

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report 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, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") except that comparative figures for the 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 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 Company's former auditors have expressed an unqualified opinion on those accounts in their report dated 12 April 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report, except for the change in accounting policy in connection with the adoption of Statement of Standard Accounting Practice 30 "Business combinations" and Statement of Standard Accounting Practice 31 "Impairment of assets" issued by the HKSA. The nature and effects of this change in accounting policy are discussed in note 7 on the interim financial report.

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.

2 SEGMENTAL INFORMATION

The analysis of the principal activities and geographical location of the operations of the Company and its subsidiaries during the financial period are as follows:

	Group turnover		Contribution to (loss) /	
	Six months ended		profit from operations	
	30 June		Six months ended	
	2001	2000	2001	2000
	\$'000	\$'000	\$'000	\$'000
Principal activities				
Provision of				
telecommunications and				
data bureau services	228,165	466,244	6,347	51,381
Recreational club operation	13,806	13,282	(5,695)	(13,157)
Investment holding and				
trading of securities	25,507	28,379	(21,136)	13,226
Provision of e-commerce				
enabling technologies	–	47	(17,343)	(19,280)
	<u>267,478</u>	<u>507,952</u>	<u>(37,827)</u>	<u>32,170</u>
Other group expenses			(4,983)	(7,416)
			<u>(42,810)</u>	<u>24,754</u>

Group turnover	
Six months ended 30 June	
2001	2000
\$'000	\$'000
267,478	507,952

Geographical location of operations

Hong Kong	38,431	42,552
The People's Republic of China	1,271	1,277
Japan	88,507	164,215
Other Asia Pacific regions	13,514	13,868
Europe	44,688	129,590
North America	72,976	126,997
Others	8,091	29,453
	<u>267,478</u>	<u>507,952</u>

3 OTHER NET LOSS

	Six months ended 30 June	
	2001	2000
	\$'000	\$'000
Net realised and unrealised loss on investments in securities	46,667	15,586
Net loss on disposal of fixed assets	2,058	—
Net exchange (gain)/loss	(289)	2,901
Additional consideration received from disposal of a subsidiary in prior year	—	(7,765)
	<u>48,436</u>	<u>10,722</u>

4 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001	2000
	\$'000	\$'000
(a) Finance costs:		
Interest on borrowings	<u>3,458</u>	<u>5,005</u>
(b) Other items:		
Cost of inventories sold	2,247	2,404
Depreciation	7,001	13,994
Interest income	(23,650)	(27,003)
Dividend income	<u>(1,882)</u>	<u>(1,809)</u>

5 TAXATION

	Six months ended 30 June	
	2001	2000
	\$'000	\$'000
Hong Kong taxation	—	2,066
Overseas taxation	—	355
	<u>—</u>	<u>2,421</u>

5 TAXATION *(continued)*

No provision for profits tax has been made in the consolidated profit and loss account for the six months ended 30 June 2001 as the Group companies either did not earn profit subject to profits tax during the period or had tax losses brought forward which were sufficient to offset the taxable profits for the period.

The provision for Hong Kong Profits Tax in the prior period is calculated by applying the estimated annual effective tax rate of 16% to the profits for the six months ended 30 June 2000. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that would be applicable to the relevant countries.

6 LOSS/EARNINGS PER SHARE

(a) Basic loss/earnings per share

The calculation of basic loss/earnings per share is based on the loss attributable to shareholders of \$46,258,000 (2000 (restated): profit of \$22,025,000) and the weighted average of 1,650,658,000 ordinary shares (2000: 1,462,804,000 shares) in issue during the period.

(b) Diluted loss/earnings per share

The diluted loss per share for the six months ended 30 June 2001 is the same as the basic loss per share as the exercise of outstanding share options and the conversion of the convertible bonds in full would have an anti-dilutive effect on the loss per share.

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the profit attributable to shareholders of \$23,690,000 and the weighted average number of ordinary shares of 1,658,325,000 shares after adjusting for the effects of finance cost savings realised on conversion of convertible bonds and all dilutive potential shares.

7 CHANGE IN ACCOUNTING POLICY

Impairment loss on goodwill

Following the requirements of Statement of Standard Accounting Practice 31 "Impairment of assets", the directors have assessed the recoverable amount of the goodwill and consider that there was an impairment loss of \$473,061,000 as at 31 December 2000, which has been recognised as an expense in the profit and loss account for the year ended 31 December 2000 as a prior year adjustment, according to the transitional provisions under Statement of Standard Accounting Practice 30 "Business combinations". The Group's results for the six months ended 30 June 2000 are not affected as the directors consider that the impairment arose in the second half of 2000. Accordingly, when the Group presents its accounts for the year ending 31 December 2001, the impairment loss of \$473,061,000 will be reflected in the comparative figures in respect of the year ended 31 December 2000. The Group's net assets at the period end are not affected as the goodwill has already been set-off against reserves in 2000.

8 FIXED ASSETS

The directors consider that there have been no significant changes to the open market values of the land and buildings and investment properties since 31 December 2000.

9 INVESTMENT SECURITIES

During the period, certain investment securities were transferred to short term investments at fair value.

10 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2001 \$'000	At 31 December 2000 \$'000
0 - 1 month	22,066	45,206
2 - 3 months	38,090	27,371
Over 3 months	12,964	53
	<hr/>	<hr/>
Total trade receivables	73,120	72,630
Deposits, prepayments and other receivables	18,320	32,049
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	91,440	104,679
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The Group maintains a defined credit policy for its trade customers.

