NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended June 30, 2001

1. BASIS OF PREPARATION

The unaudited condensed financial statements have been prepared in accordance with the requirements of the Listing Rules including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") except that, in this first year of implementation of the Standard, as permitted by the Listing Rules, no comparative figures for the corresponding period of the preceding year have been presented for the condensed cash flow statement. The unaudited consolidated interim results have been reviewed by the Company's Audit Committee.

Except as described in Note 16, the accounting policies adopted in preparing these condensed financial statements are consistent with those followed in the Group's annual financial statements for the year ended December 31, 2000.

2. SIGNIFICANT TRANSACTIONS

(a) In February 2001, the Group completed the formation of a strategic alliance with Telstra Corporation Limited (the "Telstra Alliance"). Details have been disclosed in the Group's annual financial statements for the year ended December 31, 2000. No gain or loss arose in the Group's financial statements upon completion of the Telstra Alliance. As of June 30, 2001, the Group's interests in Reach and Regional Wireless Company, the ventures formed as a result of the Telstra Alliance, have been reflected as a component of investments in associates and jointly controlled companies.

(b) The Group successfully arranged a syndicated bank loan of US$4,700 million to repay the outstanding portion of the bridge loan drawn in 2000 to finance the cash consideration for the acquisition of HKT. The terms of the loan include certain general and financial covenants. In the event of default, all or part of the loan may become immediately due and payable. As of the date hereof, the Group has complied with all the covenants as stipulated in the loan agreement.

(c) In March 2001, the Group completed the acquisition of 100 percent of TTIL together with a shareholders' loan of approximately HK$546 million for an aggregate consideration of approximately HK$803 million. The consideration was satisfied by the issue of 183,634,285 ordinary shares of the Company at a price of HK$4.375 per share.

3. SEGMENT INFORMATION

An analysis of turnover and contribution to the Group's results by principal activity and geographical location is set out below:

	Turnover Six months ended June 30,		Profit/(loss) from operations Six months ended June 30,	
	2001 (Unaudited) HK$'million	**2000** (Unaudited) HK$'million	**2001** (Unaudited) HK$'million	**2000** (Unaudited) HK$'million
(a) By principal activity:				
Telecommunications	10,969	68	4,169	5
Internet Services	649	1	(851)	(133)
Infrastructure	721	33	219	3
Others	263	8	(582)	78
Eliminations	(1,290)	(6)	(85)	(1)
	11,312	104	2,870	(48)
(b) By geographical location:				
Asia Pacific	11,312	104	3,155	33
Europe	–	–	(285)	(81)
	11,312	104	2,870	(48)

Certain operating segments of HKT and its subsidiaries (the "HKT Group") having similar economic characteristics have been aggregated with those of the Company following the acquisition of HKT in August 2000.

4. RESULTS FOR THE PERIOD

Operating profit/(loss) before net gain on investments is stated after crediting and charging the following:

	Six months ended June 30,	
	2001 (Unaudited) HK$'million	**2000** (Unaudited) HK$'million
Crediting:		
Other income	31	–
Profit on sales of properties	18	–
Charging:		
Cost of sales	3,582	43
Depreciation	1,246	22
Amortization of intangible assets	66	1
Loss on disposal of fixed assets	7	–
Interest on borrowings	1,807	15

During the period, certain listed securities were transferred from investment securities to other investments. These transfers were effected at fair value. The aggregate unrealized holding losses at the dates of transfer of approximately HK$193 million (2000: aggregate unrealized holding gains of HK$561 million) were recognized in the income statement.

5. TAXATION

	Six months ended June 30, 2001 (Unaudited) HK$'million	2000 (Unaudited) HK$'million
Hong Kong:		
Company and subsidiaries	646	4
Associates and jointly controlled companies	106	–
	752	4

Hong Kong profits tax has been provided at the rate of 16 percent (2000: 16 percent) on the estimated assessable profits for the period. No provision for overseas tax was made as the Group had no overseas assessable profit during the period.

6. INTERIM DIVIDEND

The Board of directors does not recommend the payment of an interim dividend for the six months period ended June 30, 2001 (2000: Nil).

7. EARNINGS/(LOSS) PER SHARE

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

	Six months ended June 30, 2001 (Unaudited) HK$'million	2000 (Unaudited) HK$'million
Earnings/(Loss)		
Earnings/(Loss) for the purposes of basic and diluted earnings/(loss) per share	935	(35)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	22,177,404,602	10,189,037,194
Effect of dilutive potential ordinary shares	892,559,282	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	23,069,963,884	

8. EBITDA

EBITDA represents earnings before interest, taxation, depreciation, amortization, net gain on investments, loss on disposal of fixed assets, other income and the Group's share of results of associates, jointly controlled companies and unconsolidated subsidiaries. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with generally accepted accounting principles in Hong Kong and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

9. ACCOUNTS RECEIVABLE

An ageing analysis of trade receivables is set out below:

	At June 30, 2001 (Unaudited) HK$'million	At December 31, 2000 (Unaudited) HK$'million
0 - 30 days	1,333	1,317
31 - 60 days	337	209
61 - 90 days	76	32
91 - 120 days	62	79
Over 120 days	46	82
	1,854	1,719

The normal credit period granted by the Group is on average 30 days from the date of the invoice.

