

## **INTERIM REPORT AND CONDENSED ACCOUNTS FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2002**

### **CHAIRMAN'S STATEMENT**

The telecommunications industry is rapidly changing and only those who can foresee and react will emerge a winner. Whilst our competitors were still chasing after online content provision and system integration businesses two years ago, we had decided on a new business strategy where content provision and e-commerce were de-emphasized. This reflects our belief that these businesses would not bring reasonable return and revenue in the next few years. The Group turned to embark on building a telecommunications infrastructure and establish a state-of-the-art Internet Protocol (IP) network in Hong Kong. This IP network enables in-house wire connectivity which allows us to transmit voice, Internet data and TV signal through a single network made up of optical fibre or Cat5E copper wire. At present, this network has already been extended to more than 2,000 residential buildings in Hong Kong. To our knowledge, our network possesses such a sophisticated design and is capable to provide higher quality than other networks in Hong Kong.

During the period under review, the two core businesses of our Group – IDD and fixed network services – recorded impressive performance. This can be attributed to two main factors. First, the Group continued to commit substantial investment in IDD and local fixed network services in a less severe market with some competitors already faded out compared to two years ago. Second, the Group's investment in the telecommunications infrastructure in the past two years (including two submarine cables and a fixed network) began to bear fruits and helped to lower operating costs and bring substantially improved returns. We believe the financial performance of the Group will continue to improve in the years ahead.

### **INTERIM DIVIDEND**

The directors do not recommend the payment of interim dividend for the six months ended 28th February 2002 (2001: HK\$0.01 per ordinary share totaling HK\$4,907,000).

### **FINANCIAL REVIEW**

During the period under review, steady growth in both of our IDD and fixed network businesses and effective cost control measures have resulted in growth in both turnover and profits. Turnover was HK\$545 million compared to HK\$509 million of the same period last year. Operating profit was HK\$50 million, compared to HK\$7 million of the last corresponding period while profit attributable to shareholders grew to HK\$43 million from HK\$6 million of the last corresponding period.

Evidenced of our success in striving for cost efficiency, operating expenses at the Group level dropped 5% to HK\$500 million from HK\$528 million of the last corresponding period. IDD, one of our core businesses, contributed HK\$451 million to the Group's turnover and HK\$108 million in operating profit. The fixed network service has shown significant improvement of 26% to reach HK\$94 million in turnover, contributed by aggressive marketing plans to gain customers for broadband access. During the period, the fixed network business incurred an operating loss of HK\$58 million.

As at 28 February 2002, the Group had cash and bank balances of HK\$375 million and outstanding borrowing of HK\$45 million. Capital expenditure was HK\$340 million during the period, the majority of which, approximately HK\$252 million, was for developing the fixed network and another HK\$81 million was allocated for financing the construction of the Group's two submarine cables cooperated with other international carriers. This installation and enhancements will require on-going capital expenditure which will be met by internal reserves if necessary.

## **BUSINESS REVIEW**

### ***International Telecommunications Services – the fall of dusk or the crack of dawn?***

To many, the IDD business has become nothing but a sunset industry faced with fierce competition and aggressive price-cutting. This gloomy picture may be the case for some large network providers but not us. The overall IDD market grew 27% over the past 3 years, while our IDD business outperformed this by a wide margin with traffic volume surged by 53% for the same period. Operating profit was HK\$80 million in 1999, HK\$147 million in 2001 and has reached HK\$108 million in the first half of this year. We believe that, not only have we outrun the market but also other IDD service providers as well.

Apart from disciplined cost control measures and aggressive marketing strategies, our Group has also progressively introduced a host of new value-added services to enlarge the revenue base. All these favourable factors with reduced competitive pressure contributed to the strong income of the Group. During the period under review, the international telecommunications business alone generated about HK\$122 million cash income from operation. The management predicts the income growth will sustain in the second half of the year.

As such, what is the fall of dusk to others is the crack of dawn to us. Leveraging on our achievement, we will continue to ride on our robust business model to increase operating profits, and strive to become the largest IDD service provider in Hong Kong.

