

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the Board of Directors is included on page 12.

This interim financial report 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 HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 April 2002.

The same accounting policies as adopted in the 2001 annual financial statements have been applied to the interim financial report. The Group has adopted the new and revised Statements of Standard Accounting Practice (“SSAPs”) which became effective on 1 January 2002. The adoption of these new and revised SSAPs has no material effect on the Group’s financial results for the six months ended 30 June 2002 except as disclosed in note 15.

2 SEGMENTAL INFORMATION

The principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial period were as follows:

Principal activities

	Group turnover		Contribution to loss from operations	
	Six months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Provision of telecommunications and data bureau services	53,602	228,165	(22,598)	6,347
Recreational club operation	12,086	13,806	(5,240)	(5,695)
Investment holding and trading of securities	7,323	25,507	(18,906)	(21,136)
Provision of e-commerce enabling technologies	—	—	(643)	(17,343)
	<u>73,011</u>	<u>267,478</u>	<u>(47,387)</u>	<u>(37,827)</u>
Other group expenses			(2,218)	(4,983)
			<u>(49,605)</u>	<u>(42,810)</u>

Geographical locations of operations

	Group turnover	
	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
Hong Kong Special Administrative Region ("HKSAR")	18,616	38,431
The People's Republic of China (excluding HKSAR)	1,734	1,271
Japan	18,695	88,507
Other Asia Pacific regions	2,972	13,514
Europe	27,160	44,688
North America	2,575	72,976
Others	1,259	8,091
	<u>73,011</u>	<u>267,478</u>

3 LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2002	2001
	\$'000	\$'000
Amortisation of goodwill	907	—
Depreciation	6,442	7,001
Dividend income	(1,259)	(1,882)
Interest income	(6,064)	(23,650)
Interest on borrowings	1,354	3,458
Net exchange gain	(336)	(289)
Net loss on disposal of fixed assets	44	2,058
Net realised and unrealised loss on investments in securities	<u>18,721</u>	<u>46,667</u>

4 TAXATION

Taxation included in the consolidated income statement represents reversal of overseas taxation over-provided in prior years.

No provision for profits tax has been made in the consolidated income statement for the six months ended 30 June 2002 as companies in the Group 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.

5 LOSS PER SHARE

(a) *Basic loss per share*

The calculation of basic loss per share is based on the loss attributable to shareholders of \$50,888,000 (2001: \$46,258,000) and the number of 1,650,658,000 (2001: 1,650,658,000) ordinary shares in issue during the period.

(b) *Diluted loss per share*

The potential issue of ordinary shares in connection with the Company's share options would not give rise to an increase in loss per share and therefore had no dilutive effect on the calculation of the diluted loss per share.

6 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 2001.

7 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 2002 \$'000	At 31 December 2001 \$'000
0 - 1 month	5,456	14,474
2 - 3 months	8,594	9,724
Over 3 months	9,649	1,945
Total trade receivables	<u>23,699</u>	<u>26,143</u>
Deposits, prepayments and other receivables	<u>43,203</u>	<u>44,943</u>
	<u>66,902</u>	<u>71,086</u>

The Group maintains a defined credit policy for its trade customers and the credit terms given vary according to the business activities. The financial strengths of and the period of business with individual customers are considered in arriving at respective credit terms. Reviews of major receivables are conducted regularly.

8 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of \$73,323,000 (2001: \$67,541,000). All trade payables are due within one month.

9 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 fees. At 30 June 2002, the Group's debentures were redeemable as follows:

	At 30 June 2002 \$'000	At 31 December 2001 \$'000
Within one year	5,880	11,410
In the second year	3,960	4,440
In the third to fifth year	4,850	2,110
	<u>14,690</u>	<u>17,960</u>
Current liabilities	5,880	11,410
Non-current liabilities	8,810	6,550
	<u>14,690</u>	<u>17,960</u>

All redeemable debentures are non-interest bearing and may be renewed upon maturity subject to the Group's prior consent.

