DigiTel Group Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002

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 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.

The Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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.

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr. Lee Chuen Bit
Mr. Hon Chak Sang

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

AUTHORISED REPRESENTATIVES

Mr. Lee Chuen Bit
Mr. Hon Chak Sang

COMPANY SECRETARY

Mr. Ho Lok Cheong

QUALIFIED ACCOUNTANT

Mr. Tam Tak Wah, *FCCA, FHKSA*

COMPLIANCE OFFICER

Mr. Lee Chuen Bit

AUDIT COMMITTEE

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

AUDITORS

GRAHAM H.Y. CHAN & CO.
Certified Public Accountants
Unit 1, 15/F, The Center
99 Queen's Road Central
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Room 1408A, 14/F,
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

COMPANY HOMEPAGE

http://www.digitelgroup.com

PRINCIPAL BANKERS

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

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

Wing Lung Bank Limited
112 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
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 Room 1609, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 16 September 2003 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 the auditors for the financial year ended 31 December 2002;

(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 the 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."

(D) "**THAT** the directors of the Company be and hereby authorised to grant options under its share option scheme adopted on 30 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 at the date of the passing of this resolution."

By Order of the Board
DigiTel Group Limited
Lee Chuen Bit
Chairman

Hong Kong, 6 August 2003

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Principal place of business:
Room 1408A
West Tower
Shun Tak Centre
168-200 Connaught Road 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, 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 GEM of the Stock Exchange will be despatched to the members of the Company together with the 2002 annual report.

Chairman's Statement

On behalf of the board of directors (the "Board") of DigiTel Group Limited (the "Company"), I am pleased to present to the shareholders the 2002 annual report of the Company and its subsidiaries (together the "Group").

The year 2002 has been a difficult year for the Group. The Group is seriously hit by the burst of the Internet bubble. Under the stringent financial resources, the Group determined to cease all its operations in Internet businesses and re-directed its focus to its core business of system integration services in networking. While the Group did not conclude any new system integration contract during the year, the Group will continue marketing by capturing of its long-term business relationship with existing PRC customers and its reputation in professional service execution.

Despite the departure of key management staff which caused interruption in project execution and operation, the stringent financial position and the resultant litigations, the Group will re-position itself as a total solution system integration provider in networking. The Group will look for business partners with a view to accelerate its business expansion plan, increase its client base and widen its range of services. The Board will continue to negotiate with its creditors with a view to settle the claims and litigations so that the Group can re-track to its core business and generate value to shareholders.

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders, customers, banks, business partners and creditors for their understanding and support. In addition, I would like to make a special thank to the hardworking staff of the Group for their dedication and enthusiasm during this difficult year.

Lee Chuen Bit
Chairman

Hong Kong, 5 August 2003

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

During the year under review, the Group remains focus in system integration in networking services for the Hong Kong and PRC markets. Though the Group has not concluded any major contract during the year, marketing activities have never stopped. The Group has strategically allied with other business partners for joint marketing. This is essential given the fact that the Group's marketing team has been reduced to 3 members. The Group has ceased all its Internet-related businesses with a view to reducing the operating loss and to avoid future capital commitment. However, this has caused significant impact on this year's results as full provision and costs written off have been made in this year.

The radical downturn of the Internet business and the telecommunication markets has worsen the financial position of the Group. The Group is currently facing a number of litigations and claims, details of which are described below under the heading of 'Litigations'. The tight cash flow position of the Group has resulted in less business activities being conducted. However, the Group is looking for new business opportunities in Guangdong, Anhui and Fujian provinces through established business network and business partners.

The Group foresees that the competition in system integration services will continue to be keen. In view of this, the Group will broaden its customer base from the power supply and telecommunication industries into other sectors such as education institutions and property management. The Group will continue to discuss with its creditors with a view to resolve the liquidity and financial position of the Group in the coming future.

FINANCIAL REVIEW

For the year 2002, the Group's turnover was HK$7.7 million, representing a 89.6% decrease from HK$73.9 million for the year 2001. The Group recorded a loss attributable to shareholders of HK$162.0 million for the year 2002, a 176.0% increase, as compared to the loss of HK$58.7 million for the year 2001.

Turnover for the year 2002 mainly comprised sales of inventories of HK$4.0 million. The slump in the Internet market for the past years reduced the overall demand for the inventories currently held by the Group and accordingly the Group had to dispose of its inventories at prevailing market prices which were substantially below their costs. A provision for diminution in value of HK$18.9 million was therefore required for the stock on hand at 31 December 2002.

Though the selling and administration expenses of the Group was reduced to HK$28.3 million as compared to HK$55.9 million in the year 2001, the operating results of the year 2002 was worsen as it included certain costs of non-recurring nature such as the stock provision of HK$18.9 million, loss of HK$10.4 million for the disposal of fixed assets arising from the disposal of Internet-related equipment after the suspension of its operation and the write off of leasehold improvements, furniture and fixtures due to the relocation of the Group's head office, bad debt written off for receivables relating to Internet business of HK$21.5 million. Such costs were incurred due to the cessation of Internet businesses of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group had total assets of approximately HK$19.3 million (as at 31 December 2001: HK$179.9 million), including cash and bank balances of HK$0.5 million (as at 31 December 2001: HK$2.3 million).

Bank overdrafts, trust receipt loans and mortgage loan as at 31 December 2002 were approximately HK$10.1 million, HK$9.9 million and HK$7.2 million respectively (as at 31 December 2001: approximately HK$13.6 million, HK$9.6 million and HK$7.9 million respectively). All the bank borrowings were secured by (i) the corporate guarantees given by the Company and/or (ii) the legal charge on the Group's investment property.

The Group's borrowings were mainly in Hong Kong dollars. The Group did not have any unutilised banking facilities as at 31 December 2002.

The gearing ratio (total long-term borrowings/total shareholders' funds) of the Group as at 31 December 2002 was not applicable as the Group suffered capital deficiency in this year (as at 31 December 2001: 14.9%).

Almost all of the Group's cash is in Hong Kong dollars, the exposure to exchange fluctuation is minimal. Since most of the transactions of the Group were denominated in Hong Kong dollars or United States dollars, no hedging or other alternatives have been implemented.

CAPITAL STRUCTURE

The Group financed its operations by means of equity funding, loans from banks and financial institutions and funds generated from business operations.

In May 2002, the Company placed 100,000,000 new ordinary shares of HK$0.1 each in the capital of the Company to Lit Cheong Holdings Limited ("LCH") at par value. These shares were issued upon the completion of the placing of 100,000,000 existing ordinary shares of the Company registered in name of LCH to two independent third parties of the Group. The net proceeds raised to the Group were approximately HK$9.7 million.

Apart from intra-group liabilities and trade and other payables, as at 31 December 2002, the amount of short-term bank and other borrowings of the Group which will be repayable within a year was about HK$56.7 million (as at 31 December 2001: HK$45.1 million) and the amount of long-term liabilities which will be repayable after more than a year was HK$35,000 (as at 31 December 2001: HK$14.7 million).

The Group currently has insufficient working capital to meet the short-term liabilities which are due for repayment. The Directors are now negotiating with its banks and creditors and sourcing new financing, either in equity or in loan with a view to resolve the problem and restore the position.

Management Discussion and Analysis

The Directors consider that the Group's future operations, capital expenditure and the capital requirement will be funded from business operations and, if necessary, additional equity or loan financing or bank borrowing.

INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year, the Group did not acquire or dispose of any material investments or subsidiaries. However, full provision has been made against the investments in relation to Internet businesses.

SEGMENTAL INFORMATION

During the year, the Group did not conclude any system integration contract and the sale of goods constituted the major source of income of the Group. The overall demand for the Group's inventories shrank over the past year and therefore the Group had to dispose of its inventories at a loss. Geographical markets are mainly in Hong Kong while in last year were in Hong Kong and the PRC.

CONTINGENT LIABILITIES

As at 31 December 2002, the Company had contingent liabilities in respect of (i) corporate guarantees to banks for banking facilities granted to the Group and (ii) guarantees for the due performance of its certain subsidiaries in respect of the obligations under finance leases and the convertible notes to Nortel Networks.

CHARGE OF ASSETS

As at 31 December 2002, the Group's investment property with a book value of HK$13,500,000 was pledged to a bank to secure a mortgage loan and other banking facilities to the extent of approximately HK$25.3 million. The bank has issued a writ against the Group in respect of these banking facilities as stated in item (b) under the heading of "Litigations".

LITIGATIONS

As at the date of this report, the Group has been involved in unsettled or outstanding major claims and writs with details as follows:

(a) On 11 March 2002, a writ under HCA 956/2002 was issued, amended on 22 August 2002 and further amended on 24 October 2002 by The Center (65) Limited ("The Center (65)") against three direct or indirect wholly-owned subsidiaries of the Company, namely DigiTel Group (BVI) Limited (formerly known as DigiTel Group Limited, a company incorporated in the British Virgin Islands) ("DGL"), Regal Policy Limited ("Regal Policy"), and Just Growth Investments Limited ("Just Growth") and one associate, Asia Tech Holdings Limited ("Asia Tech") (collectively, the "Defendants").

The Center (65) claimed against Regal Policy for alleged failure to pay (i) a sum of HK$787,611.17 being the arrears of rent, air conditioning and management charges, rates and government rents up to 31 March 2002, (ii) another sum of HK$403,240.28 (after deducting the 3-month rental deposit) due to the withdrawal of rent free period of 5 months, (iii) a monthly sum of HK$317,410.00 being the rent or mesne profits, HK$49,637.50 per month being air-conditioning charges and management charges, government rates at the quarterly rate of HK$27,150.00 and government rent at the quarterly rate of HK$16,290.00 from 1 April 2002 up to the date of delivery of vacant possession; and (iv) other damages pursuant to the related tenancy agreement entered into between The Center (65) and Regal Policy on 16 May 2000 (the "First Tenancy Agreement") in respect of Units 6507-6510, 65th Floor, The Center, Central, Hong Kong (the "First Premises"). The Center (65) also claimed against Asia Tech, DGL and Just Growth as the guarantors in respect of the obligations of Regal Policy under the First Tenancy Agreement. A re-amended defence was filed by the Defendants on 7 November 2002. Vacant possession of the First Premises has been delivered to The Center (65) on 9 May 2002. The Group has settled all rental payment to The Center (65) under the First Tenancy Agreement up to 31 March 2002 and its 3-month rental deposit of HK$1,177,325.00 for the First Premises is being retained by The Center (65). The Group, therefore, does not consider that it has material obligations to pay any further sums to The Center (65).