### ***Fixed Network Services***

In April this year, the Group received a wireline-based fixed network services license from OFTA. Our optical fibre and copper wire network now covers more than 2,000 residential and 400 commercial buildings. Over 9,000 Cisco IP switches have been installed, successfully introduced the Ethernet LAN technology into residential buildings which enables us to provide higher quality services in terms of network capacity and transmission speed. Substantial investment of this scale fully demonstrates our commitment to become the leading fixed network services operator in the territory.

The Group achieved outstanding growth in the fixed network business during the past year. Since 2002, the number of subscribers increased at a rate of 12,000 a month on average. As at the end of April 2002, our Group's broadband business had over 85,000 residential customers and 5,000 corporate customers. Taken as a whole, our network has spanned more than 2,400 buildings with 800,000 residential homepass. Under our strategy of driving network expansion in full swing, we expect that our network coverage will reach 1.2 million residential homepass and 600 commercial buildings by the end of 2002.

Complementing our advanced network technology, which gives us high network quality, is our ability to contain construction cost at a low level. The cost advantage enables us to adopt aggressive pricing strategy to attract customers and still maintain reasonable profit margin. For instance, at HK\$68 a month, our local voice service package returns a gross profit of 50%. For our broadband business, in March 2002, the average income from each residential customer was HK\$140, bringing in a gross margin of 80%. However, equivalent service plans offered by the other three fixed network operators will require HK\$42 in cost for Type II interconnection with possibility of relying on the network capacity of the major operator. Such difference in cost structure gives us an unrivalled position in the market.

Our strategy of offering low price to maximize sales has helped to improve our business performance. It enables us to stand out in the market effectively and captures market share and customer base quickly. It also helps us to maintain a reasonable level of profits and accelerates the return on our investment. Competing in price is something we know best. Our low-price strategy in IDD business has helped us muscle in the market and successfully scooped a leadership position within a short span of time. Applying this strategy to other businesses will give us clear advantages and may build a high barrier to our competitors, inhibiting their intention to invest and compete.

Apart from IDD business, the Group's fixed network business consists of four parts: dialup and broadband Internet access, local telephone services, pay TV broadcast and local and international data lease lines. Having launched the Internet access services for over two years, we have established a firm position in the market. Apart from continuing to develop our broadband Internet access business, we will focus on building a presence in the local telephone market in the next year while seizing market opportunities in pay TV and data lease lines business as they arise.

The next five years will be critical for the local fixed network market. With rapid changes to occur, it is expected that no single operator can maintain a leadership position and amass more than 50% share in any service segment.

## PROSPECTS

Many people think telecom industry is a money game. Those with deep pocket can afford heavy capital investment and outlast others in price wars. This is a grossly oversimplified view. Our industry requires a smart use of technology. Without that, heavy capital spending does not guarantee an advanced technology platform. The fact that no other fixed network providers have massively introduced Ethernet LAN technology to the domestic market will illustrate this point. And at times of price war where income and profit are driven down, the larger the investment, the harder it is to breakeven. Especially for companies with high gearing, they would find it difficult even to maintain operating profit to cover interest and network maintenance expenses.

The strategy of our Group in the last ten years was to first enlarge market share, then invest in infrastructure and reduce operating cost. This strategy proves right. It helps us to escape from the dilemma of having committed huge investments, only to realize there is no market to justify it.

In the next five years, we will stay pragmatic and pursue businesses of high return, yet overlooked by others. Basic telecommunications service is one of such businesses. Take residential telephone market as an example, the current leading service provider is making HK\$200 million in turnover a month. Although the overall market growth is limited, we believe that if we can offer services at 30% to 40% lower than the market rate, we can gain 20% market share. In just three year's time, we can recuperate our up-to-date investment in the fixed network.

Like the two mice in the book *"Who Moved My Cheese?"* by Spencer Johnson, M.D., our entire management and staff possesses a strong market sense and is swift in action when there comes new business opportunities in every market change. With a high quality team and a determination to meet every single challenge, we are confident that we can embrace the changes, grasp the opportunities and breakthrough in the competition and further consolidate our market position.

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2002

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 28th February 2002. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of recognised gains and losses of the Group for the six months ended 28th February 2002, and the consolidated balance sheet as at 28th February 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 5 to 18 of this report.