10 SHARE CAPITAL

	At 30 June 2002		At 31 December 2001	
	No. of shares (<i>'000</i>)	\$ <i>'000</i>	No. of shares (<i>'000</i>)	\$ <i>'000</i>
Authorised:				
Ordinary shares of \$0.50 each	<u>2,000,000</u>	<u>1,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of \$0.50 each	<u>1,650,658</u>	<u>825,329</u>	<u>1,650,658</u>	<u>825,329</u>

At 30 June 2002, there were outstanding share options as follows:

Date of grant	Exercise price	Number of options outstanding at the period end
11 October 1999	\$1.528	636,000
22 October 1999	\$1.530	300,000
1 December 1999	\$1.804	144,000
27 March 2000	\$1.900	1,950,000
1 August 2000	\$0.630	552,000
18 September 2000	\$0.670	200,000
		<u>3,782,000</u>

These share options are exercisable at any time before 29 December 2007.

11 RESERVES

	Share premium \$ <i>'000</i>	Capital redemption reserve \$ <i>'000</i>	Exchange reserve \$ <i>'000</i>	Goodwill reserve \$ <i>'000</i>	Accumulated losses \$ <i>'000</i>	Total \$ <i>'000</i>
At 1 January 2001	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>
At 1 January 2002	1,189,721	478	790	(30,000)	(952,754)	208,235
Exchange differences	—	—	338	—	—	338
Loss for the period	—	—	—	—	(50,888)	(50,888)
At 30 June 2002	<u>1,189,721</u>	<u>478</u>	<u>1,128</u>	<u>(30,000)</u>	<u>(1,003,642)</u>	<u>157,685</u>

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

12 CONTINGENT LIABILITIES

One of the telecommunications content providers of a subsidiary issued a letter through its solicitors in March 2002 claiming damages of US\$1,500,000 from that subsidiary in relation to rate changes applied by that subsidiary for services delivered by the content provider. The claimant also disputes traffic volumes generated in the past and claims to have been underpaid by at least US\$2,736,125.

Management is studying the allegations raised and is seeking legal advice on the subsidiary's legal rights and liabilities. To date, the basis of the claims has not been sufficiently specified and, pending legal advice, the Group is unable to establish the legitimacy of such claims. In the meantime, no provision has been made in the financial statements in connection with these claims.

13 MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group earned interest income amounting to \$91,000 (2001: \$238,000) from an associate.

During the period, the Group incurred rental expenses payable to a company controlled by a substantial shareholder of the Company in the amount of \$1,422,000 (2001: \$372,000). The terms of the tenancy agreement were determined on an arm's length basis.

14 POST BALANCE SHEET EVENT

A capital reorganisation scheme was approved by the shareholders at an Extraordinary General Meeting on 11 July 2002 and has subsequently been confirmed by the sanction of an order of the High Court of the Hong Kong Special Administrative Region (the "Court") dated 6 August 2002. The details of the capital reorganisation scheme are as follows:

- (a) the authorised share capital of the Company has been reduced from \$1,000,000,000, divided into 2,000,000,000 ordinary shares of \$0.50 each, to \$20,000,000, divided into 2,000,000,000 ordinary shares of \$0.01 each. Such reduction was effected by cancelling paid up capital per share by \$0.49 on each of the 1,650,658,676 ordinary shares in issue on 6 August 2002, being the date on which the court petition was heard, and by reducing the nominal value of all the issued and unissued ordinary shares of the Company from \$0.50 to \$0.01 per ordinary share; and
- (b) upon such reduction of capital taking effect:
 - (i) the authorised share capital of the Company has been increased to its former amount of \$1,000,000,000 by the creation of an additional 98,000,000,000 ordinary shares of \$0.01 each; and
 - (ii) a Special Capital Reserve has been created and credited with an amount equal to the credit arising from the said reduction of capital as detailed in (a) above, which amounted to \$808,822,751. Such reserve shall not be treated as realised profit and shall, for as long as the Company shall remain a listed company, be treated as an undistributable reserve. However, the Special Capital Reserve may be reduced by the aggregate of any increase in the issued capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves.

15 COMPARATIVE FIGURES

Comparative figures of the condensed consolidated cash flow statement have been adjusted as a result of the adoption of the revised Statement of Standard Accounting Practice 15 "Cash flow statements". Bank overdrafts and loans repayable within three months and the related pledged deposits have been excluded from the calculation of cash and cash equivalents.