(b) On 31 May 2002, a writ was issued by Industrial and Commercial Bank of China (Asia) Limited ("ICBC") against DigiTel Communication (Asia) Limited ("DCAL"), Lit Cheong DigiTel Limited ("LC DigiTel") and Goway Investments Limited ("Goway"), (collectively the "Defendant Subsidiaries", all being indirect wholly-owned subsidiaries of the Company) to claim for repayment of banking facilities granted to them (the "Facilities") in the sum of US$1,264,128.35 (approximately HK$9,860,201.13) and HK$15,331,361.00 and against the Company as the guarantor for the Defendant Subsidiaries (together, the "Defendant Companies"). Pursuant to a legal charge dated 29 March 2000 (the "Legal Charge"), the Facilities were further secured by an investment property located in Admiralty, Hong Kong (the "Investment Property") owned by Goway, the market value of which (based on a valuation report prepared by an independent valuer) as at 31 December 2002 was HK$13.5 million. On 16 July 2002, the Company received a letter from Deloitte Touche Tohmatsu, who informed the Company that by virtue of the powers under the Legal Charge, two of their employees were appointed as receivers and managers (the "First Receivers") by ICBC in respect of the Investment Property. The Investment Property was put on public auction on 18 September 2002 by the First Receivers but was not disposed of at the auction as the reserve price was not met. On 17 October 2002, summary judgement was entered against DCAL, Goway and the Company but dismissed against LC DigiTel. After lengthy negotiation, judgement was eventually entered by consent against all the Defendant Companies on 19 November 2002.

(c) On 1 June 2002, a writ under DCCJ 3361/2002 was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for alleged failure to pay for printing services provided to the Company for an outstanding sum of HK$160,849.31. A defence was filed by the Company on 26 June 2002 which denies all the allegations. No further action has been taken by either party thereafter.

(d) On 26 June 2002, a writ under HCA 2466/2002 was issued by Strong River Investments Incorporated and Montrose Investments Limited (the "Plaintiffs") against the Company. The Plaintiffs claimed against the Company for a sum of US$1,736,133.00 (approximately HK$13,541,837.40) for breach of an agreement for redemption of convertible debentures dated 3 December 2001 between the Plaintiffs and the Company, details of which are set out in the announcement of the Company dated 7 December 2001; and for failure by the Company to make payments pursuant to a subscription agreement dated 23 March 2001 between the Plaintiffs and the Company, details of which are set out in the announcement of the Company dated 23 March 2001 and 3 April 2001. Summary judgement was entered against the Company on 26 August 2002. The Company filed an appeal on 5 September 2002, which has been adjourned until restoration. The court has further granted the Company a stay of execution of the judgement on 7 October 2002. Provision of HK$12,948,000 was made in the accounts, the remaining balance was the overdue interest charged for the period after 31 December 2002.

(e) On 5 July 2002, a writ under HCA 2604/2002 was issued by Compaq Financial Services (Hong Kong) Limited ("Compaq Finance") (now known as HP Financial Services (Hong Kong) Limited) against the Company in respect of leasing computer equipment for the period from 1 March 2002 to 30 August 2003 under a master lease agreement dated 25 September 2000 (the "Master Lease Agreement"). As pleaded in the statement of claim dated 5 July 2002 and subsequently amended on 12 September 2002, Compaq Finance claimed against iGreatLink.com Limited ("iGreatLink") a sum of HK$8,662,884.49, as the principal debtor under the Master Lease Agreement and the Company as the guarantor under two guarantees provided by the Company to Compaq Finance to guarantee the performance and payment obligations of iGreatLink. Compaq Finance repossessed the computer equipment on 17 May 2002. The Company filed its defence on 13 August 2002 and amended defence on 26 September 2002.

(f) On 19 August 2002, iGreatLink received a letter from Baker Tilly informing the Group that pursuant to a Deed of Charge entered into between iGreatLink and Nortel Networks (Asia) Limited ("Nortel Networks") on 23 August 2000, Nortel Networks has appointed an employee of Baker Tilly to be the receiver and manager ("Second Receiver") of the Group's certain network equipment. Pursuant to the facility agreement dated 23 August 2000, the said equipment was purchased by iGreatLink and was financed partly by cash and partly by the issue of convertible notes by iGreatLink to Nortel Networks whereby title will only pass upon the repayment by iGreatLink of the principal amount of the convertible notes. The equipment was re-possessed by Nortel Networks and the Group is currently negotiating with Nortel Networks for settlement of the outstanding indebtedness of US$738,508.16 (approximately HK$5,760,363.65). The Company, DCAL and Corp2net.com Limited, a wholly owned subsidiary of the Company, are the guarantors to Nortel Networks in respect of the obligations of iGreatLink to Nortel Networks.

(g) On 2 September 2002, a writ under HCA 3356/2002 was issued by The Center (43) Limited ("The Center (43)") against Regal Policy. The Center (43) claimed against Regal Policy for alleged failure to pay rent for the period from 1 June 2002 to the expiry date under the tenancy agreement between The Center (43) and Regal Policy dated 18 April 2000 in respect of the premises located in 43rd Floor, The Center, 99 Queen's Road, Central, Hong Kong ("Second Premises"). The amount claimed against Regal Policy is HK$4,398,421.89. Regal Policy filed its defence on 27 September 2002, denying such claim at all. Vacant possession of the Second Premises was delivered on 1 August 2002 and the Group does not consider that it has material obligations to pay any further sums to The Center (43).

(h) On 2 September 2002, DCAL received a demand issued by the Inland Revenue Department ("IRD") for the sum of HK$340,619.00 being profits tax for the year 2000/01. On or about 17 January 2003, a writ under DCTC 5363/2002, amended on 17 December 2002, was served by the IRD on DCAL for the same amount. Summary judgment was subsequently entered on 23 April 2003 against DCAL for a judgment debt of $309,829.83 together with interest and legal costs.

(i) On 18 September 2002, a writ under HCA 3579/2002 was issued by First Shanghai Capital Limited ("FSCL") against the Company. FSCL claimed against the Company a total sum of HK$698,333.33 for failure to pay its monthly retainer fees for the period from 1 August 2001 to 17 September 2002 and advisory fees. The Company filed its defence on 11 October 2002, denying such claim at all. Such action is in the course of setting down for trial.

(j) On 24 September 2002, the Company received a demand (the "Demand") issued by Key Equipment Finance Asia Limited ("KEF") demanding payment for the purported sum of US$503,087.30 (approximately HK$3,924,080.94) pursuant to a lease agreement between KEF and iGreatLink dated 22 June 2001 for lease of equipment; and a guarantee issued by the Company on 22 June 2001 in favour of KEF to guarantee the obligations of iGreatLink under the lease agreement. KEF repossessed the equipment on 12 September 2002.

(k) On 17 September 2002, a writ under DCCJ 5822/2002 was issued by MCI Worldcom Asia Pacific Limited claiming against DCAL for a sum of HK$70,885.84. Judgment was entered by consent on 16 October 2002.

(l) On 20 November 2002, The Bank of East Asia, Limited issued a writ under HCA 4392/2002 claiming against DCAL, LC DigiTel for an outstanding loan of HK$2,048,408.56 together with interests and against the Company as the guarantor therefore. A defence was filed on 17 December 2002. Judgement was entered by consent on 2 July 2003.

Apart from the specific provisions disclosed above, full provisions from the actions againsts the Group was made in the accounts and there are no other material outstanding writs and litigations against the Group.

EMPLOYEES

The total employees' remuneration, including that of the Directors, for the year amounted to approximately HK$7.3 million (year ended 31 December 2001: HK$22.0 million). The decrease in staff costs was mainly due to the reduction of number of full-time employees from 58 (as at 31 December 2001) to 9 (as at 31 December 2002). The Group remunerates its employees based on their performance, experience and the prevailing industrial practice and has operated a defined contribution mandatory provident fund to which the Group makes contributions based on the relevant regulations.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30 June 2000, with the purpose to recognise the contribution of certain employees of the Group to the growth of the Group, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price of HK$1.05 each. All options have a duration of 10 years from the date of grant of the options and exercisable after six months from the date of listing of the shares of the Company on GEM and each option shall be lapsed on the date after three months of cessation of the employment of the relevant grantee. No share options can be granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company on 12 July 2000.

As at 31 December 2002, there were 20,000,000 (as at 31 December 2001: 80,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme, with option period from 3 July 2000 to 2 July 2010. During the year, 60,000,000 outstanding share options were lapsed due to the resignation of a director and four employees. No share options were exercised under the Pre-IPO Share Option Scheme since its adoption.

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

CHANGE OF AUDITORS

The accounts of the Company were jointly audited by Messrs. Pricewaterhouse Coopers and Messrs. Graham H. Y. Chan & Co. for the financial years ended 31 December 1999 and 2000. On 30 January 2002, Messrs. Pricewaterhouse Coopers and Messrs. Graham H. Y. Chan & Co. tendered their resignation as the auditors of the Company. On the same day, Messrs. RSM Nelson Wheeler were appointed as auditors of the Company for the audit of the accounts for the financial year ended 31 December 2001.

On 21 February 2003, Messrs. RSM Nelson Wheeler tendered their resignation as the auditors of the Company. On 30 April 2003, Messrs. Graham H. Y. Chan & Co. were appointed as the auditors of the Company for the audit of the accounts for the financial year ended 31 December 2002.

ADVANCE TO ENTITIES

Pursuant to rule 17.15 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Company or any of its subsidiaries exceeds 25% of the Group's net tangible assets. As at 31 December 2002, the net tangible assets of the Group is negative, therefore, the relevant disclosures are applicable as follows:

Trade receivables comprise the amount due from Jinjiang Electric Power Company as at 31 December 2002 amounted to approximately HK$381,000. The receivable represented the outstanding balance of the ATM project done by the Group to them in the ordinary course of business and on normal commercial terms. The amount was unsecured, interest free and was settled in full in July 2003.

Trade receivables also include rental income received by the receivers and managers of the investment property of the Group amounting to approximately HK$379,000. Such amount shall be applied for the settlement of the loans due to the mortgage bank.

Trade receivables also comprise the amount due from Vocom International Telecommunication Inc. as at 31 December 2002 amounted to HK$117,000 for the sale of equipment to them in the ordinary course of business and on normal commercial terms. The amount was unsecured, interest free, repayable on demand and was settled in full in March 2003.

Other receivables comprise the balance of the advance payment made to Guangzhou Rui Xin Communication Technology Company Limited and Quickline Limited as at 31 December 2002 amounted to HK$500,000 and HK$2,500,000 respectively. Both advances were made in connection with the development of an Internet access project in the PRC to secure relevant licences, undertake various feasibility studies and construct various facilities. Both amounts were unsecured, interest free, repayable on demand and were settled in full by May 2003.

All the above entities are independent third parties not connected with the Directors, chief executive, management shareholders or substantial shareholders of the Company or their respective associate as defined in the GEM Listing Rules.

