

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2001 — unaudited

(Expressed in Hong Kong dollars)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|------------------------------|
| | | 2001 \$'000 | 2000 \$'000 (restated) |
| Turnover | 3 | 19,904 | 330,566 |
| Cost of sales | | <u>(17,262)</u> | <u>(297,092)</u> |
| Gross profit | | 2,642 | 33,474 |
| Other revenue | | 33,408 | 32,060 |
| Distribution costs | | — | (12,534) |
| Administrative expenses | | (74,603) | (53,071) |
| Amortisation of goodwill and intangible assets | | (14,139) | — |
| Share of profits less losses of associates | | (6,251) | 645 |
| Loss on partial disposal of an associate | 8 | <u>(49,413)</u> | <u>—</u> |
| (Loss)/profit from operations | | (108,356) | 574 |
| Impairment loss in respect of interest in the toys and property subsidiaries | 2 | — | (1,018,148) |
| Finance costs | | <u>(26)</u> | <u>(322)</u> |
| Loss before taxation | 4 | (108,382) | (1,017,896) |
| Taxation | 5 | <u>(304)</u> | <u>10,382</u> |
| Loss after taxation | | (108,686) | (1,007,514) |
| Minority interests | | <u>3,904</u> | <u>(225)</u> |
| Loss attributable to shareholders | | <u>(104,782)</u> | <u>(1,007,739)</u> |
| Loss per share | 7 | | |
| Basic | | <u>(1.88 cents)</u> | <u>(34.4 cents)</u> |

The notes on pages 12 to 21 form part of this interim financial report.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the six months ended 30 June 2001 — unaudited

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|---|--------------------------|---------------------------|
| | 2001 \$'000 | 2000 \$'000 |
| Surplus on revaluation of investment properties | — | 1,310 |
| Exchange differences on translation of accounts of overseas operations | 354 | 693 |
| Share of exchange reserve of associates | — | 298 |
| Loss on disposal of treasury shares by an associate | (12,828) | — |
| Loss on treasury shares in relation to partial disposal of an associate | <u>(9,598)</u> | <u>—</u> |
| Net (losses)/gains not recognised in the profit and loss account | (22,072) | 2,301 |
| Net loss for the period | (104,782) | (1,007,739) |
| Elimination of reserves of the toys and property subsidiaries | <u>—</u> | <u>(49,105)</u> |
| Total recognised gains and losses | <u>(126,854)</u> | <u>(1,054,543)</u> |

The notes on pages 12 to 21 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 June 2001 — unaudited
(Expressed in Hong Kong dollars)

| | Note | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 (restated) |
|--|-------|------------------------------------|--|
| Non-current assets | | | |
| Interest in an associate | 8 | — | 63,664 |
| Intangible assets | 9 | 37,340 | 22,901 |
| Non-trading securities | 10 | 276,737 | 268,981 |
| Notes receivable | 19(b) | 9,750 | — |
| Fixed assets | | 19,749 | 17,255 |
| Other assets | | 3,913 | 3,997 |
| | | <u>347,489</u> | <u>376,798</u> |
| | | ----- | ----- |
| Current assets | | | |
| Inventories | | 1,381 | — |
| Trade and other receivables | 11 | 24,475 | 18,024 |
| Deposits with banks | | 1,222,133 | 1,295,572 |
| Cash at bank and in hand | | 40,263 | 10,795 |
| | | <u>1,288,252</u> | <u>1,324,391</u> |
| | | ----- | ----- |
| Current liabilities | | | |
| Short-term loans | 12 | 1,232 | — |
| Creditors and accruals | 13 | 35,290 | 16,872 |
| Taxation | | 632 | 343 |
| | | <u>37,154</u> | <u>17,215</u> |
| | | ----- | ----- |
| Net current assets | | <u>1,251,098</u> | <u>1,307,176</u> |
| | | ----- | ----- |
| Total assets less current liabilities | | 1,598,587 | 1,683,974 |
| Non-current liabilities | | | |
| Obligations under finance leases | | 234 | — |
| Minority interests | | | |
| | | <u>23,895</u> | <u>17,776</u> |
| | | ----- | ----- |
| Net assets | | <u>1,574,458</u> | <u>1,666,198</u> |
| | | ----- | ----- |

| | | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 (restated) |
|-----------------------------|----|------------------------------------|--|
| Capital and reserves | | | |
| Share capital | 14 | 561,000 | 555,050 |
| Treasury shares | 15 | (13,478) | (30,622) |
| Reserves | 16 | <u>1,026,936</u> | <u>1,141,770</u> |
| | | <u>1,574,458</u> | <u>1,666,198</u> |

