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 the Company's Audit Committee. The unaudited interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The financial statements relating to the financial year ended 31 March 2001 included in the interim financial report do not constitute the Company's statutory accounts for that financial year but are derived from those accounts. Statutory accounts for the year ended 31 March 2001 are available from the Company's principal office in Hong Kong. The auditors have expressed an unqualified opinion on those accounts in their report dated 31 May 2001.

The accounting policies adopted in preparing this interim financial report are consistent with those adopted in preparing the Company's annual accounts for the year ended 31 March 2001.

The notes on the interim financial report include an explanation of events and transactions that the Directors consider are significant to an understanding of the changes in financial position and performance of the Group since the annual accounts for the year ended 31 March 2001.

The Group primarily operates in the telecommunications infrastructure sector in Hong Kong and other regions in the People's Republic of China ("PRC") and is subject to special risks due to the development cost and time involved and fast-changing environment of the sector. As a development stage enterprise, the sustainability of the Group is dependent on its ability to successfully implement its business development plans, which are dependent on, among things, adequate financing being continuously available to the Group to fund the developing operations, before sufficient cash flows are generated from such operations. The interim financial report has been prepared on a going concern basis.

The interim financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary should the going concern basis not be applicable.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

2. Segmental information

An analysis by principal activities and geographical location of the operations of the Group during the financial period is as follows:

	Group turnover Six months ended 30 September		Contribution to loss from operations Six months ended 30 September	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Principal activities:				
Leasing of fibre-optic network	**–**	5,345	**(6,069)**	1,984
Telecommunications and Internet network engineering and related services	**5,133**	5,485	**(8,972)**	(9,754)
Property leasing	**–**	–	**(2)**	(383)
Investments	**–**	–	**(33,150)**	–
	5,133	10,830	**(48,193)**	(8,153)
Corporate overheads			**(6,889)**	(17,051)
			(55,082)	(25,204)
Geographical location of operations:				
Hong Kong	**5,133**	5,443	**(42,003)**	(5,539)
Other areas of the PRC	**–**	5,387	**(6,190)**	(2,614)
	5,133	10,830	**(48,193)**	(8,153)
Corporate overheads			**(6,889)**	(17,051)
			(55,082)	(25,204)

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

3. Other net income

	Six months ended 30 September	
	2001	2000
	$'000	*$'000*
Write-back of provisions in respect of a de-consolidated subsidiary	**3,835**	2,676
Net gain on debt waiver	**–**	3,487
Written back of bad debts provision	**745**	–
Loss on disposal of fixed assets	**(1,891)**	–
Gain/(loss) on disposal of subsidiaries *(Note 4)*	**1,130**	(2,978)
Others	**–**	527
	3,819	3,712

4. Disposal of subsidiaries

On 11 May 2001, the Group's wholly-owned subsidiary, Sportzone.com Company Limited, was deregistered. The deregistration gave rise to a profit of $2 and no net cash inflow. The net liabilities of the subsidiary as at the date of deregistration were $3,000.

On 12 June 2001, the Group sold its investment in a subsidiary, DigiNet Systems Network (Hong Kong) Limited, to independent third parties. This transaction gave rise to a profit of $1,130,000 and a net cash inflow of $2. The net liabilities of the subsidiary as at the date of disposal were $2,776,000.

5. Loss from ordinary activities before taxation

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

	Six months ended 30 September	
	2001	2000
	$'000	*$'000*
(a) Net finance expenses/(income):		
Interest income	**(1,703)**	(1,143)
Interest on bank loans and overdrafts and other loans repayable within five years	**10,954**	1,098
Finance charges on obligations under finance leases	**11**	19
	10,965	1,117
Net finance expenses/(income)	**9,262**	(26)

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2001	2000
	$'000	*$'000*
(b) Other items:		
Cost of stocks	–	251
Staff costs	**7,988**	9,085
Provision for diminution in value of investment securities *(Note 9)*	**33,150**	–
Operating lease charges in respect of properties	**3,037**	2,324
Depreciation		
– owned fixed assets	**7,169**	9,873
– assets held under finance lease	**52**	70

6. Taxation

	Six months ended 30 September	
	2001	2000
	$'000	*$'000*
PRC taxation	–	1,953
Share of associated company's taxation	–	268
	–	2,221

No provision for Hong Kong Profits Tax and PRC taxation has been made as the Group sustained a loss for Hong Kong Profits Tax and PRC tax purposes during the period.

No deferred tax asset in respect of unutilised tax losses carried forward, which are available to set off against future assessable profits, has been recognized as it is uncertain that these tax losses will be utilised in the foreseeable future.

7. Dividend

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 September 2001 (2000: Nil).