		<b>Unaudited Six months ended 28th February</b>	
	<i>Note</i>	<b>2002 HK\$'000</b>	<b>2001 HK\$'000</b>
Turnover	2	544,910	509,444
Cost of service provided		(240,115)	(321,485)
Gross profit		304,795	187,959
Other revenues		4,874	25,126
Other operating expenses	3	(259,584)	(206,252)
Operating profit	4	50,085	6,833
Finance costs		(1,057)	(1,584)
Profit before taxation		49,028	5,249
Tax charge	5	(14,391)	(4,616)
Profit after taxation		34,637	633
Minority interests		8,109	5,184
Profit attributable to shareholders		42,746	5,817
Dividend	6	–	4,907
Basic earnings per share	7	8.7 cents	1.2 cents
Fully diluted earnings per share	7	7.7 cents	1.2 cents

**CONDENSED CONSOLIDATED BALANCE SHEET  
AT 28TH FEBRUARY 2002**

	<i>Note</i>	<b>Unaudited 28th February 2002 HK\$'000</b>	<b>Audited 31st August 2001 HK\$'000</b>
Goodwill	8	3,448	–
Fixed assets	9	711,048	427,396
Prepayments for fixed assets		–	54,929
Restricted bank deposits	10	3,000	13,000
Current assets			
Accounts receivable	11	98,375	100,164
Other receivables, deposits and prepayments		33,101	19,970
Restricted bank deposits	10	17,500	15,000
Cash and bank balances		375,334	514,159
		<u>524,310</u>	<u>649,293</u>
Current liabilities			
Accounts payable	12	243,123	135,766
Other payables and accrued charges		27,121	87,847
Deposits received		13,849	16,087
Deferred service income		4,762	3,047
Current portion of long-term liabilities	13	4,404	4,410
Taxation payable		30,146	24,380
Bank overdrafts – unsecured		17,145	26,409
		<u>340,550</u>	<u>297,946</u>
Net current assets		<u>183,760</u>	<u>351,347</u>
Total assets less current liabilities		<u>901,256</u>	<u>846,672</u>
Financed by:			
Share capital	14	49,463	49,107
Reserves	15	812,092	756,199
Shareholders' funds		861,555	805,306
Minority interests		6,607	10,407
Long-term liabilities	13	33,094	30,959
		<u>901,256</u>	<u>846,672</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2002**

	<b>Unaudited Six months ended 28th February</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	134,349	(28,086)
Net cash inflow from returns on investment and servicing of finance	3,930	19,690
Total taxation paid	(4,305)	(21)
Net cash (outflow)/inflow from investing activities	<u>(264,847)</u>	<u>66,636</u>
Net cash (outflow)/inflow before financing	(130,873)	58,219
Net cash inflow from financing	<u>8,971</u>	<u>20,784</u>
(Decrease)/increase in cash and cash equivalents	(121,902)	79,003
Cash and bank balances at 1st September	467,750	460,628
Effect on foreign exchange rate changes	<u>2,341</u>	<u>2,261</u>
Cash and bank balances at 28th February	<u><b>348,189</b></u>	<u><b>541,892</b></u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	164,358	70,614
Bank deposits	200,976	508,092
Bank overdrafts – unsecured	<u>(17,145)</u>	<u>(36,814)</u>
	<u><b>348,189</b></u>	<u><b>541,892</b></u>

**CONDENSED STATEMENT OF RECOGNISED GAINS AND LOSSES  
FOR THE SIX MONTHS ENDED 28TH FEBRUARY 2002**

		<b>Unaudited Six months ended 28th February</b>	
		<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>		
Exchange differences arising on translation of accounts of overseas subsidiaries not recognised in the profit and loss account	15	(2,341)	2,261
Profit for the period	15	42,746	5,817
Total recognised gains and losses		40,405	8,078



## NOTES TO CONDENSED CONSOLIDATED INTERIM ACCOUNTS

### 1 Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("HKSSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

These condensed interim accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st August 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

(a) *SSAP 9 (revised): Events after balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As the Group did not distribute any final dividend for the year ended 31 August 2000 and 31 August 2001, no adjustment had been made on the opening retained earnings at September 2001 and September 2002.

(b) *SSAP 26: Segment Reporting*

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(c) *SSAP 30: Business Combinations*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company/joint venture at the date of acquisition. Goodwill on acquisitions occurring on or after 1st September 2001 is separately shown on the condensed consolidated balance sheet and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st September 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a period of not more than 20 years.