10. ACCOUNTS PAYABLE

An ageing analysis of trade payables is set out below:

	At June 30, 2001 (Unaudited) HK$'million	At December 31, 2000 (Unaudited) HK$'million
0 - 30 days	215	285
31 - 60 days	162	97
61 - 90 days	21	30
91 - 120 days	7	3
Over 120 days	53	27
	458	442

11. SHARE CAPITAL

	Number of shares (Unaudited)	Nominal value (Unaudited) HK$'million
Authorized:		
Ordinary shares of $0.05 each	32,000,000,000	1,600
Issued and fully paid ordinary shares of $0.05 each		
Balance at January 1, 2001	21,880,913,125	1,094
Exercise of warrants	1,316	–
Exercise of options	2,388,998	–
Issued for acquisition of investments (a) & (b)	592,224,285	30
Balance at June 30, 2001	22,475,527,724	1,124

(a) In March 2001, 183,634,285 new shares were issued at a price of HK$4.375 as the consideration for the acquisition of TTIL.

(b) During the six months ended June 30, 2001, the 40 percent minority shareholder of PCC Holdings Ltd. exercised a portion of the options granted in September 1999 and accordingly, 408,590,000 new shares were issued to the minority shareholder.

All shares issued rank pari passu in all respects with the existing shares of the Company.

12. DEFICITS

	Six months ended June 30, 2001					2000
(Unaudited)	**Share premium** HK$'million	**Property revaluation reserve** HK$'million	**Currency translation reserve** HK$'million	**Accumulated deficits** HK$'million	**Total** HK$'million	**Total** HK$'million
						(Note 17)
Beginning of period	167,035	343	(65)	(183,263)	(15,950)	10,898
Effect of adoption of new accounting standards	–	–	–	(3,234)	(3,234)	–
Opening balances, as restated	167,035	343	(65)	(186,497)	(19,184)	10,898
Issue of ordinary shares and exercise of options, net of issuing expenses	2,142	–	–	–	2,142	11,686
Realization of goodwill on disposal of subsidiaries and associates	–	–	–	46	46	24
Realization of goodwill on injection of assets to a jointly controlled company	–	–	–	6,382	6,382	–
Adjustment to goodwill arising from acquisition of an associate	–	–	–	(39)	(39)	–
Translation exchange differences	–	–	(98)	–	(98)	2
Surplus on revaluation of investment properties	–	–	–	–	–	43
Write-off of goodwill arising from acquisition of:						
– a subsidiary	–	–	–	–	–	(11)
– jointly controlled companies	–	–	–	–	–	(103)
– an associate	–	–	–	–	–	(166)
Profit/(Loss) for the period	–	–	–	935	935	(35)
End of period	169,177	343	(163)	(179,173)	(9,816)	22,338

As described in Note 16, the Group's accumulated deficit balance as of January 1, 2001 has been retrospectively restated upon the first time adoption of certain new accounting standards in Hong Kong.

13. CAPITAL COMMITMENTS

	At June 30, 2001 (Unaudited) HK$'million	**At December 31, 2000** (Unaudited) HK$'million
Authorized and contracted for	5,472	3,622
Authorized but not contracted for	12,373	589
	17,845	4,211

14. CONTINGENT LIABILITIES

	At June 30, 2001 (Unaudited) HK$'million	At December 31, 2000 (Unaudited) HK$'million
Performance guarantee	1,450	630
Others	104	177
	1,554	807

15. RELATED PARTY TRANSACTIONS

	Six months ended June 30,	
	2001 (Unaudited) HK$'million	2000 (Unaudited) HK$'million
Telecommunication services fees charged by a jointly controlled company	950	–
Telecommunication services fees charged to a jointly controlled company	91	–
Convertible bond interest charged by the ultimate holding company	147	–

The Company and a jointly controlled company ("JV") have entered into a Hong Kong Domestic Connectivity Agreement and an International Services Agreement for providing domestic and international connectivity services in Hong Kong and between Hong Kong and other countries. Pursuant to the International Services Agreement, for the first five years of operations subsequent to the formation of the JV, the Company is required to acquire 90%, 90%, 80%, 70% and 60% per annum, respectively, of its total annual purchases of "Committed Services" (being international public switched telephone network terminating access, international transmission capacity and internet gateway access services) from the JV. The Hong Kong Domestic Services Agreement contemplates a reciprocal arrangement, whereby the Company will provide local connectivity services to the JV under similar terms and conditions. Both agreements are subject to renegotiation when the agreements expire in 2006.