Management Discussion and Analysis

USE OF PROCEEDS

The actual use of proceeds for the six months ended 31 December 2002 as compared to the proposed amount set out in the prospectus of the Company dated 6 July 2000 and subsequently revised in the annual report 2000 of the Company are as follows:

	For the 6 months ended 31 December 2002		From the date listed on GEM on 12 July 2000 to 31 December 2002	
	Proposed	**Actual**	**Proposed**	**Actual**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Research and development of web-based applications and software	2,700	–	18,600	9,210
Marketing and promotional activities	–	39	10,100	6,776
Enhancement of the internet infrastructure of the Group	4,500	–	25,400	11,138
Equity investment in companies which are perceived by the Directors to have synergy with the Group's ASP and ISP businesses	–	–	12,500	18,950
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	–	–	10,000	7,000
	7,200	39	76,600	53,074

The proposed use of proceeds for the six months ended 31 December 2002 was HK$7.2 million, actual application of funds were HK$39,000. Owing to the downturn of the Internet businesses and the tight financial resources of the Group, the Directors have scaled down the operation activities of the Group and therefore, reduced the application of funds in these areas.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives	Actual Business Progress/change of objective (if any)
System integration and engineering of broadband multimedia communication networks	
1. Continue to market its services to increase its coverage in the PRC and Far East Region.	The Group has shifted its general sales and marketing effort to target more specific clients mainly in the Guangdong, Anhui and Fujian Provinces in the PRC.
ASP	
1. Continue to explore business opportunities in the PRC market. The Group will seek to line up with banks in the PRC to launch a countrywide online payment system, and a delivery service. A PRC-based material trading database and online shop will also be launched.	The Group has ceased its operation in the ASP business due to the radical downturn of the global internet ASP market. As a result, the Group has neither lined up with banks in the PRC to launch a countrywide online payment system, and a delivery service nor launched a PRC-based material trading database and online shop.
2. Form alliances, joint ventures or partnerships to enter into the PRC market and carry out marketing strategies set in the period IV to increase awareness of the brand name in the PRC and to promote sales. More direct sales staff and authorized agents will be recruited and deployed to cities other than those mentioned above to accelerate market penetration and expansion. Attendance at exhibitions, trade fairs and seminars will also be held to maintain brand awareness.	The Group has ceased most marketing activities of Corp2net.com in most major cities and provinces in the PRC. The Group has shifted its focus to provide customized solution services in the Guangdong, Anhui and Fujian Provinces where most of the business effort has been spent, and will seek opportunities through its already established business network to build alliances and participate in cooperation activities with local government bureaux for its customized solution services business. The Group is still capable to contract projects by outsourcing part of the work to contract staff and consultants. The Group will spend its effort to act as a project management consultant in respect of the customized solution services business. As a result, some existing projects of the Group have been outsourced to other business partners in order to reduce fixed cost and overheads. The Group has attended exhibitions and trade fairs in the Guangdong Province and has held seminars to targeted customers in Guangdong and Anhui Provinces.

Management Discussion and Analysis

ISP

1.	Review and upgrade the ISP services in terms of speed, volume and quality of transmission through the Internet network by following up closely with the new technological advancement in the global Internet industry and by carrying out market research to collect customers' response.	The Group has ceased its ISP services in Hong Kong and the PRC in view of the radical freefall and the increasing competition of the ISP business. The Group will regularly review the market situation and look for any new business opportunities in future.
2.	Form alliances, joint ventures or acquisitions to enter into other markets such as the PRC and the Southeast Asia markets.	As mentioned above, the Group has ceased its ISP services in Hong Kong and the PRC. The Group has not expanded its business presence into the Southeast Asia market.

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lee Chuen Bit

Mr. Lee, aged 50, is the Chairman of the Board and founder of the Group. He has over 16 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. Mr. Lee has extensive experience in the management in the information technology and telecommunication sectors including networks integration, e-commerce service, international telephone service, national-wide paging services in the PRC and VSAT communication services in the PRC.

Mr. Hon Chak Sang

Mr. Hon, aged 50. 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. He worked for Lit Cheong Group, a privately owned group of companies which is principally engaged in power engineering related business in the PRC for over 5 years as senior manager and responsible for project execution and management. He was previously the project director of the Group for the period from February 2000 to November 2001 and re-joined the Group in September 2002.

Non-executive Directors

Mr. Leung Ka Kui, Johnny

Mr. Leung, aged 46, was appointed as an independent non-executive director in June 2000. He has over 18 years of experience in legal field and is the managing partner of Messrs. Johnny K. K. Leung & Co., Solicitors and Notaries. He is a qualified solicitor in Hong Kong, England & Wales and Singapore, and is a Notary Public and China Appointed Attesting Officer. He holds a Bachelor of Laws from the University of London, United Kingdom. He is an independent non-executive director of Cardlink Technology Group Limited, Celestial Asia Securities Holdings Limited, 401 Holdings Limited and Jackin International Holdings Limited. He was 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 from 1997 to 1998.

Biographical Details of Directors and Senior Management

Mr Ho Chiu Kee

Mr. Ho, aged 50, was appointed as an independent non-executive director in June 2000. He has over 25 years of experience in management and administration. He is the managing director of Guardian Group, the president of The Hong Kong Association of Property Management Companies Limited, a vice president of Hong Kong Institute of Real Estate Administration, and has actively participated in pubic and community services. He holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong.

SENIOR MANAGEMENT

Mr. Tse Kwok Shek

Mr. Tse, aged 46, 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 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. Kwok Tak Wai

Mr. Kwok, aged 38, is the Sales Director 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 primarily in the sales and marketing of networking products and solutions to various customers in Hong Kong and the PRC markets. 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. Prior to joining the Group in May 1998, he had worked for Motorola Asia Pacific Limited for 7 years.

Mr. Tam Tak Wah

Mr. Tam, aged 37, is the financial controller and qualified accountant of the Company. He is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a fellow member of the Hong Kong Society of Accountants and has over 15 years of experience in accounting, corporate finance and corporate development. He has worked for Price Waterhouse Hong Kong in his early years and assisted a number of corporations in corporate finance, accounting and business development. He worked for the Group during the period from April 2000 to May 2002 as corporate development director, company secretary, financial controller, authorized representative and qualified accountant of the Group and re-joined the Group on 1 August 2003.

The directors of the Company (the "Directors") present their report together and the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The activities of the principal subsidiaries are set out on pages 63 and 64.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 29.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to result by principal activities and geographical area of performance for the year ended 31 December 2002 is set out in note 5 to the accounts.

FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the last five financial years is set out on page 84.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 14 to the accounts.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 16 to the accounts.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 23 to the accounts.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 25 to the accounts.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts.

DONATIONS

The Group did not make any charitable donations during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company has no distributable reserves.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchase and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	54%
– five largest suppliers combined	100%
Sales	
– the largest customer	32%
– five largest customers combined	86%

None of the Directors or any of their associates (as defined in the GEM Listing Rules) or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest suppliers or customers during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors

Mr. LEE Chuen Bit	
Mr. TO Siu Lun	(resigned on 28 March 2002)
Mr. KONG Siu Ming	(resigned on 30 April 2002)
Mr. WONG Siu Wa	(resigned on 26 July 2002)
Mr. HON Chak Sang	(appointed on 16 September 2002)

Non-executive director

Mr. FAN Ren Da, Anthony	(resigned on 5 July 2002)

Independent non-executive directors
Mr. HO Chiu Kee
Mr. LEUNG Ka Kui, Johnny

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Hon Chak Sang will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 87 of the Company's Articles of Association, Mr. Ho Chiu Kee will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group as at the date of this report are set out on page 19 to 20.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals of the Group are set out in note 13 to the accounts respectively.

DIRECTORS' SERVICE CONTRACTS

Mr. Lee Chuen Bit, Mr. Hon Chak Sang and Mr. Wong Siu Wa, the executive directors, have entered into service contracts with the Company on 1 April 2000, 1 August 2002 and 1 April 2000 respectively for a team of three years from 1 April 2000, 1 August 2002 and 1 April 2000 respectively with an aggregate monthly salary of HK$210,000. 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. During the year, Mr. Wong Siu Wa resigned and his service contract was terminated on 26 July 2002.

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 above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTOR' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 2002, 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:

Name	Type of interests	Number of shares of the Company
Mr. Lee Chuen Bit	Corporate *(note)*	643,242,469

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.

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.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHT TO ACQUIRE SHARES AND DEBENTURES

Pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme of the Company, the Directors and employees of Group may be granted share options to subscribe for shares of the Company at an exercise price. During the year, no options were granted or exercised by the Directors and as at 31 December 2002, there were no outstanding options which were granted to the Directors.

Apart from the above, 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of directors, chief executive and their associates, as at 31 December 2002, 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

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

The Group operates a defined contribution Mandatory Provident Fund retirement scheme (the "MPF Scheme") under the Mandatory Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. Contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's contribution to the MPF Scheme charged to the profit and loss account was approximately HK$96,000 (2001: HK$830,000) for the year.

In the opinion of the Directors, the Group had no significant obligation for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December, 2002.

DIRECTORS' INTEREST IN COMPETING BUSINESS

The Directors are not aware of, as at 31 December 2002, any business or interest of each director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

AUDIT COMMITTEE

In compliance with Rule 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 principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises two non-executive directors, namely Mr. Ho Chiu Kee and Mr. Leung Ka Kui, Johnny. The audit committee met four times during the financial year.

SPONSOR'S INTEREST

Immediately upon dealing in the shares on GEM on 12 July 2000 and pursuant to Rule 6.59 of the GEM Listing Rules, First Shanghai Capital Limited ("First Shanghai") received a fee for acting as the company's retained sponsor for the period up to 31 December 2002. At 18 September 2002, First Shanghai terminated its role as a sponsor under Rule 6.61 of the GEM Listing Rules and the post remained outstanding up to 31 December 2002.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31 December 2002.

AUDITORS

On 21 February 2003, Messrs. RSM Nelson Wheeler tendered their resignation as the auditors of the Company. On 30 April, 2003, Messrs. Graham H. Y. Chan & Co. were appointed as the auditors of the Company by an ordinary resolution at the extraordinary general meeting. Accordingly, the accounts have been audited by 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, 5 August 2003

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
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 29 to 83 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 judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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.

Auditors' Report

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the basis adopted in the preparation of the Group's accounts. The Group's loss attributable to the shareholders was HK$162,001,000 for the year ended 31 December 2002 and at that date its net current liabilities exceeded its current assets by HK$66,982,000 and the net liabilities of the Group amounted to HK$53,314,000. Further, as explained in note 1 to the accounts, the Group is subject to various litigations from certain banks and creditors. The banks and creditors have also demanded immediate payment of amounts due to them. The Group is in negotiation with its banks and creditors with a view to achieve a debt restructuring agreement, the outcome of which is uncertain at this stage. The accounts have been prepared on a going concern basis, the validity of which depends upon the continuing financial supports from its banks and creditors and other external funding being available. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss 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.

