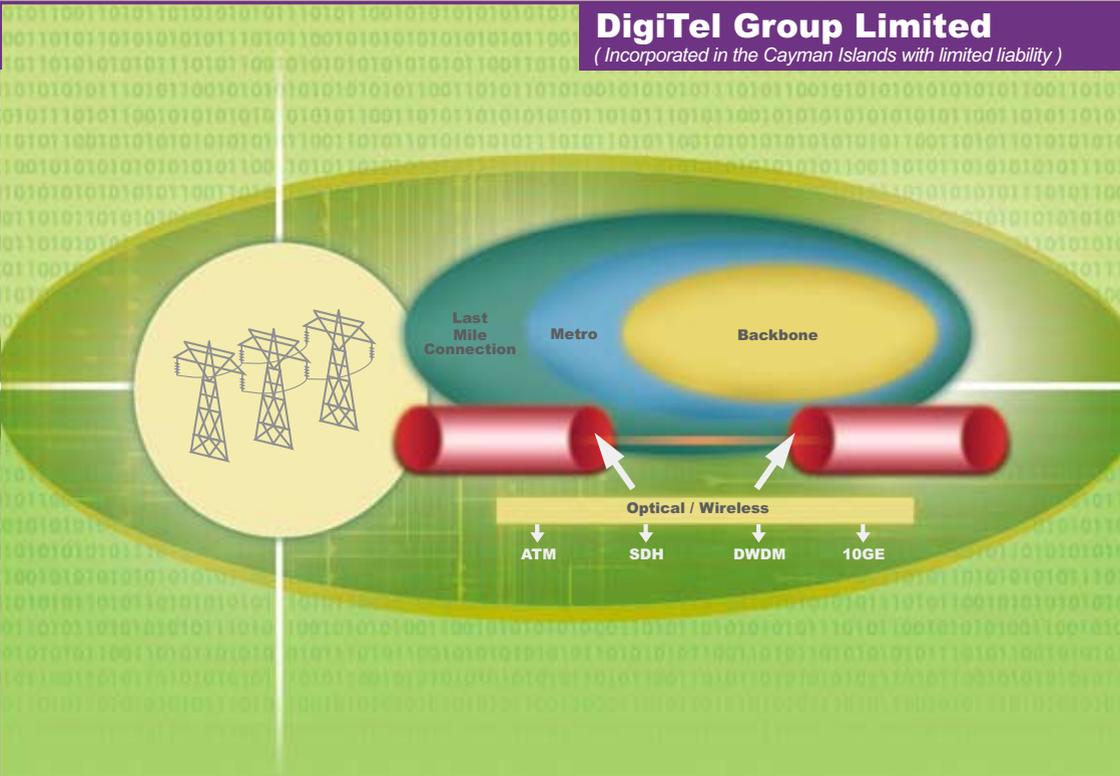




# DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)



## Third 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 NINE-MONTH PERIOD

- The Group achieved turnover of approximately HK\$56.6 million.
- Loss attributable to shareholders was approximately HK\$32.3 million.
- System integration and engineering of broadband multimedia communication networks remained to be the core business of the Group which generated turnover of HK\$23.4 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 nine months (the "Nine-Month Period") and the three months (the "Three-Month Period") ended 30 September 2001 respectively, together with the unaudited comparative figures for the corresponding periods as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	<b>22,430</b>	34,702	<b>56,576</b>	119,477
Cost of sales		<b>(20,924)</b>	(9,739)	<b>(44,146)</b>	(51,869)
Gross profit		<b>1,506</b>	24,963	<b>12,430</b>	67,608
Other revenues		<b>1,244</b>	1,102	<b>4,541</b>	1,680
Selling expenses		<b>(1,469)</b>	(5,880)	<b>(5,424)</b>	(12,447)
Administrative expenses		<b>(14,190)</b>	(16,589)	<b>(42,111)</b>	(35,400)
Operating (loss)/profit		<b>(12,909)</b>	3,596	<b>(30,564)</b>	21,441
Finance costs		<b>(939)</b>	(810)	<b>(2,459)</b>	(1,634)
Share of losses of associated companies		<b>(54)</b>	(142)	<b>(532)</b>	(147)
(Loss)/profit before taxation		<b>(13,902)</b>	2,644	<b>(33,555)</b>	19,660
Taxation	3	—	(396)	—	(4,022)
(Loss)/profit after taxation		<b>(13,902)</b>	2,248	<b>(33,555)</b>	15,638
Minority interests		—	—	<b>1,214</b>	—
(Loss)/profit attributable to shareholders		<b>(13,902)</b>	2,248	<b>(32,341)</b>	15,638
(Loss)/earnings per share					
— basic (cents)	4	<b>(1.344)</b>	0.228	<b>(3.193)</b>	1.682
— diluted (cents)	4	—	0.227	—	1.676



