

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st August 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company and its subsidiaries are 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.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 30.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$80,000.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 17 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st August 2002, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$346,442,000 (2001: HK\$192,243,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 70.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

GROUP'S BORROWINGS

The Group's borrowings as at 31st August 2002 are repayable in following periods:

	Bank overdrafts		Obligations under finance leases		Loan from a former minority shareholder	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
On demand or not exceeding one year	19,180	26,409	2,949	4,410	22,500	-
More than one year but not exceeding two years	-	-	-	2,974	-	-
	19,180	26,409	2,949	7,384	22,500	-

DIRECTORS

The directors during the year and up to the date of this report were:

Mr WONG Wai Kay, Ricky (Chairman)

Mr CHEUNG Chi Kin, Paul (Managing director)

Mr CHONG Kin Chun, John

Ms FUNG So Mui, Fion

Ms SIO Veng Kuan, Corinna

Ms TO Wai Bing

Mr CHENG Mo Chi, Moses *#

Mr LEE Hon Ying, John **

Mr CHAN Kin Man *#

In accordance with Article 96 of the Company's Articles of Association, Mr CHENG Mo Chi, Moses retires by rotation and, being eligible, offers himself for re-election.

* independent non-executive directors # members of the Audit Committee

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 16.

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CONNECTED TRANSACTIONS

The details of connected transactions are set out as follows:

- (a) The Company and KDDI Corporation entered into three service agreements (the "Service Agreements") dated 15th April, 22nd April and 16th August in 1999 pursuant to which KDDI Corporation provides international carrier services to the Company. In March 2000, upon subscription of a 15% equity interest in the issued share capital of Hong Kong Broadband Network Limited ("HKBN"), a subsidiary in which the Company holds 85% equity interest, KDDI Corporation became a connected person as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). Pursuant to the rights issue of HKBN on 10th January 2002 and the sale and purchase agreement entered between the Company and KDDI Corporation on 13th March 2002 (the "Acquisition") respectively, the Company acquired the remaining 15% equity interest in HKBN from KDDI Corporation. KDDI Corporation ceased to have any interest in HKBN on 13th March 2002. The service fees payable to KDDI Corporation by the Company pursuant to the Service Agreements for the period from 1st September 2001 to 13th March 2002 amounted to HK\$13,161,000 (the year ended 2001: HK\$34,106,000), representing 1.1% (2001: 3.4%) of the Group's turnover for the year ended 31st August 2002. The Company has applied for a waiver by the Stock Exchange of Hong Kong Limited from strict compliance with the requirements of Chapter 14 of the Listing Rules on the above-mentioned continuing connected transactions. The independent non-executive directors have reviewed these transactions carried out under the Service Agreements and confirmed that, in their opinion,
- (i) the transactions were in the ordinary and usual course of business of the Company;
 - (ii) the transactions were entered into on normal commercial terms;
 - (iii) the transactions were fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iv) the aggregate value of the fee payable pursuant to the Service Agreements did not exceed 10% of the Company's turnover for the year ended 31st August 2002.

- (b) Pursuant to another shareholders' agreement, dated 1st March 2000, entered into between the Company and KDDI Corporation, the Company and KDDI Corporation executed a loan facility letter dated 26th June 2000 (the "Facility Letter") in favour of HKBN for an aggregate amount of up to HK\$600 million in proportion to their respective shareholdings in HKBN at an interest rate of 7% per annum repayable in full on 25th June 2003, and HKBN executed a floating charge over all its present and future assets (the "Floating Charge") in favour of the Company and KDDI Corporation as security for the loan facility on 22nd September 2000. The directors believe that the Facility Letter and the Floating Charge were entered into on normal commercial terms.

Pursuant to the Facility Letter, KDDI Corporation has made available a loan of HK\$22.5 million to HKBN which remained outstanding as at 31 August 2002 and payable in accordance with the terms of the Facility Letter.

In connection with the Acquisition, the Company, KDDI Corporation and HKBN also entered into a Deed of Novation dated 13th March 2002 under which KDDI Corporation agreed to assign and transfer its rights, together with its obligations and liabilities, under the Facility Letter and the Floating Charge to the Company, and in return the Company assumed HKBN's obligation to repay the principal and interest owed to KDDI Corporation under the Facility Letter on the terms set forth in the Facility Letter. As security for the Company's obligations to KDDI Corporation, HKBN has executed a legal charge over a property in favour of KDDI Corporation.

- (c) On 30th March 2001, HKBN and CTI International Limited ("CTI International"), a wholly-owned subsidiary of the Company entered into a conditional telecommunications service agreement (the "Telecommunications Service Agreement") pursuant to which CTI International provides dedicated internet access services to HKBN. On 17th April 2001, HKBN and CTI International entered into a variation agreement pursuant to which the term of the Telecommunications Service Agreement was reduced from twenty-six months to fifteen months. The service fees payable by HKBN to CTI International pursuant to the Telecommunications Service Agreement for the period from 1st September 2001 to 13th March 2002 amounted to HK\$8,100,000 (2001: HK\$5,400,000), representing 0.9% (2001: 0.7%) of the Company's net tangible assets as at 31st August 2002.