The notes on pages 12 to 21 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 30 June 2001 — unaudited
(Expressed in Hong Kong dollars)

| | |
|--|-----------|
| | \$'000 |
| Net cash outflow from operating activities | (58,416) |
| Returns on investments and servicing of finance | |
| Interest received | 42,626 |
| Interest paid | (23) |
| Net cash inflow from returns on investments and servicing of finance | 42,603 |
| Investing activities | |
| Net cash outflow from acquisition of subsidiaries | (15,506) |
| Purchase of fixed assets | (3,855) |
| Disposal of fixed assets | 545 |
| Increase in deposits with banks | (229,989) |
| Decrease in other non-current assets | 84 |
| Increase in notes receivable | (9,750) |
| Net cash outflow from investing activities | (258,471) |
| Net cash outflow before financing | (274,284) |
| Financing | |
| Capital element of finance lease rentals paid | (203) |
| Repayment of bank loans | (1,834) |
| Proceeds of new issue of shares by a subsidiary to its minority shareholders | 2,361 |
| Net cash inflow from financing | 324 |
| Decrease in cash and cash equivalents | (273,960) |
| Cash and cash equivalents at 1 January 2001 | 1,306,367 |
| Cash and cash equivalents at 30 June 2001 | 1,032,407 |
| Analysis of the balances of cash and cash equivalents | |
| Cash at bank and in hand | 40,262 |
| Deposits with banks with maturity of less than three months | 992,145 |
| | 1,032,407 |

The notes on pages 12 to 21 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 6.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the Company has adopted the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 3 April 2001.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report, except for the accounting policy in respect of the interest in the toys and properties subsidiaries, details of which are set out in Note 2 on this interim financial report.

2. Change in accounting policy

As at 31 December 2000, the interest in the toys and property subsidiaries (Note 19(a)), which have not been consolidated since 4 May 2000, was stated at their carrying values on that date less provisions for diminution in value which were other than temporary, as determined by the directors. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 32 issued by the Hong Kong Society of Accountants, the interest in the toys and property subsidiaries was reclassified as non-trading securities and stated at fair value. Changes in fair value are recognised in a revaluation reserve as they arise unless the change in fair value represents an impairment in which case the deficit is recognised in the profit and loss account. The new accounting policy has been adopted retrospectively with the comparative information adjusted for the amounts relating to prior periods. This change in accounting policy has no effect on the opening balances of reserves or net assets of the Group.

3. Segmental information

The analysis of the principal activities and geographical location of the operations of the Company and its subsidiaries for the six months ended 30 June 2001 are as follows:

| | Group turnover | | Contribution to gross profit | |
|--|-------------------------------|----------------|-------------------------------|---------------|
| | Six months ended 30 June 2001 | 2000 | Six months ended 30 June 2001 | 2000 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Sales of toys and accessories | — | 321,239 | — | 26,793 |
| Gross rentals from investment properties | — | 9,327 | — | 6,681 |
| Sales of computer hardware and software and other service income | <u>19,904</u> | <u>—</u> | <u>2,642</u> | <u>—</u> |
| | <u>19,904</u> | <u>330,566</u> | <u>2,642</u> | <u>33,474</u> |

All the Group's turnover during the period was generated in Asia.

4. Loss before taxation

Loss before taxation is arrived at after charging:

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2001 | 2000 |
| | \$'000 | \$'000 |
| Staff costs | 38,207 | 67,547 |
| Operating lease charges in respect of properties | 6,150 | 12,154 |
| Depreciation | <u>3,727</u> | <u>16,167</u> |

5. Taxation

| | Six months ended 30 June | |
|-------------------------------|--------------------------|-----------------|
| | 2001 | 2000 |
| | \$'000 | \$'000 |
| Hong Kong taxation | — | (10,566) |
| Overseas taxation | <u>304</u> | <u>—</u> |
| | 304 | (10,566) |
| Share of associates' taxation | <u>—</u> | <u>184</u> |
| | <u>304</u> | <u>(10,382)</u> |

Provision for Hong Kong taxation is calculated at the rate of 16% (2000: 16%) of the estimated assessable profits for the six months ended 30 June 2001. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6. Dividends

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2001 (2000: nil).