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

8. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the Group's loss for the period of $64,344,000 (2000: $24,990,000) and on the weighted average number of 10,280,528,000 ordinary shares (2000: 8,874,166,000) in issue during the six months ended 30 September 2001. The weighted average number of shares outstanding for the six months ended 30 September 2000 has been retrospectively adjusted for the effect of the capital reorganization during the period ended 30 September 2001.

(b) Diluted loss per share

Diluted loss per share for both periods are not shown as the potential ordinary shares are anti-dilutive.

9. Investment securities

	$'000
Unlisted shares as at 1 April 2001 and 30 September 2001, at cost	**151,200**
Provision for diminution in value of investment securities	
At 1 April 2001	**(76,050)**
Additions for the period	**(33,150)**
At 30 September 2001	**(109,200)**
Net book value as at 30 September 2001	**42,000**
Net book value as at 31 March 2001	**75,150**

As at 30 September 2001, net book value of investment securities of $42,000,000 was reclassified as current assets. As at 30 September 2001, the Group's holding of short term investment securities represents an investment of a 21.8% equity interest in Kanssen Limited ("Kanssen"), a company incorporated in the British Virgin Islands.

The Directors consider that the Group does not have any significant influence on Kanssen. The board of directors of Kanssen is controlled by its majority shareholder, which owns a 78.2% equity interest in Kanssen. After the balance sheet date, the Group has disposed of all its equity interests in Kanssen to an independent third party at a consideration of $56,000,000.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

10. Trade and other receivables

An ageing analysis of trade receivables included in trade and other receivables is as follows:

	Note	At 30 September 2001 $'000	At 31 March 2001 $'000
Within 3 months		**384**	1,959
More than 3 months but less than 12 months		**854**	23
Total trade receivables	*(a)*	**1,238**	1,982
Deposits, prepayments and other receivables	*(b)*	**3,212**	2,193
		4,450	4,175

Notes:

(a) The credit terms granted to customers by the Group range from 14 days to 90 days.

(b) All of the deposits, prepayments and other receivables are expected to be recovered within one year.

11. Cash and cash equivalents

	At 30 September 2001 $'000	At 31 March 2001 $'000
Cash at banks and in hand	**788**	1,500

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

12. Convertible bonds

	Note	At 30 September 2001 $'000	At 31 March 2001 $'000
Short term			
4% convertible bonds	*(a)*	**23,614**	23,614
Long term			
4% convertible bonds	*(a)*	**631**	631
5% convertible bonds	*(b)*	**80,000**	–
		80,631	631

Notes:

(a) The convertible bonds ("4% Bonds") bear interest at a fixed rate of 4% per annum to be paid bi-annually. Part of the 4% Bonds of $23,614,000 are convertible after 15 March 2001 but on or before 14 March 2002 and the remaining $631,000 are convertible after 14 April 2002 but on or before 13 April 2003 into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of $0.10 per share (the "4% Conversion Price"). After the capital reorganization (note 14(c)), the 4% Conversion Price was adjusted to $0.05 per share. In the event of full conversion of the 4% Bonds at the adjusted 4% Conversion Price, 484,899,000 new ordinary shares of the Company would be issued. Any 4% Bonds not converted into ordinary shares by the end of the above mentioned exercise period will be repaid to bondholders.

(b) The convertible bonds ("5% Bonds") of $100,000,000 which were issued on 26 June 2001 bear interest at a fixed rate of 5% per annum to be paid bi-annually. The 5% Bonds are convertible on any business day, prior to 5 business days prior to 25 June 2004 into ordinary shares of the Company. Prior to 30 days from the issue of the 5% Bonds, the 5% Bonds are convertible into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of $0.10 per share (the "5% Conversion Price"). On or after 30 days from the issue of the 5% Bonds, the 5% Bonds are convertible into ordinary shares of the Company at the lower of the 5% Conversion Price or the floating conversion price (being 93% of the arithmetic average of any 4 closing prices per share during the 20 consecutive trading days immediately prior to the relevant exercise date), provided that if such price shall be less than the nominal value of the share, the nominal value of the share. On 29 June 2001, the conversion rights in the aggregate amount of $20,000,000 were exercised and 200,000,000 ordinary shares of $0.10 each in the Company were allotted and issued to the bondholder at the 5% Conversion Price. After the capital reorganization (note 14(c)), the 5% Conversion Price was adjusted to $0.05 per share. In the event of full conversion of the remaining 5% Bonds at the adjusted 5% Conversion Price, 1,600,000,000 new ordinary shares of the Company would be issued. Any 5% Bonds not converted into ordinary shares by the end of the above mentioned exercise period will be repaid to the bondholder.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

13. Trade and other payables

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

	At 30 September 2001 **$'000**	At 31 March 2001 *$'000*
Trade payables:		
Due within one month or on demand	**1,037**	1,260
Other payables and accrued charges	**32,465**	29,002
	33,502	30,262

