPVPN and CDS services in Hong Kong and taking into account the comments from customers. As a result, during period under review, the technical staffs have re-configured the network infrastructure and enhanced the hardware in order to improve the quality of service.</p> |

Business Objectives

Actual Business Progress/change of objective (if any)

3. Other than continuing the marketing strategy for promoting the service of iGreatLink and brand building through newspapers, business magazines and distribution of leaflets to the public, increase the number of direct sales force, line up with more business partners and co-operate with resellers so as to reinforce the effect of the Group's marketing effort.

Having regard to the present market conditions and based on the past experience accumulated in last year, the Group has revised its marketing strategy. Direct sales force has not been considered as the best method given that the operating cost for maintaining its own direct sales force is substantial. As a result, the Group has reduced its direct sales force from 20 at the beginning of this year to 2 at the end of period. The Group has worked closely with other business partners and resellers and relied on them for product promotion.

New business

1. The Group is currently under preliminary negotiations with other carriers for the development of the business of providing integrated data services such as VoIP service. If discussions with 1 or more fixed line and wireless communication carriers are successful, the Group intends in the first half of 2001, to commence work progressively to package sales of integrated data service.

The Group continued to negotiate with a US company for the provision of VoIP service between USA, Hong Kong and the PRC. The Group is still evaluating the business rollover plan and has not determined whether to provide such services by its own or by co-operation with other carriers. The Group will continue to negotiate with the US company and expect to finalize the deal by the end of this year.

USE OF PROCEEDS

	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>
Research and development of web-based applications and software	3,900	2,542
Marketing and promotional activities	2,200	216
Enhancement of the internet infrastructure of the Group	5,400	5,206
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP businesses	7,500	8,450
Establishment of a sales and customer support service center and a research and development center in Guangzhou for the system integration business and the ASP business	5,000	1,750
Total	24,000	18,164

The proposed use of proceeds amount for the Interim Period, which is set out in the Company's prospectus dated 6 July 2000 and revised in the annual report 2000 of the Company, is HK\$24.0 million. Actual application of fund was approximately HK\$18.2 million. The Directors have exercised a stringent control on the application of fund, thus fund allocated to research and development, marketing and promotional activities has been reduced. As for the equity investment, the Group has acquired 100% interest in a company which is engaged in software research and development for HK\$8.45 million. As regard to the Guangzhou office, the Group is now in the process of forming 3 foreign wholly owned enterprises in Guangzhou of the PRC with an aggregate issued share capital of HK\$7.0 million, of which HK\$1.75 million was made during the Interim Period. The balance of HK\$5.25 million is expected to be injected in the next half of the year. The 3 foreign wholly owned enterprises in Guangzhou of the PRC will serve as the sales and customer support for system integration service, research and development support for the ASP service and sales support for ISP service respectively.

As set out in the annual report 2000 of the Company, the Group has cash and bank balances of approximately HK\$45.7 million as at 31 December 2000. As at 30 June 2001, the Group has approximately HK\$26.3 million cash and bank deposits. The Directors believe that the available cash resources of the Group and the anticipated cash to be generated from its future operation should be sufficient to satisfy the future business objectives as set out in the Company's prospectus dated 6 July 2000.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

Interests in Share Capital

As at 30 June 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:

Name	Type of interest	Number of shares of the Company
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	11,684,819

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 30 June 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 30 June 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 30 June 2001.

CONVERTIBLE NOTES

Pursuant to the facility agreement (the “Agreement”) dated 23 August 2000 and entered into between the Company, its subsidiary, iGreatLink and Nortel Networks (Asia) Limited (“Nortel Networks”), as at 30 June 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 for 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. Up to 30 June 2001, an aggregate of US\$3,000,000 debentures have been issued under the Subscription Agreements, of which US\$300,000 debentures were converted during the Interim Period.

SUBSTANTIAL SHAREHOLDER

Other than the interests disclosed above in respect of directors, chief executive and their associates, as at 30 June 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.

Name	Number of shares of the Company held
Lit Cheong Holdings Limited	643,242,469

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

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

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 30 June 2001 and 10 August 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 30 June 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.

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, 13 August 2001