The Company has applied for a waiver by the Stock Exchange of Hong Kong Limited from strict compliance with the requirements of Chapter 14 of the Listing Rules on the above-mentioned continuing connected transactions.

The independent non-executive directors have reviewed these transactions carried out under the Service Agreements and confirmed that, in their opinion,

- (i) the transactions were in the ordinary and usual course of business of the Company;
- (ii) the transactions were entered into on normal commercial terms;
- (iii) the transactions were fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) the aggregate value of the fee payable pursuant to the Service Agreements did not exceed 3% of the Company's net tangible assets as at 31st August 2002.

(d) The leased lines charges payable by the Company to HKBN for the period from 1st September 2001 to 13 March 2002 amounted to HK\$13,670,000 which are in the opinion of the directors that were carried out in the ordinary course of business and on normal commercial terms.

The connected transactions in notes (a) and (b) also constitute related party transactions and are disclosed in notes 19(c) and 23 to the accounts.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31st August 2002, the interests of the directors and chief executives in the shares, warrants and 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 ("Shares")

	Number of Shares beneficially held				Total interest
	Personal interests	Corporate interests	Family interests	Others interests	
Mr WONG Wai Kay, Ricky	1,250,000	250,096,000 Note	1,284,000	-	252,630,000
Mr CHEUNG Chi Kin, Paul	508,000	248,750,000 Note	-	-	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
Ms TO Wai Bing	400,000	-	-	-	400,000

Note:

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 per cent 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.

Save as disclosed above, none of the directors or chief executives (including their spouses 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.

(b) Share options of the Company

On 12th July 1997, a share option scheme ("the Share Option Scheme") was approved by the shareholders of the Company under which its directors may, at their discretion, invite employees of the Group including any executive directors of the Company to take up options ("the Share Options") to subscribe for Shares in the Company 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.

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(b) Share options of the Company (continued)

Details of the outstanding Share Options at 31st August 2002 granted to the directors of the Company are as follows:-

Date of grant Exercise price	Number of Share Options outstanding	
		20th October 2000 HK\$0.58
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
		21,000,000

The Shares Options are immediately exercisable.

During the year, 500,000 Shares were issued to each of Mr CHONG Kin Chun, John and Ms FUNG So Mui, Fion respectively, directors 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.

(c) Warrants of the Company

	Number of Shares beneficially held				Total interests
	Personal interests	Corporate interests	Family interests	Others interests	
Mr WONG Wai Kay, Ricky	-	69,766,999 Note	240,000	-	70,006,999
Mr CHEUNG Chi Kin, Paul	-	69,766,999 Note	-	-	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
Ms TO Wai Bing	-	-	-	-	-

Note: 69,766,999 Warrants are held by Top Group International Limited which is owned as to approximately 34 per cent each by Mr Wong and Mr Cheung.

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 and warrants 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 31st August 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentage of sales for the year attributable to the Group's five largest customers is less than 30% of total sales for the year and therefore no disclosures with regard to major customers are made. The percentage of purchases for the year attributable to the Group's major suppliers are as follows:

	2002	2001
	%	%
Purchase		
- the largest supplier	48	47
- five largest suppliers combined	79	76

None of the directors, their associates or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had an interest in the major suppliers noted above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the board of directors and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of internal controls and risk evaluation and of the external audit. Its duties also include the review and supervision of the Group's financial reporting process. The Committee comprises three independent non-executive directors, namely Mr LEE Hon Ying, John, Mr CHENG Mo Chi, Moses and Mr CHAN Kin Man. Two meetings were held during the current financial year.

AUDITORS

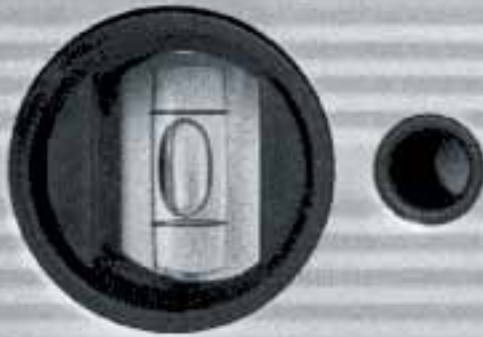
The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Wong Wai Kai, Ricky

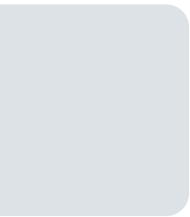
Chairman

Hong Kong, 20th November 2002



INCESSANT MANAGEMENT

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REVIEW

Management sees frequent review to be a primacy, for the sake of enhancing productivity