11 CASH AND BANK BALANCES

	At 30 June 2001 \$'000	At 31 December 2000 \$'000
Deposits with banks and other financial institutions	794,206	783,995
Cash at bank and in hand	23,893	26,439
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	818,099	810,434
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12 TRADE AND OTHER PAYABLES

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

	At 30 June 2001 \$'000	At 31 December 2000 \$'000
0 - 1 month	22,798	24,697
2 -3 months	10,623	23,705
Over 3 months	50,545	35,489
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Total trade payables	83,966	83,891
Other payables	29,732	31,695
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	113,698	115,586
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13 DEBENTURES

Each debenture holder is entitled to be a debenture member of the Hilltop Country Club (the "Club") subject to the Club Rules and By-laws for so long as the debentures shall remain outstanding, and has the right to use and enjoy all the facilities of the Club free from monthly subscription. At 30 June 2001, the Group's debentures were redeemable as follows:

	At 30 June 2001 \$'000	At 31 December 2000 \$'000
Within one year	8,500	4,060
In the second year	5,760	11,290
In the third to fifth year	5,100	4,980
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	19,360	20,330
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Current liabilities	8,500	4,060
Non-current liabilities	10,860	16,270
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	19,360	20,330
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14 CONVERTIBLE BONDS

The convertible bonds carry interest at 2% per annum payable in arrears and carry the right to convert the whole (or any of part in an amount or integral multiple of \$100,000) of the outstanding principal amount of the bonds into the Company's ordinary shares at any time following the date of issue of the bonds at a conversion price of \$1 per share.

The convertible bonds (if not converted into ordinary shares) shall be redeemed at the outstanding principal amount of the bonds together with interest accrued during the period from September to November 2001.

15 SHARE CAPITAL

	No. of shares (<i>'000</i>)	\$ <i>'000</i>
Issued and fully paid:		
At 1 January 2001 and 30 June 2001	<u>1,650,658</u>	<u>825,329</u>

At 30 June 2001, the outstanding options were:

Date option granted	Exercise price	Number of options outstanding at the period end
11 October 1999	\$1.528	5,338,000
22 October 1999	\$1.530	300,000
1 December 1999	\$1.804	144,000
20 December 1999	\$2.316	800,000
27 March 2000	\$1.900	1,950,000
1 August 2000	\$0.630	708,000
1 September 2000	\$0.694	50,000
18 September 2000	\$0.670	500,000

These share options are exercisable before 29 December 2007.

16 RESERVES

	Share premium \$'000	Capital redemption reserve \$'000	Exchange reserves \$'000	Goodwill reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2001						
- as previously reported	1,189,721	478	1,029	(503,061)	(281,997)	406,170
- prior period adjustment (note 7)	-	-	-	473,061	(473,061)	-
- as restated	1,189,721	478	1,029	(30,000)	(755,058)	406,170
Exchange differences	-	-	(374)	-	-	(374)
Loss for the period	-	-	-	-	(46,258)	(46,258)
At 30 June 2001	<u>1,189,721</u>	<u>478</u>	<u>655</u>	<u>(30,000)</u>	<u>(801,316)</u>	<u>359,538</u>

No dividends were declared or paid during the current or the prior period.

17 CONTINGENT LIABILITIES

In November 2000, a carrier served a notice of arbitration on a subsidiary requesting for arbitration before the American Arbitration Association under which the carrier alleged that it provided various services for the transit of telecommunications traffic. The carrier claimed for the settlement of outstanding debts of US\$253,750 up to 30 September 2000, additional sums due from the subsidiary from 1 October 2000 through the date of the arbitration award, accrued interest, further costs and attorney's fees. The arbitration hearing has closed but no award has yet been made by the arbitrator. The directors believe that the subsidiary did not receive any services from the carrier during the relevant period and is therefore not liable to settle the above debt and pay the related costs and interest. Accordingly, no provision has been made in the interim financial report in connection with the arbitration.

18 MATERIAL RELATED PARTY TRANSACTIONS

As at 30 June 2001, \$44,704,000 (at 31 December 2000: \$35,123,000) of the Company's outstanding convertible bonds was held by a company controlled by a substantial shareholder of the Company. The interest payable to that company for the six months ended 30 June 2001 amounted to \$443,000 (2000: \$Nil).

During the period, the Company received interest income amounting to \$238,000 (2000: \$499,000) from an associated company in respect of a current account balance which amounted to \$5,806,000 at 30 June 2001 (at 31 December 2000: \$6,365,000).

On 27 April 2001, the Company entered into a tenancy agreement with Hollywood Palace Company Limited ("HPCL") to lease office premises. HPCL is a company controlled by a substantial shareholder of the Company. Rental expense payable to HPCL during the six months ended 30 June 2001 amounted to \$372,000. The terms of the tenancy agreement are on an arm's length basis.

19 POST BALANCE SHEET EVENT

By an ordinary resolution passed at an extraordinary general meeting of the Company held on 14 August 2001, it was resolved that the balance of the net proceeds from the placing of 235,000,000 new shares of the Company at the placing price of \$3.75 per share as disclosed in the Company's announcement dated 4 January 2000 (the "Placing Announcement"), in addition to the purposes previously stated in the Placing Announcement, be also used for the general working capital of the Company and for investments either in the industries in which the Company operates its existing businesses or in other industries as and when the directors consider appropriate.

20 COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of the change in accounting policy referred to in the 2000 annual accounts. As a result of this change in accounting policy in 2000, the Group's profit for the six months ended 30 June 2000 increased by \$14,793,000 and the Group's net assets at 31 December 2000 decreased by \$467,532,000.

Comparative figures for the analysis of expenses, including administrative and selling expenses and other operating expenses, in the consolidated profit and loss account have been reclassified to conform with the classification of expense items in the Company's 2000 annual accounts, and additional line items in respect of other revenue and other net loss have been added.