7. Loss per share

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to shareholders of \$104,782,000 (2000: \$1,007,739,000) and the weighted average of 5,584,030,000 ordinary shares (2000: 2,933,153,000) in issue during the period.

(b) *Diluted loss per share*

No diluted loss per share figures have been presented for 2001 or 2000 as the exercise of the Company's three outstanding share warrants which entitle the holders to subscribe in cash for up to 1,095,000,000 new ordinary shares of the Company would be anti-dilutive.

8. Interest in an associate

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 |
|---|------------------------------------|--|
| Share of net assets other than goodwill | — | 18,693 |
| Goodwill | — | 44,971 |
| | <u>—</u> | <u>63,664</u> |

During the six months ended 30 June 2001, the Company sold a portion of its shareholding in MegaVillage.com Holdings Limited ("MegaVillage") to MegaVillage. As consideration for the repurchase, MegaVillage waived the Company's US\$5 million commitment to fund MegaVillage. From the date of the completion of sale on 29 June 2001 and the resignation of certain directors of the Company from MegaVillage's board, the directors of the Company consider that the Company no longer had significant influence over the operations of MegaVillage. The remaining 19.9% interest in MegaVillage has therefore been accounted for as non-trading securities (Note 10) from the date of the sale.

A loss of \$49,413,000 was charged to the profit and loss account for the period on disposal of these shares, which includes the write-off of the related portion of goodwill on acquisition and losses in respect of the related portion of treasury shares.

Movements of the related goodwill during the period are as follows:

| | |
|-----------------------------------|-----------------|
| | \$'000 |
| At 1 January 2001 | 44,971 |
| Amortisation | (8,440) |
| Write-off on sale of shareholding | <u>(36,531)</u> |
| At 30 June 2001 | <u>—</u> |

9. Intangible assets

| | Intellectual property rights \$'000 | Goodwill on arising on consolidation \$'000 | Total \$'000 |
|-----------------------------------|--|--|-----------------|
| At 1 January 2001 | 18,299 | 4,602 | 22,901 |
| Goodwill arising on consolidation | — | 20,138 | 20,138 |
| Amortisation for the period | <u>(3,229)</u> | <u>(2,470)</u> | <u>(5,699)</u> |
| At 30 June 2001 | <u>15,070</u> | <u>22,270</u> | <u>37,340</u> |

10. Non-trading securities

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 (restated) |
|--|------------------------------------|--|
| Interest in the toys and property subsidiaries (Notes 2 and 19(a), and 10(a) below) | 225,413 | 225,413 |
| Interest in MegaVillage (Note 8) | 7,756 | — |
| Other unlisted equity security (Note 10(b) below) | <u>43,568</u> | <u>43,568</u> |
| | <u>276,737</u> | <u>268,981</u> |

- (a) The results of the toys and property subsidiaries for the six months ended 30 June 2001 and the net assets at 30 June 2001, which would have been included in the Group's consolidated accounts for the period if they were consolidated, are as follows:

| | |
|---|------------------|
| | \$'000 |
| Net profit attributable to shareholders for the six months ended 30 June 2001 | 7,129 |
| Net assets at 30 June 2001 | <u>1,289,393</u> |

- (b) The other unlisted equity security represents the Group's approximately 5% interest in FreeBorders, Inc. ("FreeBorders") and is stated at the original acquisition cost which, in the directors' opinion, approximates the fair value at the balance sheet date.

11. Trade and other receivables

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 |
|---|------------------------------------|--|
| Trade debtors | 17,133 | 913 |
| Deposits, prepayments and other receivables | 7,185 | 16,504 |
| Amounts due from related parties (Note 19(f)) | 92 | — |
| Amounts due from fellow subsidiaries (Note 19(f)) | <u>65</u> | <u>607</u> |
| | <u>24,475</u> | <u>18,024</u> |

Ageing analysis of trade debtors is as follows:

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 |
|--------------------------------------|------------------------------------|--|
| Less than 60 days | 12,129 | 646 |
| Less than 120 days but over 60 days | 3,991 | 266 |
| Less than 180 days but over 120 days | 578 | — |
| Over 180 days | <u>435</u> | <u>1</u> |
| | <u>17,133</u> | <u>913</u> |

Trade debtors are due within 30 days from the date of billing. Debtors with balances that are overdue may be requested to pay overdue interest.