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

Hong Kong, 5 August 2003

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 HK$'000	2001 HK$'000
Turnover	4		
Continuing operations		7,113	58,753
Discontinued operations	6	586	15,153
		7,699	73,906
Cost of sales		(12,193)	(70,926)
Gross (loss)/profit		(4,494)	2,980
Other revenues	4	27	26,811
Selling expenses		(86)	(6,154)
Administrative expenses		(28,227)	(49,722)
Other operating expenses		(60,176)	(14,070)
Operating loss	7		
Continuing operations		(60,945)	19,793
Discontinued operations	6	(32,011)	(59,948)
		(92,956)	(40,155)
Finance costs	8		
Continuing operations		(4,010)	(2,139)
Discontinued operations	6	(2,988)	(1,668)
		(6,998)	(3,807)
Share of loss of associates		–	(555)
Recovery of impairment of investment securities		227	–
Impairment of investment securities		(51,000)	–
Impairment of financial asset		(10,500)	–
Impairment of investment in associates		(690)	–
Impairment of goodwill recognised upon the adoption of SSAP 31		–	(8,496)
Revaluation deficit on investment securities previously recognised in reserve		–	(6,814)
Loss before taxation		(161,917)	(59,827)
Taxation	9		
Continuing operations		(84)	(84)
Discontinued operations	6	–	–
		(84)	(84)
Loss after taxation		(162,001)	(59,911)
Minority interests		–	1,213
Loss attributable to shareholders	10, 27	(162,001)	(58,698)
Basic loss per share	12	14.72 cents	5.76 cents

Consolidated Balance Sheet

AS AT 31 DECEMBER 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Fixed assets	14	13,703	39,475
Investment in associates	17	–	721
Investment securities	18	–	51,000
Financial asset	19	–	10,500
		13,703	101,696
Current assets			
Inventories	20	991	23,432
Trade and other receivables	21	4,131	52,515
Cash and bank balances		466	2,282
		5,588	78,229
Current liabilities			
Trade and other payables	22	14,837	19,546
Current portion of long-term borrowings	23	26,474	9,010
Convertible debentures	24	10,140	12,870
Provision for taxation		1,082	1,609
Trust receipt loans, secured	29	9,946	9,558
Bank overdrafts, secured	29	10,091	13,637
		72,570	66,230
Net current (liabilities)/assets		(66,982)	11,999
Total assets less current liabilities		(53,279)	113,695
Capital and reserves			
Share capital	25	114,073	104,073
Reserves	27	(167,387)	(5,098)
(Capital deficiency)/shareholders' funds		(53,314)	98,975
Non-current liabilities			
Long-term borrowings	23	35	14,720
		(53,279)	113,695

On behalf of the Board

Lee Chuen Bit
Director

Hon Chak Sang
Director

Balance Sheet

AS AT 31 DECEMBER 2002

	Note	2002 HK$'000	2001 HK$'000
Non-current assets			
Fixed assets	14	–	171
Investment in subsidiaries	16	(1,795)	151,144
		(1,795)	151,315
Current assets			
Prepayments and deposits		150	1,320
Cash and bank balances		18	33
		168	1,353
Current liabilities			
Other payables and accruals		4,884	1,502
Convertible debentures	24	10,140	12,870
		15,024	14,372
Net current liabilities		(14,856)	(13,019)
Total assets less current liabilities		(16,651)	138,296
Capital and reserves			
Share capital	25	114,073	104,073
Reserves	27	(130,724)	34,223
(Capital deficiency)/shareholders' funds		(16,651)	138,296

On behalf of the Board

Lee Chuen Bit	**Hon Chak Sang**
Director	*Director*

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2002

	2002	2001
	HK$'000	*HK$'000*
Balance at beginning of year	**98,975**	128,110
Issue of shares net of expenses	**9,714**	27,149
Conversion of debentures net of expenses	**–**	2,479
Exchange realignment	**(2)**	(65)
Net loss from ordinary activities attributable to shareholders	**(162,001)**	(58,698)
Balance at end of year	**(53,314)**	98,975

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 HK$'000	2001 HK$'000
Net cash used in operating activities	28	**(7,745)**	(38,476)
Investing activities			
Development and trademark costs		**–**	(3,767)
Purchase of subsidiaries		**–**	(8,450)
Purchase of fixed assets		**(151)**	(6,107)
Proceeds from sales of fixed assets		**812**	452
Purchase of financial asset		**–**	(10,500)
Purchase of investment securities		**–**	(51,416)
Net cash outflow from partial disposal of a subsidiary		**–**	(54)
Deposit forfeited for proposed partial disposal of a subsidiary		**–**	23,520
Interest received		**–**	524
Net cash flows from/(used in) investing activities		**661**	(55,798)
Financing activities			
Net proceeds from issue of shares		**9,714**	24,955
Proceeds from sales and leaseback arrangements		**–**	3,945
Repayment of bank loans		**(746)**	(2,091)
Repayments of capital element of finance leases		**(410)**	(5,521)
Proceeds from issue of debentures		**–**	23,400
Redemption of debentures		**(2,730)**	(5,857)
Repayments of convertible notes		**(300)**	(1,111)
New other loan raised		**4,600**	–
Repayments of other loan		**(1,700)**	–
Net cash flows from financing activities		**8,428**	37,720
Net increase/(decrease) in cash and cash equivalents		**1,344**	(56,554)
Cash and cash equivalents at 1 January		**(20,913)**	35,706
Effect of foreign exchange rate changes		**(2)**	(65)
Cash and cash equivalents at 31 December		**(19,571)**	(20,913)
Analysis of balances of cash and cash equivalents			
Bank and cash balances		**466**	2,282
Trust receipt loans, secured		**(9,946)**	(9,558)
Bank overdrafts, secured		**(10,091)**	(13,637)
		(19,571)	(20,913)

Notes to the Accounts

1 GENERAL INFORMATION 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. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 July 2000. The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 16 to the accounts.

The accounts have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business. This assumption is dependent upon the successful completion of the restructuring of the Group's debts, the continuing financial support of the Group's bankers (the "Banks") and creditors and other external funding being available.

During the year ended 31 December 2002, the Group incurred a loss attributable to the shareholders of approximately HK$162,001,000 and at that date its net current liabilities exceeded its current assets by HK$66,982,000 and the net liabilities of the Group amounted to HK$53,314,000. At present, the Banks have suspended all trade lines and overdraft facilities. As detailed in note 32, the Group is subject to various litigations from certain banks and creditors, which also demanded immediate payments of amounts due by the Group. In the absence of any additional funding, the Group cannot meet the demand for immediate payments of its debts.

The Group is presently engaged in negotiations with the Banks and the creditors with a view to achieve a debt restructuring agreement, but formal agreement has not been reached up to the date of this report.

The directors are of the option that the Group will be able to finalise the debts restructuring arrangement as mentioned above and obtain new working capital in order to enable the Group to continue as a going concern and meeting its working capital and financing requirements for the foreseeable future. On this basis, the directors consider that it is appropriate top prepare the accounts on a going concern basis. The accounts however do not include any adjustments that would result if the aforementioned negotiations are not successful.

Had the going concern basis not been used, adjustments would have to be made to reclassify non-current assets as current assets and non-current liabilities as current liabilities, reduce the value of assets to their recoverable amounts and provide for any future liabilities which might arise.

2 IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

In the current year, the following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated accounts:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

These SSAPs prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies on the amounts disclosed in the accounts of adopting these SSAPs are summarised as follows:

SSAP1 (revised) prescribes the basis for the presentation of accounts and set out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 32 in place, of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and accounts. The principal impact of this revised SSAP on the accounts in that the profit and loss accounts of overseas subsidiaries are translated at an average rate for the year on consolidation, rather than at the closing rate. This has had no material effect on the amounts previously recorded in the accounts.

SSAP 15 (revised) prescribes the format for the cash flow statement. The principal impact of the revision on this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flows statement set out on page 33 of the accounts and the notes thereto have been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in additional disclosures relating to the Company's share option scheme, as set out in note 26 of the accounts.

3 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts have been prepared under the historical cost convention as modified by the revaluation of investment property. The principal accounting policies adopted in the preparation of these accounts are set out below:

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power or holds more than half of the issued share capital, or controls the composition of the board of directors, or by way of having power to govern its financial and operating policies so that the Group obtains benefits from their activities.

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 inter-company transactions and balances within the Group are eliminated on consolidation.

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 unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investment in subsidiaries are stated at cost less provision for impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Associates

An associate 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 balance sheet includes the Group's share of the net assets of the associates. The Group's share of post-acquisition profits or losses of associates is included in the consolidated profit and loss account.

In the Company's balance sheet the investment in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of acquired subsidiaries and associates at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life not exceeding 20 years.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Goodwill (Continued)

The gain or loss on disposal of a subsidiary or associate includes the unamortised balance of goodwill relating to the subsidiary or associate disposed of to the extent that it has not previously been recognised in the consolidated results.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(d) Revenue recognition

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.

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

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.

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

Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

Licence fee income is recognised on an accrual basis.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Investment property

Investment property is interests in land and buildings in respect of which construction work and development have been completed and which is held for their long-term investment potential, any rental income being negotiated at arm's length.

Investment property is stated at its open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment property is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the profit and loss account.

On disposals of investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the profit and loss account.

No depreciation is provided on investment property which is held on leases with an unexpired term of more than 20 years.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold improvements are depreciated over the estimated useful lives or lease period, whichever is shorter. Other fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Network, computer and demo equipment	20% – 50%

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 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.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) 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 the leases 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 balances outstanding. The corresponding rental obligations, net of finance charges, are included in obligation under finance lease in the balance sheet. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership 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.

(h) Investment securities

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Financial asset

Financial asset is held for non-trading purpose and is stated at fair value at the balance sheet date. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of financial asset is recognised in the profit and loss account. Financial asset is reviewed regularly to determine whether it is impaired. When a financial asset is considered to be impaired, the impairment loss is recognised in the profit and loss account.

(k) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash includes cash in hand and deposits repayable on demand with any bank or other financial institution. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired less advances from banks repayable within three months from the date of the advance.

(m) 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 year in which they are incurred.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(p) Translation of foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the assets and liabilities of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the average rates for the year. The balance sheets of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

In previous years, the profit and loss account and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The change in the treatment of such items in the current year has, however, had no significant effect on these accounts.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

(t) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value and the excess of the exercise price per share over the nominal value of the shares are recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

4 TURNOVER AND REVENUES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the provision of system integration services, sale of goods, and providing web application, ISP, maintenance and rental services. Revenues recognised during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
System integration contracts revenue	**1,741**	43,943
Sales of goods at invoiced value, net of returns and discounts	**3,973**	12,472
Web application services income	**579**	5,603
ISP services income	**7**	9,550
Maintenance services income	**–**	1
Rental income	**1,399**	2,337
	7,699	73,906
Other revenues		
Interest income	**–**	524
Licence fee income	**–**	1,145
Other income	**27**	25,011
Gain on partial disposal of a subsidiary	**–**	131
	27	26,811
Total revenues	**7,726**	100,717

5 SEGMENTAL INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

(a) By business segments

For management purposes, the Group is currently organised into four divisions – system integration contracts, sale of goods, web application services and ISP services. Others include maintenance and rental income.

Segmental information about these businesses is presented below.