## 2 Segment information

The Group is principally engaged in the provision of international telecommunications services to customers in Hong Kong, Japan and Canada, and fixed telecommunications network services to customers in Hong Kong and Canada.

(a) Business segments:

The group is organised on a worldwide basis into three business segments:

*International telecommunications* – provision of international long distance calls services

*Fixed telecommunications network* – provision of dial up and broadband internet access services, and local IP telephony services

*Internet advertising* – provision of internet advertising services

### Six months ended 28th February 2002

	<b>International telecommuni- cations services</b> <i>HK\$'000</i>	<b>Fixed telecommuni- cations network services</b> <i>HK\$'000</i>	<b>Group</b> <i>HK\$'000</i>
Revenues	450,785	94,125	544,910
Segment results	107,984	(57,899)	50,085
Finance costs			(1,057)
Profit before taxation			49,028
Taxation			(14,391)
Minority interests			8,109
Profit attributable to shareholders			42,746

### Six months ended 28th February 2001

	<b>International telecommuni- cations services</b> <i>HK\$'000</i>	<b>Fixed telecommuni- cations network services</b> <i>HK\$'000</i>	<b>Internet advertising</b> <i>HK\$'000</i>	<b>Group</b> <i>HK\$'000</i>
Revenues	433,616	74,838	990	509,444
Segment results	49,602	(31,480)	(11,289)	6,833
Finance costs				(1,584)
Profit before taxation				5,249
Taxation				(4,616)
Minority interests				5,184
Profit attributable to shareholders				5,817

(b) Geographical segment

Although the group's three business segments are managed on a worldwide basis, they operate in three main geographical areas:

*Hong Kong* – international telecommunications, fixed telecommunications network services and internet advertising

*Japan* – international telecommunications

*Canada* – international telecommunications and fixed telecommunications network services

Geographical locations	Turnover six months ended 28th February		Operating Profit six months ended 28th February	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	523,235	486,334	48,701	5,418
Japan	3,930	4,903	(345)	(120)
Canada	17,745	18,207	1,729	1,535
	<u>544,910</u>	<u>509,444</u>	<u>50,085</u>	<u>6,833</u>

Sales are based on the country in which the customer is located.

- (c) In the current period, the Group's internet advertising operation has been discontinued. The revenue and operating loss relating to the internet advertising segment are disclosed above and are included in the Hong Kong reporting segment. The contribution to turnover and the loss from ordinary activities in respect of the discontinued operation, accounted for up to the date of discontinuance, were as follows:

	2002 HK\$'000	2001 HK\$'000
Sales	<u>–</u>	<u>990</u>
Loss from ordinary activities	<u>–</u>	<u>11,363</u>

**3 Other operating expenses**

	Six months ended 28th February	
	2002 HK\$'000	2001 HK\$'000
Advertising and marketing expenses	69,282	47,355
Amortisation of goodwill	862	–
Depreciation	54,091	36,903
Equipment rental	3,089	5,595
Loss on disposal of fixed assets	546	1,401
Office rental and utilities	8,555	14,410
Provision for doubtful debts	3,709	6,831
Staff cost (including directors' emoluments)	89,789	69,078
Others	30,674	24,679
	<u>260,597</u>	<u>206,252</u>

#### 4 Operating profit

The operating profit is stated after crediting and charging the following:

	<b>Six months ended 28th February</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
<b>Crediting</b>		
Interest income	4,998	21,274
<b>Charging</b>		
Depreciation of owned fixed assets	52,307	34,073
Depreciation of fixed assets under finance leases	1,784	2,830
Amortisation of goodwill	862	–
Loss on disposal of fixed assets	546	1,401
Provision for doubtful debts	3,709	6,831
	<u>3,709</u>	<u>6,831</u>

#### 5 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	<b>Six months ended 28th February</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Hong Kong profits tax – current	16,791	4,600
Overseas taxation	–	16
Overprovisions in prior periods	(2,400)	–
	<u>14,391</u>	<u>4,616</u>

#### 6 Dividend

	<b>Six months ended 28th February</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
2002 Interim – HK\$Nil (2001: HK\$0.01) per ordinary share	–	4,907

## 7 Earnings per share

The basic earnings per share is based on the weighted average of 491,645,268 (2001: 490,439,000) ordinary shares in issue during the period. The diluted earnings per share is based on 491,645,268 (2001: 490,439,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the incremental number of 4,334,405 (2001: 4,775,568) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised, plus the weighted average of 58,475,897 (2001: Nil) ordinary shares deemed to be issued at consideration of HK\$0.4 per share if all outstanding warrants had been exercised.

