

NOTES TO CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1 Accounting policies

These unaudited condensed consolidated interim accounts ("Interim Accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("HKSSAP") No.25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules"), except that comparative figures for the condensed cash flow statement have not been prepared as the Company has taken advantage of the transitional provision set out in the Listing Rules.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the annual accounts for the year ended 31st August 2000 except that the Group has adopted HKSSAP No.14 (Revised), "Leases", in the preparation of these Interim Accounts. HKSSAP No.14 (Revised) prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of HKSSAP No.14 (Revised) by the Group does not have any impact on these Interim Accounts except that disclosures set out in notes 11 and 13(b) have been extended or restated.

The Interim Accounts should be read in conjunction with the annual report of the Group for the year ended 31st August 2000.

2 Turnover

The Group is principally engaged in the provision of international telecommunications services to customers in Hong Kong, Japan and Canada, dial-up and broadband internet access services to Hong Kong and Canadian customers, and the provision of internet content and e-commerce services in Hong Kong.

An analysis of the Group's turnover and the contributions to its operating profit/(loss) for the period is as follows:

	Six months ended 28th February		Profit/(loss)	
	Turnover		before taxation	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities				
International telecommunications charges	433,616	591,826	31,046	17,654
Internet access charges	74,838	57,455	(34,124)	(72,633)
Advertising and commission charges	990	1,318	(11,363)	(9,714)
	<u>509,444</u>	<u>650,599</u>	<u>(14,441)</u>	<u>(64,693)</u>
Net interest income			19,690	12,572
			<u>5,249</u>	<u>(52,121)</u>
Geographical locations				
Hong Kong	486,334	616,341	(15,806)	(63,541)
Japan	4,903	6,137	(120)	(495)
Canada	18,207	28,121	1,485	(657)
	<u>509,444</u>	<u>650,599</u>	<u>(14,441)</u>	<u>(64,693)</u>
Net interest income			19,690	12,572
			<u>5,249</u>	<u>(52,121)</u>

3 Operating profit/(loss)

The operating profit/(loss) is stated after crediting and charging the following:

	Six months ended 28th February	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Crediting		
Interest income	21,274	13,914
Charging		
Depreciation of owned fixed assets	34,073	20,246
Depreciation of fixed assets under finance leases	2,830	2,895
Loss/(gain) on disposal of fixed assets	1,401	(117)
Provision for doubtful debts	6,831	5,353
	<u>6,831</u>	<u>5,353</u>

4 Taxation

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	<i>Note</i>	Six months ended 28th February	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Hong Kong profits tax – current	(a)	4,600	–
Overseas taxation	(b)	16	410
		<u>4,616</u>	<u>410</u>

- (a) Hong Kong profits tax has been provided for at the rate of 16% on the estimated assessable profit for the period.
- (b) Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

5 Dividend

	Six months ended 28th February	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Proposed interim of HK\$0.01 (2000: Nil) per ordinary share	4,907	–
	<u>4,907</u>	<u>–</u>

The proposed dividend of HK\$4,907,000 (2000: Nil) for the six months ended 28th February 2001 was calculated based on 490,674,000 ordinary shares in issue as at the date of these condensed accounts were approved.

6 Earnings/(loss) per share

	Six months ended 28th February	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit/(loss) for the period	<u>5,817</u>	<u>(52,531)</u>
	Number of shares in thousand	Number of shares in thousand
Weighted average number of shares in issue	490,439	459,247
Incremental shares from assumed exercise of share options	<u>4,776</u>	<u>6,989</u>
Diluted weighted average number of shares	<u>495,215</u>	<u>466,236</u>

- (a) Earnings/(loss) per share are calculated based on weighted average number of issued ordinary shares and, as appropriate, diluted ordinary share equivalent outstanding for each of the relevant periods and the related income amount. The number of incremental shares from assumed exercised of stock options has been determined using the treasury stock method.
- (b) Diluted loss per share for the six months ended 29th February 2000 has not been presented as the conversion of potential ordinary shares to ordinary shares would have anti-dilutive effective to the basic loss per share.