*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 September		For the nine months ended 30 September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
System integration contracts revenue	16,693	29,041	23,399	95,583
Customized solution services income	344	—	1,076	—
Web application services income	257	835	4,255	10,596
Internet service provider services income	1,799	1,355	9,423	1,533
Sale of goods and services at invoiced value, net of returns and discounts	3,337	3,469	17,051	7,424
Maintenance services income	—	2	859	2,611
Consultancy services income	—	—	513	1,730
	<u>22,430</u>	<u>34,702</u>	<u>56,576</u>	<u>119,477</u>

## 3. Taxation

	For the three months ended 30 September		For the nine months ended 30 September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	—	396	—	4,022

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

During the Nine-Month 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

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the Nine-Month Period is based on the Group's loss attributable to shareholders of HK\$32,341,000 (nine months ended 30 September 2000: profit of HK\$15,638,000) and the weighted average of 1,013,002,127 shares (nine months ended 30 September 2000: 929,562,044 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\$13,902,000 (three months ended 30 September 2000: profit of HK\$2,248,000) and the weighted average of 1,034,583,071 shares (three months ended 30 September 2000: 988,043,478 shares deemed to be in issue).

In determining the weighted average number of shares deemed to be in issue for the nine months and three months ended 30 September 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.

(b) Diluted (loss)/earnings per share

The diluted loss per share has not been presented for the Nine-Month Period and the Three-Month Period as there is no dilution effect arising from the potential ordinary shares.

The calculation of diluted earnings per share for the nine months and three months ended 30 September 2000 is based on the Group's profit attributable to shareholders of HK\$15,638,000 and HK\$2,248,000 and the weighted average of 932,892,696 shares and 991,374,130 shares respectively. The weighted average number of shares are based on weighted average number of shares deemed to be in issue in the respective period plus the effect of dilutive potential ordinary shares on share options.

In determining the weighted average number of shares deemed to be in issue for the nine months and three months ended 30 September 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.

## 5. Movement in reserves

	<i>HK\$'000</i>
<b>Share premium</b>	
At 1 January 2001 and 1 April 2001	10,978
New shares issued	<u>24,103</u>
At 31 July 2001	35,081
New shares issued	<u>815</u>
At 30 September 2001	<u><u>35,896</u></u>
At 1 January 2000, 1 April 2000 and 1 July 2000	—
Placing of shares	95,000
Placing and listing expenses	(14,022)
Capitalisation issue	<u>(70,000)</u>
At 30 September 2000	<u><u>10,978</u></u>
	<i>HK\$'000</i>
<b>(Accumulated losses)/Retained earnings</b>	
At 1 January 2001	9,713
Loss for the three months ended 31 March 2001	<u>(13,230)</u>
At 1 April 2001	(3,517)
Loss for the three months ended 30 June 2001	<u>(5,209)</u>
At 1 July 2001	(8,726)
Loss for the three months ended 30 September 2001	<u>(13,902)</u>
At 30 September 2001	<u><u>(22,628)</u></u>
At 1 January 2000	7,203
Profit for the three months ended 31 March 2000	<u>4,913</u>
At 1 April 2000	12,116
Profit for the three months ended 30 June 2000	<u>8,477</u>
At 1 July 2000	20,593
Profit for the three months ended 30 September 2000	<u>2,248</u>
At 30 September 2000	<u><u>22,841</u></u>

**Capital reserve on consolidation**

	<i>HK\$'000</i>
At 1 January 2001 and 1 April 2001	37,521
Disposal of interests in a subsidiary	<u>451</u>
At 30 June 2001 and 30 September 2001	<u><u>37,972</u></u>
At 1 January 2000	—
Acquisition of a subsidiary	<u>(11,370)</u>
At 1 April 2000	(11,370)
Acquisition of an associated company	<u>(12,027)</u>
At 1 July 2000	(23,397)
Further investment in an associated company	1,680
Issue of shares in DGBL prior to group reorganisation for the GEM listing	<u>59,368</u>
At 30 September 2000	<u><u>37,651</u></u>

**Investment revaluation reserve**

	<i>HK\$'000</i>
At 1 January 2001 and 30 September 2001	<u><u>(30,102)</u></u>

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 Nine-Month Period (2000: Nil).