12. Short-term loans

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 |
|----------------------------------|------------------------------------|--|
| Short term bank borrowings | 404 | — |
| Obligations under finance leases | 445 | — |
| Other loans | <u>383</u> | <u>—</u> |
| | <u>1,232</u> | <u>—</u> |

13. Creditors and accruals

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 |
|---|------------------------------------|--|
| Trade creditors | 11,976 | 547 |
| Amounts due to fellow subsidiaries (Note 19(f)) | 1,353 | — |
| Amount due to ultimate holding company | — | 3,882 |
| Other creditors and accruals | <u>21,961</u> | <u>12,443</u> |
| | <u>35,290</u> | <u>16,872</u> |

Ageing analysis of trade creditors is as follows:

| | As at 30 June 2001 \$'000 | As at 31 December 2000 \$'000 |
|--------------------------------------|------------------------------------|--|
| Less than 60 days | 11,873 | 547 |
| Less than 120 days but over 60 days | 87 | — |
| Less than 180 days but over 120 days | — | — |
| Over 180 days | <u>16</u> | <u>—</u> |
| | <u>11,976</u> | <u>547</u> |

14. Share capital

| | No. of shares (‘000) | Amount \$’000 |
|-------------------------------|-------------------------|-----------------------|
| <i>Issued and fully paid:</i> | | |
| At 1 January 2001 | 5,550,500 | 555,050 |
| Issue of new shares | <u>59,500</u> | <u>5,950</u> |
| At 30 June 2001 | <u><u>5,610,000</u></u> | <u><u>561,000</u></u> |

15. Treasury shares

| | As at 30 June 2001 \$’000 |
|--|------------------------------------|
| At 1 January 2001 | 30,622 |
| Disposal of treasury shares related to MegaVillage | (30,622) |
| Ordinary shares issued to a subsidiary | <u>13,478</u> |
| At 30 June 2001 | <u><u>13,478</u></u> |

During the year, the Company issued approximately 59.5 million ordinary shares with par value of \$0.10 each at a price of \$0.302 per share to Whizz-Work Holdings Limited (“Whizz-Work”) as part of the consideration for subscription of new shares in Whizz-Work, which after this issuance, became a 75% owned subsidiary of the Company.

16. Reserves

| | Share premium \$’000 | Capital redemption reserve \$’000 | Exchange reserve \$’000 | Accumulated losses \$’000 | Total \$’000 |
|---|----------------------------|--|-------------------------------|---------------------------------|-------------------------|
| At 1 January 2001 | 1,483,869 | 3,558 | 31 | (345,688) | 1,141,770 |
| Issue of new shares | 12,020 | — | — | — | 12,020 |
| Exchange differences on translation of accounts of overseas operations | — | — | 354 | — | 354 |
| Net loss for the period | — | — | — | (104,782) | (104,782) |
| Loss on disposal of treasury shares by an associate | — | — | — | (12,828) | (12,828) |
| Loss on treasury shares in relation to partial disposal of an associate | — | — | — | (9,598) | (9,598) |
| At 30 June 2001 | <u><u>1,495,889</u></u> | <u><u>3,558</u></u> | <u><u>385</u></u> | <u><u>(472,896)</u></u> | <u><u>1,026,936</u></u> |

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda.

The Company had no reserves available for distribution at 30 June 2001.

17. Capital commitments

As at 30 June 2001, the Group had the following capital commitments:

- (a) The Group was committed to provide a loan advance of US\$1.25 million to FreeBorders which was subsequently made to FreeBorders in July 2001 (Note 19(b)).
- (b) Pursuant to an Asset Purchase Agreement signed in February 2001, the Group would acquire non-cash assets from a fellow subsidiary, including office fixtures and equipment, rights under contracts and agreements, and business-to-business investments, for a total maximum consideration of \$42 million, subject to certain conditions. The acquisition was completed in August 2001 for a cash consideration of approximately \$33 million (Note 19(c)).
- (c) The Group was committed to acquire a 19.9% shareholding in a subsidiary, Breakaway Solutions Asia Pacific Limited (“BSAP”), from BSAP’s minority shareholder for a consideration of US\$500,000 (approximately \$3.9 million). The acquisition was subsequently completed in July 2001 and as a result, the entire issued share capital of BSAP is held by the Group (Note 19(e)).