7 Accounts receivable

The aging analysis of the accounts receivable is as follows:

	28th February 2001 <i>HK\$'000</i>	31st August 2000 <i>HK\$'000</i>
Current – 30 days	86,216	103,014
31 – 60 days	3,732	7,434
61 – 90 days	526	3,889
Over 90 days	<u>358</u>	<u>371</u>
	<u>90,832</u>	<u>114,708</u>

The majority of the Group's turnover is on open account term. Customers are generally required to pay deposits or provide their credit card or other credit information to the Group before they subscribe for the Group's services.

8 Accounts payable

The aging analysis of the accounts payable is as follows:

	28th February 2001 <i>HK\$'000</i>	31st August 2000 <i>HK\$'000</i>
Current – 30 days	46,123	92,886
31 – 60 days	38,458	44,339
61 – 90 days	12,819	36,990
Over 90 days	<u>112,398</u>	<u>43,110</u>
	<u>209,798</u>	<u>217,325</u>

9 Share capital

	Number of ordinary shares of HK\$0.10 each	HK\$'000
<i>Authorised</i>		
At 1st September 2000 and 28th February 2001	<u>2,000,000,000</u>	<u>200,000</u>
<i>Issued and fully paid</i>		
At 1st September 2000	489,604,000	48,960
Exercise of share options (<i>note (a)</i>)	<u>1,070,000</u>	<u>107</u>
At 28th February 2001	<u>490,674,000</u>	<u>49,067</u>

(a) During the six months ended 28th February 2001, 1,070,000 shares were issued at a price of HK\$0.26 per share to the share option holders who exercised their subscription rights. These shares rank pari passu with the existings shares.

(b) Details of share options granted by the Company during the period pursuant to the Share Option Scheme and the options outstanding at 28th February 2001 are as follows:

Date of grant	19th September 1997	3rd September 1998	10th September 1999	2nd June 2000	20th October 2000
Subscription price per share (HK\$)	1.20	0.26	2.10	1.50	0.58
Outstanding at 1st September 2000	1,500,000	4,480,000	60,000	21,008,000	-
Granted (<i>note (c)</i>)	-	-	-	-	22,408,000
Exercised (<i>note (a)</i>)	-	(1,070,000)	-	-	-
Lapsed upon resignation of employees	-	-	-	(100,000)	(22,000)
Cancelled (<i>note (c)</i>)	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>	<u>(20,908,000)</u>	<u>-</u>
Outstanding at 28th February 2001	<u>-</u>	<u>3,410,000</u>	<u>60,000</u>	<u>-</u>	<u>22,386,000</u>

(c) Pursuant to a board resolution passed 20th October 2000, share options to subscribe for 1,500,000 shares and 20,908,000 shares at subscription price of HK\$1.20 and HK\$1.50 previously granted to employees of the Group including executive directors of the Company on 19th September 1997 and 2nd June 2000 were cancelled. On the same date, share options to subscribe for 22,408,000 shares were granted to these employees at a subscription price of HK\$0.58 per share.

(d) The vesting periods of the outstanding share options at 28th February 2001 are as follows:

Date of grant	3rd September 1998	10th September 1999	20th October 2000
Immediately exercisable	2,910,000	60,000	7,500,000
On or after:			
2nd June 2001	-	-	6,886,000
3rd September 2001	500,000	-	-
2nd June 2002	<u>-</u>	<u>-</u>	<u>8,000,000</u>
Total	<u>3,410,000</u>	<u>60,000</u>	<u>22,386,000</u>

