

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

1. CORPORATE INFORMATION

During the six months ended 30 September 2001, the Group was engaged in strategic investment holding.

2. BASIS OF PRESENTATION

These financial statements have been prepared on a going concern basis, notwithstanding the Group had net current liabilities position of HK\$19,907,000 as at 30 September 2001. The Directors consider this assumption to be appropriate as the Group has, as at the date the Directors approved the interim report for the six months ended 30 September 2001, a long term secured loan facility of HK\$220 million which is repayable on or before 18 April 2003. As at the date the Directors approved the interim report for the six months ended 30 September 2001, the loan facility was utilised by an amount of HK\$167 million.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2001 except as described below.

Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

In the current period, the Group has adopted, for the first time, the following revised or new SSAPs issued by the Hong Kong Society of Accountants:

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability in the balance sheet. In previous years, the declaration of dividends after the balance sheet date was treated as an adjusting post balance sheet event. Comparative information has been restated to reflect this change in accounting policy.

Segment reporting

SSAP 26 "Segment reporting", which has been adopted for the first time in this interim reporting period, has established principles for reporting the segmental analysis of financial information. The details are set out in note 4.

4. TURNOVER AND CONTRIBUTION TO LOSS FROM OPERATING ACTIVITIES

The Group's turnover for the period was derived predominantly from interest income.

Details of an analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the six months ended 30 September 2001 together with the comparative figures for the corresponding period in year 2000 are as follows:-

	Turnover		Contribution to loss from operating activities	
	Six months ended 30.9.2001 HK\$'000	Six months ended 30.9.2000 HK\$'000	Six months ended 30.9.2001 HK\$'000	Six months ended 30.9.2000 HK\$'000
Continuing operations - investment holding arising in Hong Kong	238	2,521	(12,769)	(8,392)
Discontinued operations - trading and manufacturing of telecommunication products arising in the People's Republic of China:-				
Hong Kong	—	2,568	—	(1,975)
Elsewhere	—	1,461	—	(1,124)
	<u>—</u>	<u>4,029</u>	<u>—</u>	<u>(3,099)</u>
	<u>238</u>	<u>6,550</u>	<u>(12,769)</u>	<u>(11,491)</u>

5. OTHER REVENUE

	Six months ended 30.09.2001 HK\$'000	Six months ended 30.09.2000 HK\$'000
Gain on disposal of investments in securities	43	1,031
Underwriting commission income	—	1,526
	<u>43</u>	<u>2,557</u>

6. LOSS FROM OPERATING ACTIVITIES

	Six months ended 30.09.2001 <i>HK\$'000</i>	Six months ended 30.09.2000 <i>HK\$'000</i>
The Group's loss from operating activities is arrived at after charging:-		
Depreciation	10	791
	<u>10</u>	<u>791</u>

7. FINANCE COSTS

The finance costs represent interest on amounts due to a related company and other borrowings wholly repayable within five years.

8. TAX

	Six months ended 30.09.2001 <i>HK\$'000</i>	Six months ended 30.09.2000 <i>HK\$'000</i>
The Group:-		
Hong Kong	—	—
Elsewhere	—	26
Share of tax attributable to associates	11	29
	<u>11</u>	<u>29</u>
Tax charge for the period	11	55
	<u>11</u>	<u>55</u>

No provision for Hong Kong profits tax has been made (six months ended 30 September 2000: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Tax recoverable represents the tax paid in excess of the estimated tax liability for the period.

9. DIVIDENDS

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

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$179,272,000 (six months ended 30 September 2000: HK\$317,905,000), and the weighted average of 5,806,770,004 (six months ended 30 September 2000: 5,806,770,004) ordinary shares in issue during the period.

The diluted loss per share for both periods ended 30 September 2001 and 30 September 2000 have not been presented as the exercise prices of the outstanding share options and warrants of the Company were greater than the market price of the Company's shares prevailing during a substantial period for both periods ended 30 September 2001 and 30 September 2000, and in respect of the remaining parts of both periods ended 30 September 2001 and 30 September 2000, when the exercise of the outstanding share options would have been advantageous, the effect of these potential ordinary shares would be anti-dilutive.

11. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

12. INTEREST-BEARING BORROWINGS

	30.09.2001 HK\$'000	31.03.2001 HK\$'000
Secured other loan repayable on demand (note (a))	810	810
Unsecured other loan repayable within one year	19,000	20,000
Secured other loan repayable in the second year (note (b))	167,467	175,857
	<u>187,277</u>	<u>196,667</u>
Portion classified as current liabilities	(19,810)	(20,810)
	<u>167,467</u>	<u>175,857</u>
Long term portion	<u>167,467</u>	<u>175,857</u>

Notes:

- (a) This secured other loan was advanced from an independent third party which is secured by the pledge of 185,740,000 (or 2% of) issued ordinary shares of China Online (Bermuda) Limited ("China Online"), an associated company of the Group, held by the Group. The secured other loan is repayable on demand and bears interest at 9% per annum.
- (b) This secured other loan was advanced from another independent third party and bears interest at Hong Kong dollar prime lending rate plus 3% per annum and is repayable on or before 18 April 2003.