For the year ended 31 December 2002

	Continuing operations			Discontinued operations			
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover							
External revenue	3,973	1,741	1,399	579	7	–	7,699
Result							
Segment result	(31,340)	(14,422)	(8,439)	(5,536)	(26,475)	–	(88,212)
Other revenue							1
Unallocated corporate expenses							(6,745)

5 SEGMENTAL INFORMATION (Continued)

(a) By business segments (Continued)

	Continuing operations Sale of goods HK$'000	Continuing operations System integration contracts revenue HK$'000	Other operations HK$'000	Discontinued operations Web application services income HK$'000	Discontinued operations ISP services income HK$'000	Elimination HK$'000	Total HK$'000
Loss from operations							(92,956)
Finance costs							(6,998)
Recovery of impairment of investment securities							227
Impairment of investment securities							(51,000)
Impairment of financial asset							(10,500)
Impairment of investment in associates							(690)
Loss before taxation							(161,917)
Taxation							(84)
Loss for the year							(162,001)

5 SEGMENTAL INFORMATION (Continued)

(a) By business segments (Continued)

	Continuing operations			Discontinued operations			
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets							
Segment assets	1,297	3,762	13,880	25	120	–	19,084
Unallocated corporate assets							207
Consolidated total assets							19,291
Liabilities							
Segment liabilities	8,524	20,308	7,791	376	20,326	–	57,325
Unallocated corporate liabilities							15,280
Consolidated total liabilities							72,605
Other information							
Capital additions	151	–	–	–	–		
Depreciation and amortisation	925	406	–	1,075	3,034		
Inventories written off	11,051	–	–	273	7,573		
Bad debt written off	398	8,515	1,252	–	10,933		

5 SEGMENTAL INFORMATION (Continued)

(a) By business segments (Continued)

For the year ended 31 December 2001

	Continuing operations			Discontinued operations			
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover							
External revenue	12,472	43,943	2,338	5,603	9,550	–	73,906
Inter-segment revenue*	9,310	–	7,390	1,458	–	(18,158)	–
Total revenue	21,782	43,943	9,728	7,061	9,550	(18,158)	73,906
Result							
Segment result	537	(572)	(18,682)	(31,208)	(40,680)	25,585	(65,020)
Other revenue							26,697
Unallocated corporate expenses							(1,832)
Loss from operations							(40,155)
Finance costs							(3,807)
Share of loss of associates							(555)
Impairment of goodwill recognised upon the adoption of SSAP 31							(8,496)

5 SEGMENTAL INFORMATION (Continued)

(a) By business segments (Continued)

	Continuing operations			Discontinued operations			
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revaluation deficit on investment securities previously recognised in reserve							(6,814)
Loss before taxation							(59,827)
Taxation							(84)
Loss after taxation							(59,911)
Assets							
Segment assets	8,341	32,367	20,843	5,191	27,270	–	94,012
Unallocated corporate assets							85,913
Consolidated total assets							179,925
Liabilities							
Segment liabilities	5,503	33,876	12,120	4,276	23,328	–	79,103
Unallocated corporate liabilities							1,847
Consolidated total liabilities							80,950

5 SEGMENTAL INFORMATION (Continued)

(a) By business segments (Continued)

	Continuing operations			Discontinued operations		
	Sale of goods	System integration contracts revenue	Other operations	Web application services income	ISP services income	Elimination
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other information						
Capital additions	350	995	41	7,357	5,569	
Depreciation and amortisation	460	1,840	233	6,283	4,671	
Provision for doubtful debt	–	–	563	–	–	
Bad debts written off	111	61	–	–	7,155	

* Inter-segment sales are charged at cost

(b) By geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's system integration contracts service is mainly carried out in the PRC whereas sale of goods, web application and ISP services are carried out in Hong Kong.

The following is the analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/ services:

	Revenue by geographical market (continuing operations)		**Revenue by geographical market (discontinued operations)**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	**5,372**	22,824	**586**	15,153	**5,958**	37,977
The PRC	**1,741**	35,929	**–**	–	**1,741**	35,929
	7,113	58,753	**586**	15,153	**7,699**	73,906

5 SEGMENTAL INFORMATION (Continued)

(b) By geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to fixed assets and intangible assets by the geographical area in which the assets are used to generate the revenue:

	Carrying amount of segment assets (continuing operations)		Carrying amount of segment assets (discontinued operations)		Total	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	**18,637**	16,262	**135**	32,461	**18,772**	48,723
The PRC	**302**	45,289	**10**	–	**312**	45,289
Unallocated corporate assets					**207**	85,913
					19,291	179,925

	Additions to fixed assets and intangible assets (continuing operations)		Additions to fixed assets and intangible assets (discontinued operations)		Total	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	**151**	596	**–**	12,926	**151**	13,522
The PRC	**–**	790	**–**	–	**–**	790
					151	14,312

6 DISCONTINUED OPERATIONS

Due to the poor market condition of Internet business, the directors decided to cease the business of web application and ISP services. All fixed assets of these business segments were either returned to the suppliers or disposed of during the year.

6 DISCONTINUED OPERATIONS (Continued)

The results from the ordinary operations of the web application and ISP services included in the consolidated profit and loss account for the years ended 31 December 2001 and 2002 are as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover	**586**	15,153
Cost of sales	**(5)**	(31,009)
Gross profit/(loss)	**581**	(15,856)
Other revenues	**26**	114
Distribution costs	**–**	(5,572)
Administrative expenses	**(4,906)**	(1,477)
Other operating expenses	**(27,712)**	(37,157)
Operating loss	**(32,011)**	(59,948)
Finance costs	**(2,988)**	(1,668)
Loss before taxation	**(34,999)**	(61,616)
Taxation	**–**	–
Net loss	**(34,999)**	(61,616)

The net cash flows attributable to the web application and ISP services included in the consolidated cash flow statement are as follows:

	2002	2001
	HK$'000	*HK$'000*
Operating activities	**(1,316)**	24,598
Investing activities	**447**	(24,895)
Financing activities	**574**	3,252
Net cash (outflows)/inflows	**(295)**	2,955

7 OPERATING LOSS

Operating loss is stated after charging the following:

	2002	2001
	HK$'000	*HK$'000*
Amortisation of intangible assets	–	4,253
Auditors' remuneration		
– current year	323	425
– over provision in prior year	(142)	–
Bad debts written off	21,517	7,327
Contract costs	–	33,849
Cost of goods sold	12,193	5,275
Deficit arising on revaluation of investment property	6,000	993
Depreciation		
– leased fixed assets	2,890	4,352
– owned fixed assets	2,596	4,882
Fixed assets written off	3,219	364
Intangible assets written off	–	7,232
Inventories written off	18,897	–
Loss on disposal of fixed assets	10,405	565
Net exchange losses	28	107
Operating leases rental		
– land and buildings	5,732	8,737
– communication network and equipment rack	–	4,740
Provision for doubtful debt	–	563
Provision for non-recoverable of loan to a related company	80	800
Staff costs (excluding directors' remuneration)	4,490	18,016

8 FINANCE COSTS

	2002 *HK$'000*	2001 *HK$'000*
Interest on bank loan and overdrafts	**1,464**	1,682
Interest on convertible notes wholly repayable within five years	**169**	360
Finance leases charges	**2,819**	1,074
Interest on convertible debentures	**2,397**	691
Other loan interest	**149**	–
	6,998	3,807

9 TAXATION

	2002 *HK$'000*	2001 *HK$'000*
Hong Kong profits tax		
– current year (note a)	**–**	–
– underprovision in previous year	**–**	7
– tax surcharge (note b)	**84**	77
Overseas taxation – current year (note c)	**–**	–
	84	84

(a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profit for the year.

(b) Tax surcharge represents 5% tax surcharge on the profits tax payable of year 2000 to be settled by installments.

(c) No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC has no assessable income for PRC taxation purpose.

9 TAXATION (Continued)

As at 31 December 2002, the potential deferred tax assets not provided for in the accounts amounted to:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Arising from accelerated depreciation	**(552)**	(165)
Future benefit of tax losses	**(19,047)**	(12,296)
	(19,599)	(12,461)

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

10 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of approximately HK$164,661,000 (2001: HK$985,000).

11 DIVIDENDS

No dividends had been paid or declared by the Company during the year (2001: Nil).

12 LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$162,001,000 (2001: HK$58,698,000) and the weighted average of 1,100,730,792 (2001: 1,019,467,524) ordinary shares in issue.

There is no dilution arising from the outstanding share options granted by the Company, the convertible notes and convertible debentures issued by the Group. Accordingly, no diluted loss per share for both years had been presented.

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2002	2001
	HK$'000	*HK$'000*
Fees	–	450
Other emoluments:		
– basic salaries and allowances	2,750	3,491
– retirement scheme contributions	33	45
	2,783	3,986

During the year, none of the non-executive director and independent non-executive directors received any directors' emolument. In prior year, they received directors' fees of HK$150,000 each.

The number of directors whose emoluments fell with the following band was as follows:

	2002	2001
Nil to HK$1,000,000	4	6
HK$1,000,001 to HK$1,500,000	1	–

For the year ended 31 December 2002, an executive director received emoluments of approximately HK$1,212,000, three executive directors resigned during the year and received individual emoluments of approximately HK$405,000, HK$533,000 and HK$328,000 respectively, an executive director appointed during the year received emoluments of approximately HK$305,000.

For the year ended 31 December 2001, two directors received individual emoluments of approximately HK$900,000 and HK$600,000 respectively, two directors resigned during that year and received individual emoluments of approximately HK$700,000 and HK$750,000 respectively, two directors appointed during that year and received individual emoluments of approximately HK$232,000 and HK$354,000 respectively.

No emoluments have been paid by the Group to the directors as compensation for loss of office during the year ended 31 December 2002. For the year ended 31 December 2001, HK$300,000 had been paid by the Company to an executive director as compensation for loss of office, the amount was included in the basic salaries and allowances.

During the years ended 31 December 2001 and 2002, no emoluments have been paid by the Group to the directors as an inducement to join the Group.

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

No directors waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2001 and 2002.

(b) The five individuals whose emoluments were the highest in the Group for the year include three (2001: three) directors, details of whose emoluments are set out above. The emoluments payable to the remaining two (2001: two) individuals are as follows:

	2002	2001
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**1,257**	1,776
Retirement scheme contributions	**17**	24
	1,274	1,800

The emoluments of the two (2001: two) individuals with the highest emoluments are within the following bands:

	2002	2001
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	2	2

No emoluments were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2001 and 2002.