10 Reserves

	Retained profits <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>
At 1st September 1999	68,273	(2,127)	66,146
Loss for the period	(52,531)	-	(52,531)
Final dividend for the year ended 31st August 1999	(33)	-	(33)
Exchange adjustment on translation of the accounts of overseas subsidiaries	-	(273)	(273)
	<u>15,709</u>	<u>(2,400)</u>	<u>13,309</u>
At 29th February 2000			
At 1st September 2000	138,241	(2,722)	135,519
Profit for the period	5,817	-	5,817
Dividend	(4,907)	-	(4,907)
Exchange adjustment on translation of the accounts of overseas subsidiaries	-	2,261	2,261
	<u>139,151</u>	<u>(461)</u>	<u>138,690</u>

11 Obligations under finance leases

	28th February 2001 <i>HK\$'000</i>	Restated 31st August 2000 <i>HK\$'000</i>
Minimum lease payments		
Within one year	4,798	4,848
In the second year	4,671	4,848
In the third to fifth year inclusive	814	3,021
	<u>10,283</u>	<u>12,717</u>
Future finance charges on finance leases	(798)	(1,238)
	<u>9,485</u>	<u>11,479</u>
Present value on finance lease liabilities		
The present value on finance lease liabilities is as follows:		
Within one year	4,243	4,089
In the second year	4,438	4,438
In the third to fifth year inclusive	804	2,952
	<u>5,242</u>	<u>7,390</u>
	<u>9,485</u>	<u>11,479</u>

12 Loan from a minority shareholder

The amount is secured by all present and future assets of a subsidiary of the Company, interest bearing at fixed rate of 7% per annum, repayable on 25th June 2003 and convertible into fully paid up ordinary shares in that subsidiary.

13 Commitments

(a) Capital commitments

	28th February 2001 <i>HK\$'000</i>	31st August 2000 <i>HK\$'000</i>
Purchase of telecommunications, computer and office equipment – contracted but not provided for	<u>101,917</u>	<u>123,224</u>

(b) Commitments under operating leases

At 28th February, 2001, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	28th February 2001	Restated 31st August 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leases in respect of land and buildings which are payable:		
Within one year	14,536	22,102
In the second to fifth year inclusive	5,258	13,578
	<u>19,794</u>	<u>35,680</u>
Leases in respect of telecommunications facilities and computer equipment which are payable:		
Within one year	22,578	25,560
In the second to fifth year inclusive	16,917	20,286
	<u>39,495</u>	<u>45,846</u>
	<u>59,289</u>	<u>81,526</u>

14 Restricted bank deposit

On 3rd February 2000, the Group obtained a Wireless Fixed Telecommunications Network Services License ("WFTNS License") from the Office of the Telecommunications Authority (the "OFTA") for the provision of telecommunications network services in Hong Kong. Pursuant to the terms of the WFTNS License, the Group placed a deposit of HK\$30,000,000 to a bank as at 28th February 2001 as a surety to the OFTA for the due performance of the terms of the WFTNS License. The liability of the surety shall reduce and the deposit be refunded upon satisfying the terms stipulated in the WFTNS License.

Up to 28th February 2001, the Group did not meet certain requirements set out in terms of the WFTNS License. The directors are in the process of negotiating with OFTA for an extension of time to comply with the relevant requirements. Should OFTA refuse to grant the extension, HK\$5,000,000 could be forfeited by OFTA.

15 Related parties transactions

During the period, the Group has the following significant transactions with KDDI Corporation, a minority shareholder of a subsidiary of the Company, which were carried out in the normal course of the Group's business.

		Six months ended 28th February	
		2001	2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Calling charges payable to KDDI Corporation	(a)	21,246	-
Interest expenses payable to KDDI Corporation	(b)	665	-

(a) These represent calling charges payable to KDDI Corporation pursuant to the service agreements entered into between the Company and KDDI Corporation in 1999. The transactions were conducted in accordance with the terms of the service agreements and on terms no less favourable than terms available from third parties.

(b) These represent the interest payable for the interest-bearing loan from KDDI Corporation (*note 12*).

16 Pending litigation

The directors have advised that there were no significant progress on the pending litigation as disclosed in the annual report of the Group for the year ended 31st August 2001.