	<b>Six months ended 28th February</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Profit attributable to shareholders	42,746	5,817
	<b>Number of shares in thousand</b>	<b>Number of shares in thousand</b>
Weighted average number of shares in issue	491,645	490,439
Incremental shares from assumed exercise of share options	4,334	4,776
Weighted average number of shares from assumed exercise of warrants	58,476	-
Diluted weighted average number of shares	554,455	495,215

## 8 Goodwill

	<i>HK\$'000</i>
Increase in shareholding in a subsidiary (Note (i))	4,310
Amortisation charge (Note 4)	(862)
Closing net book amount	3,448
At 28th February 2002	
Cost	4,310
Accumulated amortisation	(862)
Net book amount	3,448
At 31st August 2001	
Cost	-
Accumulated amortisation	-
Net book amount	-

- (i) On 10 January 2002, the Group increased its shareholdings in a subsidiary, Hong Kong Broadband Network Limited, from 85% to 96% through the subscription of shares under a rights issue. The consideration of HK\$169,829,400 was settled in cash.

## 9 Fixed assets

	<i>HK\$'000</i>
Cost	
1st September 2001	621,207
Additions	339,986
Disposals	(1,926)
Exchange adjustments	(1,166)
	<hr/>
28th February 2002	958,101
	<hr/>
Accumulated depreciation	
1st September 2001	193,811
Charge for the period	54,091
Exchange adjustments	(849)
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28th February 2002	247,053
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Net book value	
28th February 2002	711,048
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31st August 2001	427,396
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At 28th February 2002, the net book value of fixed assets held by the Group under finance leases amounted to HK\$5,997,267 (31st August 2001: HK\$13,474,000).

## 10 Restricted bank deposits

As at 28th February 2002, the Group had bank deposits of HK\$17,500,000 and HK\$3,000,000 at a bank as sureties to the Office of the Telecommunication Authority (the "OFTA") for the due performance of the terms of the Wireless Fixed telecommunications Network Services ("WFTNS") Licence and Fixed Carrier License respectively. The amounts of the sureties shall reduce and the deposits be refunded upon satisfying the terms stipulated in these licenses.

Unless the performance of the terms of the licences are satisfied, the bank deposits may be forfeited. As at 28th February 2002, the terms of the licences have been either satisfied by the Group or extended by the OFTA. Further, in April 2002, the OFTA waived certain performance bond obligations relating to the Group's WFTNS License. There were those milestones with a deadline for compliance falling due in 2003 for which the related bonds totalled to HK\$10 million.

## 11 Accounts receivable

The aging analysis of the accounts receivable is as follows:

	<b>28th February 2002</b> <i>HK\$'000</i>	<b>31st August 2001</b> <i>HK\$'000</i>
Current – 30 days	72,425	91,163
31 – 60 days	21,444	5,992
61 – 90 days	4,501	3,009
Over 90 days	5	–
	<hr/>	<hr/>
	98,375	100,164
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The majority of the Group's turnover is on open account term. Customers are generally required to pay deposits or provide their credit card or other credit information to the Group before they subscribe for the Group's services.

## 12 Accounts payable

The aging analysis of the accounts payable is as follows:

	<b>28th February 2002</b> <i>HK\$'000</i>	<b>31st August 2001</b> <i>HK\$'000</i>
Current – 30 days	61,218	44,585
31 – 60 days	70,818	34,500
61 – 90 days	57,268	11,125
Over 90 days	53,819	45,556
	<u>243,123</u>	<u>135,766</u>

## 13 Long-term liabilities

	<b>28th February 2002</b> <i>HK\$'000</i>	<b>31st August 2001</b> <i>HK\$'000</i>
Obligations under finance leases (a)	5,193	7,384
Deferred taxation	9,805	5,485
Loan from a minority shareholder (b)	22,500	22,500
	<u>37,498</u>	<u>35,369</u>
Less: current portion of long-term liabilities	(4,404)	(4,410)
	<u>33,094</u>	<u>30,959</u>

