

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2000**

1. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The interim report has been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented either for the statement of recognised gains and losses or for the cash flow statement, being the first cash flow statement to be included in the interim financial report relating to accounting period ended on or after 1 July 2000. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 30 June 2000.

2. SEGMENT INFORMATION

	Turnover		Profit from operations	
	Six months ended		Six months ended	
	31 December		31 December	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
Sales of telecommunications equipment	468,632	475,816	84,638	92,910
Provision of telecommunications and internet services, software and licensing	269,606	295,606	117,952	108,513
	<u>738,238</u>	<u>771,422</u>	<u>202,590</u>	<u>201,423</u>
Geographical segments:				
People's Republic of China, including Hong Kong	552,698	538,213	180,352	173,000
Europe	131,025	140,040	11,903	3,977
Others	54,515	93,169	10,335	24,446
	<u>738,238</u>	<u>771,422</u>	<u>202,590</u>	<u>201,423</u>

3. DIRECT OPERATING COSTS

	Six months ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Cost of inventories recognised in direct operating costs	347,672	346,261

4. AMORTISATION AND DEPRECIATION

	Six months ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Amortisation and depreciation:		
Amortisation of investments in telecommunications projects	34,905	27,382
Amortisation of systems and networks	127	119
Depreciation on		
Owned assets	67,697	72,227
Assets under finance leases	455	458
	103,184	100,186

5. TAXATION

	Six months ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	430	1,720
Taxation in other jurisdictions	663	33
	1,093	1,753
Deferred taxation	-	(141)
	1,093	1,612

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax and is not subject to taxation in any other jurisdictions.

6. DIVIDEND

Dividend represents interim dividend payable in scrip form equivalent to HK0.125 cent (HK0.125 cent for the six months ended 31 December 1999) per share, with a cash option.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 31 December	
	2000	1999
	HK\$'000	HK\$'000
Earnings for the purpose of calculating basic earnings per share	158,538	158,051
Adjustment to the share of result of a subsidiary based on dilution of its earnings per share	(813)	(1,477)
	<hr/>	<hr/>
Earnings for the purpose of calculating diluted earnings per share	157,725	156,574
	<hr/> <hr/>	<hr/> <hr/>
	Number of shares	
	As at 31 December	
	2000	1999
	'000	'000
Number of shares for the purpose of calculating basic earnings per share	5,885,403	5,200,870
Potential dilutive shares issuable under the Company's share option scheme and outstanding warrants	10,240	178,185
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Weighted average number of shares for the purpose of calculating diluted earnings per share	5,895,643	5,379,055
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8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$14,393,000 (HK\$16,670,000 for the six months ended 31 December 1999) on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

At 31 December 2000, the balance of trade and other receivables included trade receivables of HK\$314,988,000. The aging analysis of trade receivables at the reporting date is as follows:

	31 December 2000
	HK\$'000
0 - 60 days	290,035
61 - 90 days	3,927
> 90 days	21,026
	<hr/>
	314,988
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The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days.

10. TRADE AND OTHER PAYABLES

At 31 December 2000, the balance of trade and other payables included trade payables of HK\$46,461,000. The aging analysis of trade payables at the reporting date is as follows:

	31 December 2000 HK\$'000
0 - 60 days	31,292
61 - 90 days	6,675
> 90 days	8,494
	<hr/> 46,461 <hr/> <hr/>

11. SHARE CAPITAL

There was no movement in the authorised, issued and fully paid share capital of the Company in the current interim period.

Warrants

On 22 December 2000, the directors of the Company issued warrants carrying subscription rights of HK\$248,364,031 to shareholders. Each warrant entitled the holder to subscribe for one new share of HK\$0.10 each in the Company at an initial subscription price of HK\$0.211 per share, subject to adjustments. None of the warrants were exercised in the current interim period.

12. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 July 2000	902,693	50	(387,826)	2,439	1,225,503	1,742,859
Exchange difference arising on translation of operations outside Hong Kong	-	-	-	20	-	20
Net profit for the period	-	-	-	-	158,538	158,538
Dividend	-	-	-	-	(7,357)	(7,357)
At 31 December 2000	<hr/> 902,693 <hr/>	<hr/> 50 <hr/>	<hr/> (387,826) <hr/>	<hr/> 2,459 <hr/>	<hr/> 1,376,684 <hr/>	<hr/> 1,894,060 <hr/>

13. RELATED PARTY TRANSACTIONS

During the period, the Company and its subsidiaries other than Kantone Holdings Limited, a 57% owned subsidiary of the Company, and its subsidiaries (the "Kantone Group"), and DIGITALHONGKONG.COM, a 78% owned subsidiary of the Company, and its subsidiaries (the "DIGITALHK Group") had the following transactions with the Kantone Group and the DIGITALHK Group:

	Six months ended	
	31 December	
	2000	1999
	HK\$'000	HK\$'000
Nature of transactions with the Kantone Group		
Purchases of pagers and paging systems	828	304
Fees received for the provision of office premises and facilities, and management services	600	600
Service fees received for the provision of internet related services	2	112
	<u>2</u>	<u>112</u>

These transactions were carried out after negotiation between the Group and respective related companies. The sales and purchases were determined on a carrying value and a cost plus basis respectively. The fees received for the provisions of office premises and facilities and management services were in accordance with the management agreement dated 20 December 1996. The service fees received for the provision of internet related services were charged on terms similar to those applicable to transactions with unrelated parties.

	Six months ended	
	31 December	
	2000	1999
	HK\$'000	HK\$'000
Nature of transactions with the DIGITALHK Group		
Administration fees received	1,500	1,500
Registration fee and annual fees paid	471	1,827
	<u>471</u>	<u>1,827</u>

The registration fees and annual fees were charged with reference to comparable market prices as determined by the directors of the company while the administration fees were charged at a monthly fee of HK\$250,000 pursuant to a management agreement entered into between the Company and DIGITALHONGKONG.COM.

14. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the period end date.

15. CAPITAL COMMITMENTS

	31 December 2000 HK\$'000	30 June 2000 HK\$'000
Capital expenditure in respect of investments:		
Contracted for but not provided in the financial statements	19,375	42,625
Authorised but not contracted for	–	62,000
	<u>19,375</u>	<u>104,625</u>
Capital expenditure in respect of property, plant and equipment:		
Contracted for but not provided in the financial statements	112	121
Authorised but not contracted for	127,330	130,778
	<u>127,442</u>	<u>130,899</u>
	<u>146,817</u>	<u>235,524</u>

16. COMPARATIVE FIGURES

Figures of the condensed consolidated income statement for the six months ended 31 December 1999 were reclassified to conform with the requirement of the Statement of Standard Accounting Practice No. 1 “Presentation of financial statements” issued by the Hong Kong Society of Accountants. A summary of the reclassification is as follows:

- (a) Direct operating costs and general and administrative expenses for the previous corresponding period of HK\$15,188,000 was reclassified to distribution costs.
- (b) Research and development costs for the previous corresponding period of HK\$19,521,000 was reclassified to direct operating costs.