16. ADJUSTMENTS RETROSPECTIVELY APPLIED UPON ADOPTION OF NEW ACCOUNTING STANDARDS IN HONG KONG

At the beginning of 2001, the HKSA issued a number of new SSAPs regarding the treatment of goodwill and provisions. The related interpretations were issued in June 2001. The new SSAPs relevant to the Group are:

- SSAP 28 — Provisions, contingent liabilities and contingent assets
- SSAP 30 — Business combinations
- SSAP 31 — Impairment of assets
- Interpretation 13 — Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/ credited to reserves

The new SSAPs became effective for accounting periods beginning on or after January 1, 2001. As a result of the required first time adoption of these accounting standards issued by the HKSA and in accordance with the requirements of SSAP 2 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current or any prior periods presented, including the retrospective restatement of comparative periods) and the transitional provisions of the new SSAPs, the Group has retrospectively adjusted its financial results for the six month period ended June 30, 2000 and will be required to retrospectively adjust its financial results for the year ended December 31, 2000 (not presented).

The following table summarizes the effect on net loss for the six months ended June 30, 2000 and for the year ended December 31, 2000 and the shareholders' deficit as at January 1, 2001 resulting from the Group's adoption of these new standards:

Description	Note	**6 months ended June 30, 2000** (Unaudited) Net loss	**12 months ended December 31, 2000** (Unaudited) Net loss	**At January 1, 2001** (Unaudited) Shareholders' deficit
		(Amounts expressed in millions of Hong Kong dollars except per share amounts)		
Amounts as previously reported		**$ (35)**	**$ (6,907)**	**$ (14,856)**
Impairment of goodwill recognized upon the adoption of SSAP 31	*(a)*	–	(122,390)	–
Provision for onerous contracts upon the adoption of SSAP 28	*(b)*	–	–	(3,234)
Amounts as retrospectively restated		**(35)**	**(129,297)**	**(18,090)**
Basic earnings/(loss) per share:				
As previously reported		(0.34 cents)	(47.54 cents)	
As retrospectively restated		(0.34 cents)	(889.97 cents)	
Diluted earnings/(loss) per share:				
As previously reported		N/A	N/A	
As retrospectively restated		N/A	N/A	

(a) Adoption of SSAP 30, "Business Combinations", and SSAP 31, "Impairment of Assets" and Interpretation 13

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets, (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be restated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognized as an expense in the income statement. The amendments to SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirements of SSAP 2 and the transitional provisions in SSAP 30.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves, as at December 31, 2000. As a result, the Group has retrospectively restated its previously reported net loss for the periods ended June 30, 2000 and December 31, 2000 by HK$ nil and HK$122,390 million, respectively, for the impairment of goodwill arising from the acquisition of subsidiaries, associates and jointly controlled companies.

(b) Adoption of SSAP 28, "Provisions, Contingent Liabilities, and Contingent Assets"

SSAP 28 clarifies the measurement and disclosures for provisions, contingent liabilities, and contingent assets.

In performing its assessment of the effects of adopting SSAP 28 (including the potential effects on prior years), the Group determined that its share option agreement with the minority shareholder of a subsidiary company will require the Company to issue, at the option of the holder, 1,003,070,000 new shares of the Company in exchange for the minority shareholder's remaining interests in the subsidiary even though the fair value of that subsidiary had substantially declined since entering into the option agreement in 1999. As a result of the Group's assessment of the prospective financial performance of the core business of that subsidiary since its launch in June 2000, management believes the minority shareholder's exercise of the option is assured. The minority shareholder began exercising its option in 2001. The Company's additional investment in the subsidiary will initially have to be recorded at the fair value of the shares issued. Given the decline in value of the subsidiary, the Company will experience an immediate loss on its additional investment in the subsidiary. Accordingly, the option agreement is considered to be an onerous contract as at December 31, 2000. In accordance with the provisions of SSAP 28, the Group has recorded a provision of HK$3,234 million as at December 31, 2000 relating to its obligation under the share option agreement. The effect of this adjustment has been reported as an adjustment to the balance of accumulated deficit of the Group as at January 1, 2001. Comparative financial information for the year ended December 31, 2000 has not been restated as permitted by the transitional provisions of SSAP 28. Changes in the estimated fair value of the Group's unsettled obligation will be reported as a component of income or expense.

To the extent not anti-dilutive, shares under the option are reflected as outstanding for diluted earnings per share calculations. As of September 6, 2001, the minority shareholder of that subsidiary had exercised options for the issuance of 486,390,000 new shares.

17. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified to conform with the current period's presentation. Further, the 2000 comparative figures presented herewith have incorporated the effect of adjustments resulting from the adoption of new accounting rules as described in Note 16.