(a) *Obligations under finance leases*

	<b>28th February 2002</b> <i>HK\$'000</i>	<b>31st August 2001</b> <i>HK\$'000</i>
Minimum lease payments		
Within one year	4,555	4,727
In the second year	795	3,042
	<u>5,350</u>	<u>7,769</u>
Future finance charges on finance leases	(157)	(385)
	<u>5,193</u>	<u>7,384</u>
The present value on finance lease liabilities is as follows:		
Within one year	4,404	4,410
In the second year	789	2,974
	<u>789</u>	<u>2,974</u>
	<u>5,193</u>	<u>7,384</u>

(b) *Loan from a minority shareholder*

The amount is secured by all present and future assets of a subsidiary of the Company, interest bearing at fixed rate of 7% per annum, repayable on 25th June 2003 and convertible into fully paid up ordinary shares in that subsidiary.

## 14 Share capital

	Number of ordinary shares of HK\$0.10 each	HK\$'000
<i>Authorised</i>		
At 1st September 2001 and 28th February 2002	2,000,000,000	200,000
<i>Issued and fully paid</i>		
At 1st September 2001	491,074,000	49,107
Exercise of share options ( <i>note (a)</i> )	1,360,000	136
Exercise of share warrants ( <i>note (b)</i> )	2,197,202	220
At 28th February 2002	494,631,202	49,463

- (a) During the six months ended 28th February 2002, 1,860,000 shares were allotted by the Company. Out of these allotted shares, 820,000 shares were issued at a price of HK\$0.26 per share and 540,000 shares were issued at a price of HK\$0.58 per share during the six months ended 28th February 2002 and 500,000 shares were issued at a price of HK\$0.26 per share in March 2002 to the share option holders who exercised their subscription rights. These shares rank pari passu with the existing shares.
- (b) During the six months ended 28th February 2002, 2,197,202 shares were issued at a price of HK\$0.4 per share to the warrants holders who exercised their subscription rights. These shares rank pari passu with the existing shares.
- (c) Details of share options granted by the Company during the period pursuant to the Share Option Scheme and the options outstanding at 28th February 2002 are as follows:

Date of grant	3rd September 1998	10th September 1999	20th October 2000
Subscription price per share (HK\$)	0.26	2.10	0.58
Outstanding at 1st September 2001	3,010,000	60,000	22,386,000
Exercised ( <i>note (a)</i> )	(1,320,000)	–	(540,000)
Lapsed upon resignation of employees	–	–	(20,000)
Outstanding at 28th February 2002	1,690,000	60,000	21,826,000

- (d) The vesting periods of the outstanding share options at 28th February 2002 are as follows:

Date of grant	3rd September 1998	10th September 1999	20th October 2000
Immediately exercisable	1,690,000	60,000	13,826,000
On or after: 2nd June 2002	–	–	8,000,000
Total	1,690,000	60,000	21,826,000



## 15 Reserves

	Share premium <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>
At 1st September 2000	568,945	–	138,241	(2,722)	704,464
Profit for the year	–	–	53,927	–	53,927
2001 interim dividend paid	–	–	(4,907)	–	(4,907)
Premium on shares issued upon exercise of share options	235	–	–	–	235
Exchange adjustments on translation of the accounts of overseas subsidiaries	–	–	–	2,480	2,480
At 31st August 2001	<u>569,180</u>	<u>–</u>	<u>187,261</u>	<u>(242)</u>	<u>756,199</u>
At 1st September 2001	569,180	–	187,261	(242)	756,199
Issue of warrants	–	10,815	–	–	10,815
Expenses in connection with issue of new warrants	–	(1,058)	–	–	(1,058)
Profit for the period	–	–	42,746	–	42,746
Exchange adjustment on translation of the accounts of overseas subsidiaries	–	–	–	2,341	2,341
Exercise of warrants	–	(218)	–	–	(218)
Premium on shares issued upon exercise of share options ( <i>note 14 (a)</i> )	390	–	–	–	390
Premium on shares issued upon exercise of warrants ( <i>note 14(b)</i> )	877	–	–	–	877
At 28th February 2002	<u>570,447</u>	<u>9,539</u>	<u>230,007</u>	<u>2,099</u>	<u>812,092</u>

