Notes:

1. **Basis of preparation**

The interim result announcement is unaudited and has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA") except that comparative figures for the condensed consolidated cash flow statement have not been prepared as the company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial statements relating to the financial year ended 31 March 2000 included in the interim financial report do not constitute the company's statutory accounts for that financial year but are derived from those accounts. Statutory accounts for the year ended 31 March 2000 are available from the company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 31 July 2000.

The accounting policies adopted in preparing this interim financial report are substantially consistent with those adopted in preparing the company's 1999/2000 annual accounts.

The notes on the interim financial report include an explanation of events and transactions that the directors consider are significant to an understanding of the changes in financial position and performance of the group since the 1999/2000 annual accounts.

2. **Segmental information**

An analysis by principal activities and geographical location of the operations of the group during the financial period is as follows:

		Group turnover Six months ended 30 September		**Contribution to loss from operations Six months ended 30 September**	
		2000	1999	**2000**	1999
	Note	***$'000***	*$'000*	***$'000***	*$'000*
Principal activities	*(a)*				
Leasing of fibre-optic network		**5,345**	–	**1,984**	–
Telecommunications and Internet network engineering and related services		**5,485**	–	**(9,754)**	–
Distribution of merchandise		**–**	6,118	**–**	(1,660)
Property leasing		**–**	1,585	**(383)**	1,226
		10,830	7,703	**(8,153)**	(434)
Corporate overheads				**(15,908)**	(8,727)
				(24,061)	(9,161)

	Group turnover Six months ended 30 September	
	2000	1999
	$'000	*$'000*
Geographical locations of operations		
Hong Kong	**5,443**	1,585
Other areas of the People's Republic of China	**5,387**	6,118
	10,830	7,703

(a) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and the costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Leasing income

Revenue from the leasing of fibre-optic network is recognised on a straight line basis over the terms of the respective leases.

(ii) Services income

Services income relating to the provision of telecommunications and Internet network engineering and related services is recognised when the services are rendered.

3. Other net income

	Six months ended 30 September	
	2000	1999
	$'000	*$'000*
Write-back of provisions in respect of a de-consolidated subsidiary	**2,676**	–
Net gain on debt waiver	**3,487**	156
Loss on disposal of a subsidiary	**(2,978)**	–
Others	**527**	1
	3,712	157

4. Acquisition of subsidiaries

On 30 March 2000, HiNet Infrastructure (GD) Limited ("HIGD"), a wholly owned subsidiary of the company, entered into a conditional agreement for the acquisition of a further 56% interest in Plain Gold Holdings Limited ("Plain Gold"), an associated company, and the entire interest in Opulent Deal Limited ("Opulent Deal"), each of which indirectly holds a 33% interest in Guangzhou South China Fiber-optic Cable Network Engineering Co Ltd ("SCFC"), at a consideration of $350,000,000. At 31 March 2000, HIGD held a 44% interest in Plain Gold. This transaction was completed on 25 May 2000 and HIGD now holds a 100% effective interest in each of Plain Gold and Opulent Deal and a 66% effective interest in SCFC.

The above acquisition gave rise to a net cash outflow of $72,202,000 and a capital reserve of $34,704,000 which has been credited directly to reserves.

The results of Plain Gold for the period up to the date of completion of the above acquisition has been equity accounted for in the consolidated profit and loss account of the group for the period. With effect from the date of completion of the above acquisition, the accounts of Plain Gold, Opulent Deal and SCFC have been included in the consolidated accounts of the group for the period.

5. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 September	
	2000	1999
	$'000	*$'000*
(a) Finance cost:		
Interest on bank loans and overdrafts and other loans repayable within 5 years	**1,098**	519
Finance charges on obligations under finance leases	**19**	–

(b) Other items:

Cost of stocks	**251**	5,023
Staff costs	**9,085**	2,593
Operating lease charges in respect of properties	**2,324**	387
Depreciation		
– owned fixed assets	**9,873**	1,764
– assets held under finance leases	**70**	–

6. Taxation

	Six months ended 30 September	
	2000	1999
	$'000	*$'000*
Overseas taxation	**1,953**	–
Share of associated company's taxation	**268**	–
	2,221	–

No provision for Hong Kong Profits Tax has been made as the group sustained a loss for Hong Kong Profits Tax purposes during the period.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the countries in which the subsidiaries operate.