14 FIXED ASSETS

Group	Investment property	Leasehold improvements	Furniture, fixtures and office equipment	Network, computer and demo equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation					
Brought forward	20,007	3,847	3,338	25,315	52,507
Additions at cost	–	52	56	43	151
Disposals/write off	–	(3,899)	(3,093)	(25,032)	(32,024)
Revaluation	(6,507)	–	–	–	(6,507)
Carried forward	13,500	–	301	326	14,127
Aggregate depreciation					
Brought forward	507	1,185	1,175	10,165	13,032
Charge for the year	–	328	361	4,797	5,486
Disposals	–	(1,513)	(1,403)	(4,671)	(17,587)
Revaluation	(507)	–	–	–	(507)
Carried forward	–	–	133	291	424
Net book value					
At 31 December 2002	13,500	–	168	35	13,703
At 31 December 2001	19,500	2,662	2,163	15,150	39,475

The analysis of the cost or valuation of the above assets at 31 December 2002 is as follows:

At cost	–	–	301	326	627
At 2002 valuation	13,500	–	–	–	13,500
	13,500	–	301	326	14,127

14 FIXED ASSETS (Continued)

Group	Investment property	Leasehold improvements	Furniture, fixtures and office equipment	Network, computer and demo equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The analysis of the cost or valuation of the above assets at 31 December 2001 is as follows:					
At cost	–	3,847	3,338	25,315	32,500
At 2001 valuation	19,500	–	–	–	19,500
	19,500	3,847	3,338	25,315	52,000

(a) The Group's investment property was revalued at 31 December 2002 on the basis of its open market value in existing use by Vigers Hong Kong Limited, an independent firm of professional valuers. This valuation gave rise to a revaluation deficit of HK$6,000,000 which has been debited to the profit and loss account.

(b) The Group's investment property is located in Hong Kong and held under a lease period over 50 years.

(c) At 31 December 2002, the investment property of the Group was pledged as security for the Group's banking facilities (note 29).

(d) Particulars of the Group's investment property at 31 December 2002 is as follows:

Location	Use
Unit B, 16/F., United Center, 95 Queensway, Hong Kong	Office for rental

(e) At 31 December 2002, the net book value of fixed assets held by the Group under finance leases included in the total amounts of office equipment amounted to HK$53,000. At 31 December 2001, the net book value of fixed assets held by the Group under finance leases included in total amounts of network, computer and demo equipment amounted to HK$8,597,000.

14 FIXED ASSETS (Continued)

(f) The Group leases out the investment property under operating lease. The lease will be expired on 21 February 2004 with an option to renew the lease after that date on terms to be renegotiated. None of the lease includes contingent rentals.

The Group's total future minimum lease payments receivable under operating lease are as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	**1,137**	1,137
Within two to five years	**–**	1,326
	1,137	2,463

Due to default in payment of bank loan, ICBC (Asia) Limited has appointed receivers and managers to recover the loan amount by receiving the rental income from the investment property since August 2002.

14 FIXED ASSETS (Continued)

Company	Leasehold improvements	Furniture, fixtures and office equipment	Network, computer and demo equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
Brought forward	21	109	59	189
Disposals/write off	(21)	(109)	(59)	(189)
Carried forward	–	–	–	–
Aggregate depreciation				
Brought forward	3	2	13	18
Charge for the year	4	22	19	45
Disposals/write off	(7)	(24)	(32)	(63)
Carried forward	–	–	–	–
Net book value				
At 31 December 2002	–	–	–	–
At 31 December 2001	18	107	46	171

15 GOODWILL

	2002 HK$'000	2001 HK$'000
Cost		
At 1 January	**30,343**	21,847
Addition	**–**	8,496
At 31 December	**30,343**	30,343
Impairment loss		
At 1 January	**30,343**	21,847
Charge for the year	**–**	8,496
At 31 December	**30,343**	30,343
Net book value		
At 31 December	**–**	–

16 INVESTMENT IN SUBSIDIARIES

	Company	
	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost (note a)	**19,997**	19,997
Amounts due from subsidiaries (note b)	**136,646**	131,147
Amount due to subsidiaries (note b)	**(1,795)**	–
	154,848	151,144
Less: provision	**(156,643)**	–
	(1,795)	151,144

16 INVESTMENT IN SUBSIDIARIES (Continued)

(a) The table below lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year and formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At 31 December 2002 the Company held shares in the following principal subsidiaries:

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Shares held directly:				
DigiTel Group (BVI) Limited	British Virgin Islands	Ordinary US$34,190	100%	Investment holding in Hong Kong
Shares held indirectly:				
Corp2Net.com Limited	Hong Kong	Ordinary HK$2	100%	Provision of web application services in Hong Kong
DigiTel Communication (Asia) Limited	Hong Kong	Ordinary HK$2	100%	Provision of system integration and engineering of broadband multimedia communication networks and distribution of digital communication equipment in Hong Kong
DigiTel Limited	British Virgin Islands	Ordinary US$1	100%	Investment holding in Hong Kong

16 INVESTMENT IN SUBSIDIARIES (Continued)

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
DigiTel Venture Limited	British Virgin Islands	Ordinary US$1	100%	Investment holding in Hong Kong
Goway Investments Limited	Hong Kong	Ordinary HK$2 Non-voting HK$18	100%	Property leasing in Hong Kong
iGreatLink.com Limited	Hong Kong	Ordinary HK$51	100%	Provision of ISP services in Hong Kong
Lit Cheong DigiTel Limited	British Virgin Islands	Ordinary US$1	100%	Provision of system integration and engineering of broadband multimedia communication networks in the PRC
Regal Policy Limited	Hong Kong	Ordinary HK$2	100%	Property leasing in Hong Kong

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

17 INVESTMENT IN ASSOCIATES

	2002	2001
	HK$'000	*HK$'000*
Share of net assets other than goodwill	**2,422**	2,422
Amount due from an associate (note a)	**–**	31
Amount due to an associate (note a)	**(1,732)**	(1,732)
	690	721
Less: Provision for impairment loss	**(690)**	–
	–	721

At 31 December 2002 the Group indirectly held shares in the following associates:

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Asiasoft Hong Kong Limited	Hong Kong	Ordinary HK$1,283,333	20%	Provision of information system products and services in Hong Kong
Asia Tech Holdings Limited	Hong Kong	Ordinary HK$500,000	49%	Software development in Hong Kong

(a) The amounts due from/(to) an associate are unsecured, interest free and have no fixed terms of repayment.

18 INVESTMENT SECURITIES

	2002 HK$'000	2001 HK$'000
Equity securities, at cost		
Unlisted investment	**51,000**	51,000
Less: Provision for impairment loss	**(51,000)**	–
	–	51,000

At 31 December 2002, the carrying amount of the Group's holding on the following company exceeded 10% of the total assets of that company:

Company	Place of incorporation	Issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
Netpolis Communications Hong Kong Limited ("Netpolis")	British Virgin Islands	Ordinary US$100	17%	Provision of tele-communication services in Hong Kong, the PRC and overseas

During the year, the Group has reviewed the investment in Netpolis.

Netpolis and its subsidiaries had been engaged in the ISP and telecommunication business in Hong Kong, the PRC and overseas. As part of the Group's business strategy, the Group acquired 17% interest in Netpolis in 2001, so that the Group would continue to roll out its plan in development of Internet and telecommunication markets. During the year, Netpolis has ceased operation due to the unfavourable market condition and its subsidiaries have been involved in various legal proceedings.

After considering the current market situation, the directors decided to make a full provision on the investment in Netpolis.

19 FINANCIAL ASSET

	2002 *HK$'000*	2001 *HK$'000*
Equity option, at cost	**10,500**	10,500
Less: Provision for impairment loss	**(10,500)**	–
	–	10,500

Pursuant to an agreement dated at 30 November 2001 entered into by the Group and two third parties, the Group purchased an irrevocable option (the "Option") to acquire the 100% equity ("Option Asset") of a PRC company (the "subject company") in Guangzhou. The subject company is a domestic limited liability company organised and existing under the laws of the PRC with a total registered capital of RMB57 million. The subject company represented to the Group that it had obtained all necessary approvals to operate as a provider of Internet services at various cities in Guangdong province.

The total fee for the grant of the Option is HK$10,500,000. The Group has the total discretion to exercise the Option in part or in full within a term of 5 years from the date of the agreement. The purchase price for acquiring the Option Asset would be computed proportionately in accordance to the higher of HK$60 million or the net book value of the subject company according to the prevailing PRC accounting regulations at the date of exercise.

However, due to the financial difficulty suffered by the Group, although the period of exercising the option is 5 years from the date of the agreement, the Group is unable to exercise the option in the coming years. Besides, due to the unfavourable market condition, the subject company is also in a difficult position and will not proceed for the project of providing Internet services. In the opinion of the directors, the option is of no value and the Group will not exercise it.

In view of the above, the directors decided to make a full provision for the option.

20 INVENTORIES

At 31 December 2002, the inventories that are carried at net realisable value amounted to HK$991,000 (2001: 23,432).

21 TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing its trade customers with credit period normally around 30 to 90 days or terms in accordance with sales contract. The aging analysis of trade receivables is as follows:

	2002	2001
	HK$'000	*HK$'000*
0-30 days	**–**	1,525
31-60 days	**95**	135
61-90 days	**95**	135
91-120 days	**95**	135
Over 120 days	**592**	8,366
Total trade receivables	**877**	10,296
Other receivables	**3,000**	36,247
Prepayments and deposits	**254**	5,972
	4,131	52,515

22 TRADE AND OTHER PAYABLES

The aging analysis of trade payables is as follows:

	2002	2001
	HK$'000	*HK$'000*
0-30 days	**51**	12,864
31-60 days	**–**	146
61-90 days	**232**	539
91-120 days	**–**	154
Over 120 days	**1,856**	945
Total trade payables	**2,139**	14,648
Other payables	**12,698**	4,898
	14,837	19,546

23 LONG TERM BORROWINGS

	2002 HK$'000	2001 HK$'000
Convertible notes (note c)	**5,643**	5,943
Bank loan, secured (note 29)	**7,161**	7,907
Other loan, unsecured	**2,900**	–
	15,704	13,850
Obligations under finance leases	**10,805**	9,880
	26,509	23,730
Current portion of long term borrowings	**(26,474)**	(9,010)
	35	14,720

(a) The bank loan, other loan and convertible notes are repayable as follows:

	Bank loan and other loan		Convertible notes (note c)	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	**10,061**	2,278	**5,643**	2,821
In the second year	**–**	2,278	**–**	2,821
In the third to fifth year, inclusive	**–**	3,351	**–**	301
	10,061	7,907	**5,643**	5,943

23 LONG TERM BORROWINGS (Continued)

(b) Obligations under finance leases are repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable				
Within one year	**10,775**	5,400	**10,770**	3,911
In the second year	**39**	5,421	**35**	4,940
In the third to fifth year, inclusive	**–**	1,065	**–**	1,029
	10,814	11,886	**10,805**	9,880
Future finance charges	**(9)**	(2,006)	**–**	–
Present value of lease obligations	**10,805**	9,880	**10,805**	9,880
Amount due within one year, included under current liabilities			**10,770**	3,911
			35	5,969

(c) Pursuant to an agreement dated 23 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 23 August 2000 to 31 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 instalments commencing from the 12th month from the date of each drawdown. The Notes, at the option of the holder, will be convertible into 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. Title of network equipment will pass to the Group only upon repayment in full by the Group.

As at 31 December 2002, the Group had outstanding convertible notes amounting to HK$5,643,000 (2001: HK$5,943,000).