## 16 Commitments

### (a) Capital commitments

	28th February 2002 <i>HK\$'000</i>	31st August 2001 <i>HK\$'000</i>
Purchase of telecommunications, computer and office equipment – contracted but not provided for	<u>105,971</u>	<u>119,814</u>

(b) *Commitments under operating leases*

At 28th February, 2002, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	<b>28th February 2002</b> <i>HK\$'000</i>	<b>31st August 2001</b> <i>HK\$'000</i>
Leases in respect of land and buildings which are payable:		
Within one year	5,304	11,703
In the second to fifth year inclusive	1,035	3,037
	<u>6,339</u>	<u>14,740</u>
Leases in respect of telecommunications facilities and computer equipment which are payable:		
Within one year	19,488	16,067
In the second to fifth year inclusive	3,387	8,951
	<u>22,875</u>	<u>25,018</u>
	<u>29,214</u>	<u>39,758</u>

## 17 Related party transactions

During the period, the Group has the following significant transactions with KDDI Corporation, a minority shareholder of a subsidiary of the Company, which were carried out in the normal course of the Group's business.

		<b>Six months ended 28th February</b>	
	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Calling charges payable to KDDI Corporation	(a)	12,324	21,246
Interest expenses payable to KDDI Corporation	(b)	<u>781</u>	<u>665</u>

(a) These represent calling charges payable to KDDI Corporation pursuant to the service agreements entered into between the Company and KDDI Corporation in 1999. The transactions were conducted in accordance with the terms of the service agreements and on terms no less favourable than terms available from third parties.

(b) These represent the interest payable for the interest-bearing loan from KDDI Corporation (*note 13(b)*).

## 18 Pending litigation

The directors have been advised that there were no significant progress on the pending litigation as disclosed in the annual report of the Group for the year ended 31st August 2001.

## 19 Subsequent event

On 13th March 2002, the Group acquired another approximately 4% shareholding in Hong Kong Broadband Network Limited making Hong Kong Broadband Network Limited a wholly-owned subsidiary of the Group.

## OTHER INFORMATION

### Employee Remuneration

Including the directors of the Group, as at 28th February 2002, the Group employed a total of 1,095 full-time employees. The Group provides remuneration package consisting of basic salary, bonus and other benefits. Bonus payments are discretionary and dependent on both the Group's and individual performances. The Group also provides comprehensive medical coverage, competitive retirement benefits schemes, staff training programs and operates an Employee Share Option Scheme.

### Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

### Directors' interests in equity or debt securities

At 28th February 2002, the interests of the Directors and chief executives in the securities and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:–

(a) Ordinary shares of HK\$0.1 each of the Company (the "Share")

	Number of Shares beneficially held			Total interests
	Personal interests	Corporate interests	Family interests	
Mr WONG Wai Kay, Ricky	1,250,000	250,096,000 <i>Note 1</i>	1,284,000 <i>Note 2</i>	252,630,000
Mr CHEUNG Chi Kin, Paul	508,000	248,750,000 <i>Note 1</i>	–	249,258,000
Mr CHONG Kin Chun, John	870,000	–	–	870,000
Ms SIO Veng Kuan, Corinna	1,512,000	–	–	1,512,000
Ms FUNG So Mui, Fion	1,270,000	–	–	1,270,000

*Note (1)* The corporate interests of Mr WONG Wai Kay, Ricky and Mr CHEUNG Chi Kin, Paul arise through their respective interests in the following companies:

- (i) 248,750,000 Shares are held by Top Group International Limited which is owned as to approximately 34% each by Mr Wong and Mr Cheung;
  - (ii) 1,346,000 Shares are held by Bullion Holdings Limited which is wholly owned by Mr Wong and his spouse.
- (2) 1,284,000 Shares are jointly owned by Mr. Wong and his spouse.