## BUSINESS REVIEW AND OUTLOOK

For the Nine-Month Period, the Group achieved a turnover of HK\$56.6 million representing a 53% decrease from HK\$119.5 million for the corresponding period of 2000. The Group recorded an unaudited consolidated loss attributable to shareholders of HK\$32.3 million for the Nine-Month Period as compared to unaudited consolidated profit attributable to shareholders of HK\$15.6 million in the corresponding period of 2000.

Turnover for the Three-Month Period is HK\$22.4 million which shows an increase of 18% from the turnover of HK\$19.0 million for the previous quarter ended 30 June 2001 but a decrease of 35% as compared to the corresponding period of 2000. The unaudited consolidated loss attributable to shareholders for the Three-Month Period is HK\$13.9 million which is worse off as compared to the unaudited consolidated profit attributable to shareholders of HK\$2.2 million in the corresponding period of 2000.

The gross profit margin squeezed from 57% to 22% for the Nine-Month Period as compared to the corresponding period of 2000. The thinner gross profit reflects the fact of keen competition and the unfavourable market conditions.

Less system integration contracts have been concluded during the Nine-Month Period as compared to the corresponding period in 2000 while more marketing and pre-sales efforts were required to conclude contracts. Customers were cautious to place order. Nevertheless, the Group was able to conclude a key contract which is for the provision of ATM WAN network equipment for the Guangdong Provincial Power to construct its telecommunication backbone in the Guangdong region. The successful award of this contract has reinforced our market position in the telecommunication service of the power section in the PRC and would sharpen the competitive edges of the Group in this business section.

The administrative expenses for the Nine-Month Period increased by 19% to approximately HK\$42.1 million as compared to that for the corresponding period of 2000. This is attributable by the fact that for the Nine-Month Period 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 salary as compared to the corresponding period of 2000.

In light of the adverse market circumstances and the slump of Internet economy, the Group has redefined its business strategies so that the focus will be concentrated on profit-oriented businesses while loss-making businesses will be faded out. As such, the Group has directed its resources to system integration service and has retracted its development pace in Internet services.

In view of the impact of the global downturn of telecommunications market and the deterioration of business environment, the Directors will continue to exercise tight cost control and cautious development plan with a view to preserve its competitive edges to meet for the market rebound. The Directors believe that the prospect of the Group is promising and will continue to create value and improve the operating results of the Group.

## **DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS**

As at 30 September 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 the 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

*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.

## **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SECURITIES**

Save for the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme") of the Company, both were adopted on 30 June 2000, as at 30 September 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 September 2001, options to subscribe for an aggregate of 90,000,000 shares of the Company had been granted 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).

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 September 2001.

## **CONVERTIBLE NOTES**

Pursuant to a facility agreement (the "Facility Agreement") dated 23 August 2000 entered into between the Company, its subsidiary, iGreatLink and Nortel Networks (Asia) Limited ("Nortel Networks"), as at 30 September 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 Facility Agreement.

Pursuant to a subscription agreement dated 23 March 2001 and a deed of variation dated 3 April 2001 (together the "Subscription Agreements") entered into between the Company and two unrelated third party investors (the "Investors"), the Company agreed to issue debentures to the Investors for an aggregate 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 September 2001, an aggregate of US\$3,000,000 debentures have been issued under the Subscription Agreements, of which US\$450,000 debentures were converted during the Nine-Month Period.

## **SUBSTANTIAL SHAREHOLDER**

Other than the interests disclosed above in respect of directors, chief executive and their associates, as at 30 September 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 Nine-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 30 September 2001 and 12 November 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 September 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 November 2001