18. Contingent liabilities

At 30 June 2001, there were contingent liabilities arising from guarantees given to a bank by the Company in respect of banking facilities of \$50 million extended to the toys and property subsidiaries (Note 19(g)).

19. Material related party transactions

The Group entered into the following material related party transactions:

- (a) Under a put option deed dated 9 March 2000 (as amended by supplemental deed dated 29 March 2000) (the “Put Option Deed”) entered into between the Company and Shamrock Green Limited (“Shamrock”), the Company is entitled to require Shamrock to acquire all (but not part of) the toys and property subsidiaries for approximately \$225,413,000 at any time before 3 May 2002, subject to certain provisions for extension as set out in the Put Option Deed. The Company’s controlling shareholder, Hutchison Whampoa Limited (“Hutchison”), has a 50% indirect interest in Shamrock. The other 50% interest in Shamrock is owned by two companies which are controlled by Dr. Luk Chung Lam, currently the Co-chairman of the Company and, prior to 4 May 2000, the Chairman. The obligations of Shamrock under the Put Option Deed are guaranteed by Hutchison. In addition, under a Management Services Agreement dated 28 April 2000 (the “MSA”) entered into between the Company and Dr. Luk Chung Lam, Messrs. Ko Yuet

Ming, Tam Yue Man and Luk Tei, Lewis, Harbour Ring Group Limited (“HRG”), a company controlled by the former substantial shareholders of the Company, agreed from 4 May 2000 to provide management services to the toys and property subsidiaries and the Company gave HRG the exclusive right to manage and operate the toys and property subsidiaries, including without limitation to control the dividend policies from that date. The MSA will be terminated by the Company on the exercise or the lapse of the Put Option Deed. The Company has not included the results of toys and property subsidiaries in its consolidated results since 4 May 2000. To date, the Company has not exercised the put option.

Currently, a review is being conducted of the financial positions and business prospects of the toys and property subsidiaries with a view to continuing the existing businesses.

- (b) In November 2000, the Company committed to lend US\$2.5 million to FreeBorders in two equal advances of US\$1.25 million which bear interest at prime rate charged by a leading bank in U.S. and are convertible into preferred stock of FreeBorders at the option of the Company. One advance was made in April 2001 and the second advance was made in July 2001. FreeBorders is an associate of Internet Capital Group, Inc. which was the Company’s ultimate holding company as at 30 June 2001 (Note 17(a)).
- (c) In February 2001, the Group entered into an Asset Purchase Agreement with its then ultimate holding company and a fellow subsidiary, Internet Capital Group Japan K.K. (“ICG Japan”) under which the Group agreed to acquire all non-cash assets of ICG Japan, including office fixtures and equipment, rights under contracts and agreements, and B2B technology investments, for a total maximum consideration of \$42 million, subject to certain conditions (Note 17(b)). As part of the transaction, the Group acquired a wholly owned subsidiary from ICG Japan for a consideration of \$744,000.
- (d) Pursuant to the Restructuring Agreement, the Company sold a portion of its shareholding in MegaVillage to MegaVillage. After this transaction, MegaVillage is no longer an associate of the Company and the Company’s remaining 19.9% interest in MegaVillage is classified as non-trading securities at 30 June 2001 (Notes 8 and 10).
- (e) On 26 June 2001, the Group entered into a Share Purchase Agreement with Breakaway Solutions, Inc., a related party of the Company, to acquire its 19.9% shareholding in BSAP for a consideration of US\$500,000 (approximately \$3.9 million) (Note 17(c)).
- (f) The outstanding balances with related parties at 30 June 2001 are disclosed in Notes 11 and 13.
- (g) The guarantee given by the Company to a bank in respect of banking facilities given to related party is disclosed in Note 18.

20. Ultimate holding company

The directors consider the Company's ultimate holding company at 30 June 2001 to be Internet Capital Group, Inc. which is incorporated in the State of Delaware, the United States, and the references to ultimate holding company and fellow subsidiaries in the accounts refer to Internet Capital Group, Inc. and its subsidiaries.

On 12 July 2001, Hutchison Whampoa Limited, a company incorporated in Hong Kong, purchased approximately 70% of all the shares of the Company held by Internet Capital Group, Inc. and as a result increased its interest in the Company to over 50% and became the ultimate holding company of the Company.