7. Dividend

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2000 (1999: Nil).

8. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the group's loss for the period of $24,990,000 (1999: $9,680,000) and on the weighted average number of 4,437,083,346 ordinary shares (1999: 1,604,418,993) in issue during the six months ended 30 September 2000. The loss for 1999 has been restated as a result of the change in accounting policy as disclosed in note 9. The weighted average number of shares outstanding for 1999 has been retrospectively adjusted for the effects of the rights issue in January 2000.

(b) Diluted loss per share

Diluted loss per share for both periods are not shown as the potential ordinary shares are anti-dilutive.

9. Change in accounting policy

Pre-operating expenses represent those expenses incurred prior to the commencement of operation. In prior periods, such expenses were carried forward in the balance sheet and amortised on a straight-line basis, over five years from the date of commencement of operation. In preparing its annual accounts for the year ended 31 March 2000, the group has adopted a new accounting policy of writing off pre-operating expenses directly to the profit and loss account when they were incurred in order to comply with Interpretation Note 9 issued by the HKSA ("Interpretation") unless they satisfied with those requirements as specified in the Interpretation.

The above new accounting policy has been adopted retrospectively. As a result, certain comparative figures presented in this report in respect of the six months ended 30 September 1999 have been restated such that the unamortised balance of pre-operating expenses of $1,289,000 at 1 April 1999 has been written off to the accumulated losses brought forward and that the accumulated losses at 1 April 1999 and the loss for the six months ended 30 September 1999 have been increased/(decreased) by $1,289,000 and ($365,000) respectively.

10. Trade and other receivables

The credit terms granted by the group normally range from 30 days to 90 days. An aging analysis of trade receivables included in trade and other receivables is as follows:

	At 30 September 2000	**At 31 March 2000**
	$'000	*$'000*
Within 3 months	**4,254**	935
More than 3 months but less than 12 months	**730**	943
Total trade receivables	**4,984**	1,878
Deposits, prepayments and other receivables	**65,621**	328,906
	70,605	330,784

11. Trade and other payables

Included in trade and other payables are trade payables with the following aging analysis:

	At 30 September 2000	**At 31 March 2000**
	$'000	*$'000*
Due within one month or on demand	**17,001**	5,668
Due after 1 month but within 3 months	**315**	–
Due after 3 months but within 6 months	**66**	–
Total trade payables	**17,382**	5,668
Other payables	**16,499**	6,929
	33,881	12,597

12. Share capital

	Note	**Number of shares** *'000*	*$'000*
Issued and fully paid:			
At 1 April 2000		4,431,222	443,122
Issue of shares	*(a)*	6,309	631
Shares issued under warrant subscription rights	*(b)*	1	–
At 30 September 2000		4,437,532	443,753

(a) Issue of shares

Pursuant to the Compromise Agreement dated 16 January 1999, the group disposed of its investment property in April 2000 in order to repay the secured bank indebtedness owing by the group. Following the application of proceeds from the disposal of the secured property, the shortfall secured indebtedness amounted to approximately $6,309,000. Pursuant to the Compromise Agreement, 55% of the shortfall was waived, 25% of the shortfall was repaid in cash, 10% was satisfied by the issue of shares at a subscription price of $0.10 each, and 10% was satisfied by the issue of convertible bonds. Accordingly, 6,308,958 shares of $0.10 each at par was issued and allotted.

(b) Shares issued under warrant subscription rights

Pursuant to an ordinary resolution passed on 10 January 2000, a bonus issue of warrants was issued to the company's shareholders at 31 January 2000, in the proportion of one warrant for every five shares of $0.10 each, entitling the holders thereof to subscribe in cash for new shares at an initial subscription price of $0.38 per share up to 3 February 2003.

During the period, warrants with subscription rights for 795 shares in the company were exercised. Exercise of remaining warrants in full would result in the issue of additional 744,980,895 shares for approximately $283,093,000.

(c) *Share options*

Pursuant to a board resolution dated 12 July 2000, the company granted options to certain of its employees, at an aggregate consideration of $37, for subscribing a total of 29,550,000 ordinary shares of the company at a price of $0.25 per share during the period from 12 July 2001 to 11 July 2005, both dates inclusive. None of these options have been exercised during the period.