- (b) Warrants of the Company carrying rights to subscribe for new Shares at an initial subscription price of HK\$0.40 per Share (the “Warrants”)

	<b>Number of the Warrants beneficially held</b>			
	<b>Personal interests</b>	<b>Corporate interests</b>	<b>Family interests</b>	<b>Total interests</b>
Mr WONG Wai Kay, Ricky	–	69,766,999 <i>Note 1</i>	240,000 <i>Note 2</i>	70,006,999
Mr CHEUNG Chi Kin, Paul	–	69,766,999 <i>Note 1</i>	–	69,766,999
Mr CHONG Kin Chun, John	254,000	–	–	254,000
Ms Sio Veng Kuan, Corinna	200,000	–	–	200,000
Ms FUNG So Mui, Fion	194,000	–	–	194,000

*Note:*

- (1) 69,766,999 Warrants are held by Top Group International Limited which is owned as to approximately 34% each by Mr Wong and Mr Cheung.
- (2) 240,000 Warrant are jointly owned by Mr. Wong and his spouse.

Save as disclosed above, none of the directors or chief executives (including their spouse and children under 18 years of age) have any interest in the share capital of the Company and its associated corporations required to be disclosed pursuant to the SDI Ordinance.

- (c) Share options of the Company

On 12th July 1997, a share option scheme (“the Share Option Scheme”) was approved by the Shareholders under which the directors may, at their discretion, invite employees of the Group including any executive directors to take up options (“the Share Options”) to subscribe for Shares subject to the terms and conditions stipulated therein. The Share Options granted under the Share Option Scheme will lapse not later than 11th July 2007.

Details of the outstanding Share Options at 28th February 2002 granted to the directors of the Company are as follows:–

<b>Date of grant</b>	<b>Number of Share Options outstanding 20th October 2000</b>
<b>Exercise price</b>	<b>HK\$0.58</b> <i>(Note)</i>
Mr WONG Wai Kay, Ricky	10,000,000
Mr CHEUNG Chi Kin, Paul	10,000,000
Mr CHONG Kin Chun, John	500,000
Ms FUNG So Mui, Fion	500,000
Ms TO Wai Bing	400,000

*Notes:*

The Share Options granted on 20th October 2000 are exercisable at HK\$0.58 per Share over the following periods:

Immediately exercisable	13,400,000
On or after 2nd June 2002	8,000,000

During the six months ended 28th February 2002, 500,000 Shares were issued to Mr. Chong Kin Chun, John, a director of the Company pursuant, to the exercise of the Share Options granted on 3rd September 1998 at the exercise price of HK\$0.26 per Share. Similarly, 500,000 Shares were issued to Ms. Sio Veng Kuan, Corinna, a director of the Company pursuant, to the exercise of the Share Options granted on 20th October 2000 at the exercise price of HK\$0.58 per Share.

In addition, during the six months ended 28th February 2002, 500,000 Shares were allotted to Ms. Fung So Mui, Fion, a director of the Company pursuant, to the exercise of the Share Options granted on 3rd September 1998 at the exercise price of HK\$0.26 per Share of which such Shares were issued to her in March 2002.

Save as disclosed above, at no time during the year had the directors and chief executives (including their spouse and children under 18 years of age) held any interest in, or been granted or exercised any rights to subscribe for, shares of the Company and its associated corporations within the meaning of the SDI Ordinance.

In addition, save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **Substantial shareholders**

At 28th February 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

## **Acquisition of additional interests in a non-wholly owned subsidiary**

During the six months ended 28th February 2002, the Company through its nominees has increased its beneficial shareholding interests in its non-wholly owned subsidiary, Hong Kong Broadband Network Limited ("HKBN") from 85% to approximately 96% by subscribing 283,049 new shares in HKBN at HK\$600 per share pursuant to a rights issue of HKBN.

## **Compliance with the Code of Best Practice of the Listing Rules**

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the accounting period covered by this interim report.

## **Other disclosure**

Apart from above, other areas which are required to be discussed under the requirements of paragraph 40 of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited and paragraph 16 of Hong Kong Statement of Standard Accounting Practice ("HKSSAP") No. 25 "Interim Financial Reporting", either have no material changes from the information disclosed in the annual report of the Group for the year ended 31st August 2001 or are considered not significant to the Group's operations, and hence no additional disclosure has been made in this report.

## **Audit Committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 28th February 2002.

By Order of the Board  
**Wong Wai Kay, Ricky**  
*Chairman*

Hong Kong, 21st May 2002