The loan is secured by:

- (i) the pledge of 3,000,000,000 (or 32.31% of) issued ordinary shares of China Online held by the Group;

- (ii) corporate guarantees executed jointly and severally by certain subsidiaries of the Company; and
- (iii) a share mortgage of certain subsidiaries of the Company which hold the Group's land held for development, which has a carrying value amounting to HK\$80 million as at 30 September 2001.

13. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30 September 2001 and 31 March 2001	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 30 September 2001 and 31 March 2001	<u>5,806,770,004</u>	<u>580,677</u>

Pursuant to resolutions passed at an extraordinary general meeting of the Company held on 11 July 2001 (the "Extraordinary General Meeting"), the authorised share capital of the Company was approved to reduce from HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each, to HK\$100,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.01 each, and then increased to HK\$200,000,000 by the creation of 10,000,000,000 new ordinary shares of HK\$0.01 each, both subject to the conditions of the proposed reduction of share capital of the Company (the "Capital Reduction") as set out in the Company's circular dated 18 June 2001 being fulfilled.

In addition, pursuant to a resolution passed at the Extraordinary General Meeting, the issued and fully paid up share capital of the Company was also proposed to be reduced from approximately HK\$580,677,000, divided into 5,806,770,004 ordinary shares of HK\$0.10 each, to approximately HK\$58,067,700, divided into 5,806,770,004 ordinary shares of HK\$0.01 each, subject to the conditions of the Capital Reduction being fulfilled.

On 13 November 2001 (Cayman time) and 15 November 2001, the Capital Reduction was approved by the Grand Court of the Cayman Islands and the listing committee of the Stock Exchange, respectively, and the Capital Reduction became effective on 15 November 2001 (Cayman time).

14. DEFICITS

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Asset revaluation reserve/ (deficit) <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Accumulated deficits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
At 1 April 2000	738,558	7,700	—	340,435	(343)	(8,407)	(243,910)	834,033
Arising on consolidation of associates	—	—	31,010	(390,198)	66	—	(10,728)	(369,850)
Arising on disposal of subsidiaries	—	—	—	—	343	8,407	—	8,750
Net loss for the year	—	—	—	—	—	—	(564,070)	(564,070)
At 31 March 2001 and 1 April 2001	738,558	7,700	31,010	(49,763)	66	—	(818,708)	(91,137)
Share premium set off against accumulated deficits	(738,558)	—	—	—	—	—	738,558	—
Arising on consolidation of associates	—	—	—	(21,780)	(159)	—	—	(21,939)
Reversal of goodwill eliminated directly against retained profits in the prior year	—	—	—	—	—	—	10,728	10,728
Net loss for the period	—	—	—	—	—	—	(179,272)	(179,272)
At 30 September 2001	—	7,700	31,010	(71,543)	(93)	—	(248,694)	(281,620)

15. COMMITMENTS

	30.09.2001 <i>HK\$'000</i>	31.03.2001 <i>HK\$'000</i>
Capital commitments in respect of investments in subsidiaries contracted but not provided for	<u>12,732</u>	<u>12,732</u>

The Company had no significant commitments as at 30 September 2001.

16. LITIGATION

Save and except for the matters specified in the last annual report for the year ended 31 March 2001, the Group is not engaged in any further litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

17. RELATED PARTY TRANSACTIONS

	Six months ended 30.09.2001 HK\$'000	Six months ended 30.09.2000 HK\$'000
Interest expense payable to a related company (<i>note (a)</i>)	189	189
Reimbursement of expenses from an associate (<i>note (b)</i>)	3,000	3,000
Underwriting commission received from an associate (<i>note (c)</i>)	<u>—</u>	<u>1,526</u>

Notes:-

- (a) As at 30 September 2001, the amount due to Wonson Investments Limited ("Wonson"), a company beneficially owned by Mr. Chiu Tao, a non-executive director of the Company, amounted to HK\$5,059,000. The balance due to Wonson is unsecured and bears interest at 12% per annum. Wonson has undertaken not to demand any repayment until 1 October 2002.
- (b) For the six months ended 30 September 2001, the Company received a reimbursement of expenses of HK\$3,000,000 from China Online. The reimbursement includes salaries of two directors of China Online who are also the directors of the Company, other staff costs and daily operating expenses. The reimbursement is charged based on the actual cost incurred by the Company.
- (c) On 2 June 2000, the Group acquired 637,148,000 warrants (equivalent to 34.32% of the total outstanding warrants) of China Online at a price of HK\$0.05 per warrant on the basis of one warrant for every five existing shares held. Furthermore, the Group acquired 890,292,547 additional warrants of China Online on the same date pursuant to an underwriting agreement dated 24 March 2000, which was amended by a supplementary agreement dated 18 April 2000. The total underwriting commission received from China Online was approximately HK\$1,526,000. The underwriting commission was based on 2.5% of the total issue price of the warrants underwritten by the Company.
- (d) On 12 April 2000, the Group transferred a 4% equity interest in Golden Cellular Communications, Limited to Beijing Hua Xun Communication Development Group Corporation ("Hua Xun"), a former minority shareholder of a disposed subsidiary, to settle the amount due to Hua Xun of approximately HK\$5,440,000. The gain arising from the disposal of this investment was approximately HK\$699,000.