24 CONVERTIBLE DEBENTURES

	Group and Company	
	2002	2001
	HK$'000	*HK$'000*
3% Convertible debentures	**10,140**	12,870

Pursuant to the Subscription Agreement dated 23 March 2001, entered into between the Company and two independent subscribers (the "Subscribers"), the Company agreed to issue and the Subscribers agreed to subscribe for up to HK$78 million (US$ 10 million) 3% Convertible Debentures (the "Debentures"). The Debentures comprise three separate Tranches of HK$23,400,000 (US$3,000,000), HK$23,400,000 (US$3,000,000) and HK$31,200,000 (US$4,000,000) respectively.

The conversion prices shall 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 of the Tranche 1 Debenture ("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 the greater 93% of the average of the lowest 4 closing prices during the 20 consecutive trading days prior to the date of conversion; or

(iii) in the event the closing price per share for any 15 consecutive trading days shall equal, or fall below 35% of the relevant Price 1, subject to equitable adjustment following any stock splits, reverse stock splits or similar events affecting the shares after the establishment of such Tranche Base Price (the "Optional Redemption Price"), the Subscribers may give not less than 15 days notice in writing requiring the Company to redeem the whole or part of the outstanding debentures, in which event the relevant outstanding debentures and such redemption amount together with any interest accrued and other amounts owing thereon shall be paid to the Subscribers.

24 CONVERTIBLE DEBENTURES (Continued)

By 31 December 2001, only the first Tranche had been issued to the extent of HK$23,400,000 (US$3,000,000) of which a total amount of HK$4,680,000 (US$600,000) was converted into shares of the Company.

On 3 December 2001, the Company entered into a Redemption Agreement with the Subscribers, pursuant to which the Company and the Subscribers have agreed to redeem the outstanding debentures of HK$18,720,000 (US$2,400,000). The total consideration for the Redemption of the outstanding debentures is HK$21,528,000 (US$2,760,000) ("Redemption Price") which is equal to 115% of the outstanding debentures.

Upon execution of the Redemption Agreement, the Company paid to the Subscribers HK$5,460,000 (US$700,000).

The balance of HK$16,068,000 (US$2,060,000) is payable as follows:

(i) For the 9 months commencing from 30 December 2001, the Company shall pay the subscribers HK$1,560,000 (US$200,000) each of the first 8 months and HK$780,000 (US$100,000) in the last month; and

(ii) On or before 30 August 2002 the Company shall pay to the Subscribers a payment of HK$2,808,000 (US$360,000) representing interest on the outstanding balance of said Debentures held by the Subscribers at the annual rate of 15% per annum; provided, however, that if all prior payments of the Redemption Price are made in full, all in a timely fashion, pursuant to the terms of the Redemption Agreement, the Company may at its option, instead of this cash payment of HK$2,808,000 (US$360,000), make payment in shares, valued for purposes of this payment at the lower of HK$0.36 or the average closing bid price of the shares on 20 consecutive trading days prior to 30 August 2002 or the date said payment is made.

Accordingly, the Subscription Agreement was terminated and no further convertible debentures can be issued effective from the date of the Redemption Agreement.

24 CONVERTIBLE DEBENTURES (Continued)

The movement of the Debentures is summarised as follows:

	2002	2001
	HK$'000	*HK$'000*
At 1 January	**12,870**	–
Debenture issued during the year under		
Tranche 1 (US$3,00,000)	**–**	23,400
Less:		
Redemption during the year	**(1,170)**	(5,857)
Set-off with prepayment	**(1,560)**	–
Conversion of debentures		
(2001: converted into 11,564,125 shares at price ranging from HK$0.22 to HK$0.62 per share)		
Amount transferred to share capital account	**–**	(1,156)
Amount transferred to share premium account	**–**	(3,517)
At 31 December	**10,140**	12,870

During the year, the Company failed to redeem the Debentures according to the Redemption Agreement. The Subscribers issued a writ of summons against the Company for breaching of the Redemption Agreement, details please referred to note 32.

Notes to the Accounts

25 SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 December 2001 and 2002	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2001	1,000,000,000	100,000
Shares issued during the year	29,166,667	2,917
Conversion of Debentures	11,564,125	1,156
At 31 December 2001 and 1 January 2002	1,040,730,792	104.073
Placing of new shares (note)	100,000,000	10,000
At 31 December 2002	1,140,730,792	114,073

Note:

On 27 May 2002, an aggregate of 100,000,000 new ordinary shares of the Company at a price of HK$0.10 (the "Price") each were issued to Lit Cheong Holdings Limited ("LCH") pursuant to a subscription agreement entered into by the Company and LCH on 14 May 2002. These shares were issued upon the completion of the placing of an aggregate of 100,000,000 existing ordinary shares of the Company registered in the name of LCH to two independent third parties, namely Crystal Source Assets Limited which is beneficially owned by Mr. Chung Ming Tru, Daniel and Mr. Chan Man Sau, Joey by Ong Asia Securities (HK) Limited ("Ong Asia") as placing agent pursuant to a placing agreement entered into by LCH and Ong Asia on 14 May 2002. The Price represents a discount of approximately 33.33% to the closing price of HK$0.15 per share as quoted on the Stock Exchange on 14 May 2002, being the last trading day immediately prior to the date of the placing agreement and a discount of approximately 37.11% to the average closing price of approximately HK$0.159 per share as quoted on the Stock Exchange for the last ten trading days up to and including 14 May 2002 and a premium of approximately 18.34% over the unaudited net tangible asset value per share as at 31 March 2002.

The net proceeds raised of approximately HK$9.7 million by way of issuing 100,000,000 new shares through this top-up placement were used as to approximately HK$6 million for settlement of trade and other payables and the balance of approximately HK$3.7 million as general working capital for the Group.

26 EMPLOYEE BENEFITS

The Group operates a Mandatory Provident Fund scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately. The Group's contribution to the scheme charged to profit and loss account was approximately HK$96,000 (2001: HK$830,000).

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Scheme") of the Company adopted on 20 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.

No share options can be granted under the Pre-IPO Scheme after the listing of the shares of the Company on 12 July 2000.

As at 31 December 2002, there were 20,000,000 (2001: 80,000,000) outstanding share options granted under the Pre-IPO 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 GEM. During the year, 60,000,000 outstanding share options were cancelled due to resignation of a director and four employees.

No share options were exercised under the Pre-IPO Scheme since its adoption.

Under the share option scheme (the "Share Option Scheme") of the Company adopted on 30 June 2000, the directors and employees of the 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 the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of shares, which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other option scheme of the Company (including the Pre-IPO Share Option Scheme), must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one director or employee shall not be more than 25% of the number of shares in respect of all the options granted under the Share Option Scheme. A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an option. The options are exercisable within a period less than three years and not more than ten years from the date of grant.

No share options were granted under the Scheme since its adoption.

27 RESERVES

Group	Share premium HK$'000	Accumulated losses HK$'000	Capital reserve on consolidation HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1 January 2001	10,978	(42,236)	59,368	–	28,110
Issuance of shares	24,383	–	–	–	24,383
Conversion of debentures	3,517	–	–	–	3,517
Share issuance expenses	(151)	–	–	–	(151)
Conversion of debentures expenses	(2,194)	–	–	–	(2,194)
Exchange realignment	–	–	–	(65)	(65)
Loss attributable to shareholders	–	(58,698)	–	–	(58,698)
At 31 December 2001	36,533	(100,934)	59,368	(65)	(5,098)
At 1 January 2002	36,533	(100,934)	59,368	(65)	(5,098)
Share issuance expenses	(286)	–	–	–	(286)
Exchange realignment	–	–	–	(2)	(2)
Loss attributable to shareholders	–	(162,001)	–	–	(162,001)
At 31 December 2002	36,247	(262,935)	59,368	(67)	(167,387)
Company and subsidiaries	36,247	(262,935)	59,368	(67)	(167,387)
Associates	–	–	–	–	–
At 31 December 2002	36,247	(262,935)	59,368	(67)	(167,387)

27 RESERVES (Continued)

Company	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2001	10,978	(1,325)	9,653
Issuance of shares	24,383	–	24,383
Conversion of debentures	3,517	–	3,517
Share issuance expenses	(151)	–	(151)
Conversion of debentures expenses	(2,194)	–	(2,194)
Loss for the year	–	(985)	(985)
At 31 December 2001	36,533	(2,310)	34,223
At 1 January 2002	36,533	(2,310)	34,223
Share issuance expenses	(286)	–	(286)
Loss for the year	–	(164,661)	(164,661)
At 31 December 2002	36,247	(166,971)	(130,724)

The Company had no reserve available for distribution as at 31 December 2002.

28 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash used in operating activities is set out below:

	2002	2001
	HK$'000	HK$'000
Loss before taxation	(161,917)	(59,827)
Adjustments for:		
Depreciation	5,486	9,234
Amortisation of intangible assets	–	4,253
Loss on disposal of fixed assets	10,405	565
Gain on partial disposal of investment in a subsidiary	–	(131)
Deficit arising on revaluation of investment property	6,000	993
Intangible assets written off	–	7,232
Fixed assets written off	3,219	364
Share of loss of associates	–	555
Written off of loan to an associate	31	–
Impairment of investment securities	51,000	6,814
Impairment of financial asset	10,500	–
Impairment of investment in associates	690	–
Impairment loss of goodwill arising on acquisition of a subsidiary and an associate	–	8,496
Interest income	–	(524)
Interest on bank loan and overdrafts	1,464	1,682
Interest on convertible debentures	2,397	691
Interest on convertible notes	169	360
Interest on other loan	149	–
Finance leases charges	2,819	1,074
Deposit forfeited for partial disposal of a subsidiary	–	(23,520)
Operating loss before working capital changes	(67,588)	(41,689)
Decrease/(increase) in inventories	22,441	(23,212)
Decrease in contracts in progress	–	6,564
Decrease in trade and other receivables	48,384	21,182
(Decrease)/increase in trade and other payables	(3,373)	2,854
Increase in amount due from an associate	–	(31)
Cash used in operations	(136)	(34,332)
Interest on bank loan and overdrafts	(1,464)	(1,682)
Interest on convertible debentures	(2,397)	(691)
Interest on convertible notes	(169)	(360)
Finance leases charges	(2,819)	(1,074)
Interest on other loan	(149)	–
Income taxes paid	(611)	(337)
Net cash used in operating activities	(7,745)	(38,476)

29 BANKING FACILITIES

At 31 December 2002 the Group's banking facilities which were fully utilised were secured by the following:

(a) legal charge on the investment property of the Group; and

(b) corporate guarantees given by the Company.

30 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 29 to the accounts, as at 31 December 2002, the Company had contingent liabilities in respect of guarantees for the due performance of certain subsidiaries under obligations under finance leases and the Convertible Notes as set out in notes 23 to the accounts respectively.

31 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2002, the Group had future aggregate minimum lease payments under non-cancelable operating leases in respect of land and building, falling due as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	–	11,427
In the second to fifth years, inclusive	–	3,701
	–	15,128

32 LITIGATIONS

As at the date of this report, the Group has been involved in unsettled or outstanding major claims and writs with details as follows:

(a) On 11 March 2002, a writ under HCA 956/2002 was issued, amended on 22 August 2002 and further amended on 24 October 2002 by The Center (65) Limited ("The Center (65)") against three direct or indirect wholly-owned subsidiaries of the Company, namely DigiTel Group (BVI) Limited (formerly known as DigiTel Group Limited, a company incorporated in the British Virgin Islands) ("DGL"), Regal Policy Limited ("Regal Policy"), and Just Growth Investments Limited ("Just Growth") and one associate, Asia Tech Holdings Limited ("Asia Tech") (collectively, the "Defendant").