14. Share capital

	Note	**Number of shares** ***'000***	*$'000*
Issued and fully paid:			
At 1 April 2001		**5,037,532**	503,753
Issue of shares under conversion of convertible bonds *(note 12)*		**200,000**	20,000
Capital reorganization	*(c)*	**5,237,532**	(419,002)
At 30 September 2001		**10,475,064**	104,751

Notes:

(a) Warrant subscription rights

Pursuant to an ordinary resolution passed on 10 January 2000, a bonus issue of warrants was issued to the Company's shareholders at 31 January 2000, in the proportion of one warrant for every five shares of $0.10 each, entitling the holders thereof to subscribe in cash for new shares at a subscription price of $0.38 per share up to 3 February 2003. After the capital reorganization (note (c)), the subscription price was adjusted to $0.19 per share.

During the period, none of these warrants were exercised. Exercise of the remaining warrants in full would result in the issue of an additional 1,489,962,000 shares for $283,093,000.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

(b) Share options

Pursuant to a share option scheme passed by a special resolution of the members of the Company at a special general meeting held on 30 June 2000, options to purchase ordinary shares in the Company (the "Options") will be granted at a nominal consideration to eligible employees of the Group, including executive directors. The exercise price is a price to be determined by the Directors, being the higher of a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five business days immediately preceding the date on which the Options is offered to the employees; or the nominal value of the ordinary shares of the Company.

Pursuant to a board resolution dated 12 July 2000, the Company granted Options to certain of its employees, at an aggregate consideration of $37, for subscribing a total of 29,550,000 ordinary shares of the Company at a price of $0.25 per share during the period from 12 July 2001 to 11 July 2005, both dates inclusive. After the capital reorganization (note (c)), the subscription price was adjusted to $0.125. None of these Options have been exercised up to 30 September 2001. As at 30 September 2001, the number of share options outstanding is 35,800,000.

(c) Capital reorganization

Pursuant to a special resolution passed on 11 August 2001, a capital reorganization was undertaken which involved share subdivision on the basis that every issued and unissued share of $0.10 each in the capital of the Company was divided into two subdivided shares of $0.05 each and the nominal value of each of the subdivided shares in issue was reduced from $0.05 to $0.01 by cancelling $0.04 paid up on each issued subdivided share. Every unissued subdivided share of $0.05 each was further divided into five new shares of $0.01 each.

15. Reserves

	Note	**Share premium** *$'000*	**Capital reserve** *$'000*	**Accumulated losses** *$'000*	**Total** *$'000*
At 1 April 2001		1,973,962	–	(1,965,501)	8,461
Capital reduction	*14 (c)*	–	419,002	–	419,002
Loss for the period		–	–	(64,344)	(64,344)
At 30 September 2001		**1,973,962**	**419,002**	**(2,029,845)**	**363,119**

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

16. Commitments

(a) Commitments under operating leases

The Group leases a number of properties under operating leases. The leases run for periods from 1 year to 3 years. At 30 September 2001, the total future minimum lease payments under non-cancellable leases are payable as follows:

	At 30 September 2001 $'000	At 31 March 2001 $'000
Within 1 year	3,985	8,366
After 1 year but within 5 years	418	9,122
	4,403	17,488

(b) Capital commitments outstanding not provided for in the Group's accounts

	At 30 September 2001 $'000	At 31 March 2001 $'000
Contracted for	–	139

(c) Other commitments

As at 30 September 2001, the Group committed to make capital contributions totaling $182,000,000 toward certain subsidiaries in the PRC.

17. Contingencies

(a) Contingent gain

Pursuant to a conditional sale and purchase agreement in connection with the acquisition of Kanssen dated 23 June 1999, the vendors of Kanssen guarantee and undertake to the Group that the consolidated net profit attributable to shareholders of Kanssen and its subsidiaries (the "Kanssen Group") for each of the financial years ended/ending 30 June 2000, 30 June 2001 and 30 June 2002 as shown in the audited consolidated accounts of the Kanssen Group, shall not be less than $45,000,000, $60,000,000 and $80,000,000, respectively (the "Guarantee Profits"). The vendors will indemnify the Group's share of the shortfall between the actual profits and the Guarantee Profits in cash. The share of Guarantee Profits attributable to the Group has not been reflected in the Group's consolidated profit and loss account for the period ended 30 September 2001 as the audited accounts of the Kanssen Group for the financial year ended 30 June 2000 and 30 June 2001 are not yet available up to the date of this interim report. The Group's share of the Guarantee Profits was assigned to the buyer upon the completion of the disposal of the Group's entire interest in Kanssen.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

(b) Bank guarantees

As at 30 September 2001, corporate guarantees given by the Company to banks in respect of banking facilities granted to certain subsidiaries amounted to $12,513,000 (31 March 2001: $14,021,000).