32 LITIGATIONS (Continued)

The Center (65) claimed against Regal Policy for alleged failure to pay (i) a sum of HK$787,611.17 being the arrears of rent, air conditioning and management charges, rates and government rents up to 31 March 2002, (ii) another sum of HK$403,240.28 (after deducting the 3-month rental deposit) due to the withdrawal of rent free period of 5 months, (iii) a monthly sum of HK$317,410.00 being the rent or mesne profits, HK$49,637.50 per month being air-conditioning charges and management charges, government rates at the quarterly rate of HK$27,150.00 and government rent at the quarterly rate of HK$16,290.00 from 1 April 2002 up to the date of delivery of vacant, possession, and (iv) other damages pursuant to the related tenancy agreement entered into between The Center (65) and Regal Policy on 16 May 2000 (the "First Tenancy Agreement") in respect of Units 6507-6510, 65th Floor, The Center, Central, Hong Kong (the "First Premises"). The Center (65) also claimed against Asia Tech, DGL and Just Growth as the guarantors in respect of the obligations of Regal Policy under the First Tenancy Agreement. A re-amended defence was filed by the Defendants on 7 November 2002. Vacant possession of the First Premises has been delivered to The Center (65) on 9 May 2002. The Group has settled all rental payment to The Center (65) under the First Tenancy Agreement up to 31 March 2002 and its 3-month rental deposit of HK$1,177,325.00 for the First Premises is being retained by The Center (65). The Group, therefore, does not consider that it has material obligations to pay any further sums to The Center (65).

(b) On 31 May 2002, a writ was issued by Industrial and Commercial Bank of China (Asia) Limited ("ICBC") against DigiTel Communication (Asia) Limited ("DCAL"), Lit Cheong DigiTel Limited ("LC DigiTel") and Goway Investments Limited ("Goway"), (collectively the "Defendant Subsidiaries", all being indirect wholly-owned subsidiaries of the Company) to claim for repayment of banking facilities granted to them (the "Facilities") in the sum of US$1,264,128.35 (approximately HK$9,860,201.13) and HK$15,331,361.00 and against the Company as the guarantor for the Defendant Subsidiaries (together, the "Defendant Companies"). Pursuant to a legal charge dated 29 March 2000 (the "Legal Charge"), the Facilities were further secured by an investment property located in Admiralty, Hong Kong (the "Investment Property") owned by Goway, the market value of which (based on a valuation report prepared by an independent valuer) as at 31 December 2002 was HK$13.5 million. On 16 July 2002, the Company received a letter from Deloitte Touche Tohmatsu, who informed the Company that by virtue of the powers under the Legal Charge, two of their employees were appointed as receivers and managers (the "First Receivers") by ICBC in respect of the Investment Property. The Investment Property was put on public auction on 18 September 2002 by the First Receivers but was not disposed of at the auction as the reserve price was not met. On 17 October 2002, summary judgement was entered against DCAL, Goway and the Company but dismissed against LC DigiTel. After lengthy negotiation, judgement was eventually entered by consent against all the Defendant Companies on 19 November 2002.

(c) On 1 June 2002, a writ under DCCJ 3361/2002 was issued by Elegance Finance Printing Services Limited ("Elegance") against the Company for alleged failure to pay for printing services provided to the Company for an outstanding sum of HK$160,849.31. A defence was filed by the Company on 26 June 2002 which denies all the allegations. No further action has been taken by either party thereafter.

32 LITIGATIONS (Continued)

(d) On 26 June 2002, a writ under HCA 2466/2002 was issued by Strong River Investments Incorporated and Montrose Investments Limited (the "Plaintiffs") against the Company. The Plaintiffs claimed against the Company for a sum of US$1,736,133.00 (approximately HK$13,541,837.40) for breach of an agreement for redemption of convertible debentures dated 3 December 2001 between the Plaintiffs and the Company, details of which are set out in note 34 above and the announcement of the Company dated 7 December 2001; and for failure by the Company to make payments pursuant to a subscription agreement dated 23 March 2001 between the Plaintiffs and the Company, details of which are set out in the announcement of the Company dated 23 March 2001 and 3 April 2001. Summary judgement was entered against the Company on 26 August 2002. The Company filed an appeal on 5 September 2002, which has been adjourned until restoration. The court has further granted the Company a stay of execution of the judgement on 7 October 2002. Provision of HK$12,948,000.00 was made in the accounts, the remaining balance was the overdue interest charged for the period after 31 December 2002.

(e) On 5 July 2002, a writ under HCA 2604/2002 was issued by Compaq Financial Services (Hong Kong) Limited ("Compaq Finance") (now known as HP Financial Services (Hong Kong) Limited) against the Company in respect of leasing computer equipment for the period from 1 March 2002 to 30 August 2003 under a master lease agreement dated 25 September 2000 (the "Master Lease Agreement"). As pleaded in the statement of claim dated 5 July 2002 and subsequently amended on 12 September 2002, Compaq Finance claimed against iGreatLink.com Limited ("iGreatLink") a sum of HK$8,662,884.49, as the principal debtor under the Master Lease Agreement and the Company as the guarantor under two guarantees provided by the Company to Compaq Finance to guarantee the performance and payment obligations of iGreatLink. Compaq Finance repossessed the computer equipment on 17 May 2002. The Company filed its defence on 13 August 2002 and amended defence on 26 September 2002.

(f) On 19 August 2002, iGreatLink received a letter from Baker Tilly informing the Group that pursuant to a Deed of Charge entered into between iGreatLink and Nortel Networks (Asia) Limited ("Nortel Networks") on 23 August 2000, Nortel Networks has appointed an employee of Baker Tilly to be the receiver and manager ("Second Receiver") of the Group's certain network equipment. Pursuant to the facility agreement dated 23 August 2000, the said equipment was purchased by iGreatLink and was financed partly by cash and partly by the issue of convertible notes by iGreatLink to Nortel Networks whereby title will only pass upon the repayment by iGreatLink of the principal amount of the convertible notes. The equipment was re-possessed by Nortel Networks and the Group is currently negotiating with Nortel Networks for settlement of the outstanding indebtedness of US$738,508.16 (approximately HK$5,760,363.65). The Company, DCAL and Corp2net.com Limited, a wholly owned subsidiary of the Company, are the guarantors to Nortel Networks in respect of the obligations of iGreatLink to Nortel Networks.

32 LITIGATIONS (Continued)

(g) On 2 September 2002, a writ under HCA 3356/2002 was issued by The Center (43) Limited ("The Center (43)") against Regal Policy. The Center (43) claimed against Regal Policy for alleged failure to pay rent for the period from 1 June 2002 to the expiry date under the tenancy agreement between The Center (43) and Regal Policy dated 18 April 2000 in respect of the premises located in 43rd Floor, The Center, 99 Queen's Road, Central, Hong Kong ("Second Premises"). The amount claimed against Regal Policy is HK$4,398,421.89. Regal Policy filed its defence on 27 September 2002, denying such claim at all. Vacant possession of the Second Premises was delivered on 1 August 2002 and the Group does not consider that it has material obligations to pay any further sums to The Center (43).

(h) On 2 September 2002, DCAL received a demand issued by the Inland Revenue Department ("IRD") for the sum of HK$340,619.00 being profits tax for the year 2000/01. On or about 17 January 2003, a writ under DCTC 5363/2002, amended on 17 December 2002, was served by the IRD on DCAL for the same amount. Summary judgment was subsequently entered on 23 April 2003 against DCAL for a judgment debt of $309,829.83 together with interest and legal costs.

(i) On 18 September 2002, a writ under HCA 3579/2002 was issued by First Shanghai Capital Limited ("FSCL") against the Company. FSCL claimed against the Company a total sum of HK$698,333.33 for failure to pay its monthly retainer fees for the period from 1 August 2001 to 17 September 2002 and advisory fees. The Company filed its defence on 11 October 2002, denying such claim at all. Such action is in the course of setting down for trial.

(j) On 24 September 2002, the Company received a demand (the "Demand") issued by Key Equipment Finance Asia Limited ("KEF") demanding payment for the purported sum of US$503,087.30 (approximately HK$3,924,080.94) pursuant to a lease agreement between KEF and iGreatLink dated 22 June 2001 for lease of equipment; and a guarantee issued by the Company on 22 June 2001 in favour of KEF to guarantee the obligations of iGreatLink under the lease agreement. KEF repossessed the equipment on 12 September 2002.

(k) On 17 September 2002, a writ under DCCJ 5822/2002 was issued by MCI Worldcom Asia Pacific Limited claiming against DCAL for a sum of HK$70,885.84. Judgment was entered by consent on 16 October 2002.

(l) On 20 November 2002, The Bank of East Asia, Limited issued a writ under HCA 4392/2002 claiming against DCAL, LC DigiTel for an outstanding loan of HK$2,048,408.56 together with interests and against the Company as the guarantor therefore. A defence was filed on 17 December 2002. Judgement was entered by consent on 2 July 2003.

Apart from the specific provisions disclosed above, full provisions for the actions againsts to Group was made in the accounts and there are no other material outstanding writs and litigations against the Group.

33 POST BALANCE SHEET EVENTS

There were no significant matters which occurred since the balance sheet date to the date of these accounts and which have had or may have a material effect on the financial position of the Group at 31 December 2002 or the results for the year then ended.

34 COMPARATIVE FIGURES

Due to the adoption of new/revised SSAPs during the current year, the presentation of accounts and certain notes to accounts have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with current year's presentation.

35 ULTIMATE HOLDING COMPANY

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

36 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 5 August 2003.

Financial Summary

	2002	2001	2000	1999	1998
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover					
Continuing operations	**7,113**	58,753	113,861	42,710	33,857
Discontinued operations	**586**	15,153	20,834	–	–
	7,699	73,906	134,695	42,710	33,857
(Loss)/profit attributable to shareholders					
Continuing operations	**(127,002)**	2,918	(35,282)	8,693	5,417
Discontinued operations	**(34,999)**	(61,616)	(14,157)	–	–
	(162,001)	(58,698)	(49,439)	8,693	5,471
Assets and liabilities					
Total assets	**19,291**	179,925	184,569	40,929	17,778
Total liabilities	**(72,605)**	(80,950)	(60,964)	(33,726)	(9,269)
Minority interests	**–**	–	4,505	–	–
(Capital deficiency)/Shareholders' funds	**(53,314)**	98,975	128,110	7,203	8,509

Note:

The results, assets and liabilities of the Group for the three years ended 31 December 2000 have been prepared on a combined basis as if the group structure, at the time when the Company's shares were listed on the GEM, had been in existence throughout the years concerned.