18. Outstanding litigations

Significant litigations outstanding as at 30 September 2001 and up to the date of this interim report are summarised as follows:

(a) The Group

(i) On 21 September 1999, a former director of the Company, Mr Wong Chong Shan, commenced proceedings in the High Court against the Company claiming a sum of $5,000,000. Mr Wong Chong Shan alleged that he paid the said sum on the Company's behalf in August 1997 to a third party as deposit and that the Company failed to make repayment to him. The Company has filed a defence against these legal proceedings. The Company has also commenced third party proceedings against the third party who has allegedly received the said sum. The third party has filed a notice of intention to defend the third party proceedings. The Directors have considered the matter and take the view that since no positive steps have been taken by Mr Wong Chong Shan to prosecute the action since 10 December 1999 and third party proceedings have been instituted by the Company against the third party, it is not necessary at this stage to make a provision in the accounts for these proceedings.

(ii) Litigation was commenced in October 2001 by Wing Siu Company Limited (as landlord) against one of the subsidiaries of the Company, Supreme Park Limited (as tenant), for the arrears of rent and damages in the total sum of $1,446,000. No defence was filed for this legal proceeding. In the opinion of the Directors, all material contingent liabilities in respect of this legal proceeding have been reflected in the accounts.

(b) De-consolidated subsidiaries

Litigation was commenced in January and May 1998 by Winsworld Properties Limited ("Winsworld") against two of the then wholly owned subsidiaries of the Company, Hon Hin Investment Company Limited ("Hon Hin") (as tenant) and Hwa Kay Thai Marketing Services Limited ("HKTMS") (as guarantor), for the arrears of rental and service charges allegedly due from them. The amount claimed in each action was approximately $4,000,000 plus interest and costs. These subsidiaries have filed their defences with or without counterclaim in each action. As a winding-up order was made against Hon Hin on 5 May 1999, all proceedings against Hon Hin are stayed. Hon Hin was liquidated on 8 September 2000.

No corporate guarantee has been provided by the Company to Hon Hin and HKTMS. In the opinion of the Directors, all material contingent liabilities in respect of these legal proceedings have been reflected in the accounts.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

19. Material related party transactions

In the opinion of the Directors, no material transactions with related parties were carried out during the period ended 30 September 2001 (2000: Nil).

20. Post balance sheet event

(a) The operation of the data centre in Kwun Tong was terminated in November 2001. The data centre was leased from a third party with the lease agreement expiring on 2 January 2003. As a result of earlier termination of the lease agreement, the Directors consider that all material liabilities or provisions have properly been reflected in the accounts and there is no significant contingent liability to the Group.

(b) On 5 November 2001, the Group agreed to accept 50,000,000 shares with a nominal value of $0.10 per share (representing approximately 5% shareholding) of DigiTel Group Limited ("DigiTel"), which shares are listed on the Stock Exchange as the full and final settlement of the loan due from Netpolis Communications Limited ("Netpolis") of $15,811,000. The market value of 50,000,000 shares of DigiTel as at 5 November 2001 was $14,250,000. The Group previously made a provision of $14,273,000 against the loan due from Netpolis as at 30 September 2001. As a result, a reversal of the provision to the extent of $14,250,000 will be recorded by the Group.

(c) On 12 October 2001, the conversion rights attached to the 5% Bonds in the aggregate amount of $9,000,000 were exercised and 600,000,000 ordinary shares of $0.01 each in the Company were allotted and issued to the bondholder at $0.015 per share, being the product of the arithmetic average of the highest 4 closing prices of $0.0165 per share during the 20 consecutive trading days immediately prior to 12 October 2001 and 93%.

(d) On 22 October 2001, the conversion rights attached to the 5% Bonds in the aggregate amount of $6,000,000 were exercised and 375,000,000 ordinary shares of $0.01 each in the Company were allotted and issued to the bondholder at $0.016 per share, being the product of the arithmetic average of the highest 4 closing prices of $0.0175 per share during the 20 consecutive trading days immediately prior to 22 October 2001 and 93%.

(e) On 5 November 2001, the conversion rights attached to the 5% Bonds in the aggregate amount of $6,000,000 were exercised and 400,000,000 ordinary shares of $0.01 each in the Company were allotted and issued to the bondholder at $0.015 per share, being the product of the arithmetic average of the highest 2 closing prices and the lowest 2 closing prices of $0.0165 per share during the 20 consecutive trading days immediately prior to 5 November 2001 and 93%.

21. Comparative figures

Certain comparative figures in respect of non-current other loans, non-current other payable, other revenue, other operating expenses and net finance income/expenses have been reclassified in order to conform with the presentation of the current period.